

## **PATENTS ACT 1977**

IN THE MATTER of a reference under  
sections 8 and 12 by Paris M Herouni  
in respect of UK Patent Application  
Nos 9412260.3 and 9412243.9 and  
PCT Application Nos WO 95/35469  
and WO 95/35470

### **DECISION**

1. This reference relates to international patent applications WO95/35469 and WO 95/35470, in the joint names of Solargen Energy BVI (Solargen) and Adrian Gaye, a director of that company, and the GB applications from which they claim priority. The reference has been filed by the inventor, Professor Paris Misak Herouni, who requests that the Comptroller declare that he is the true and sole owner of all rights to the invention and to the patent applications and that he is registered as sole owner of the patent applications from the applications' filing dates. I should perhaps say that, in accordance with US requirements, the international applications do name Professor Herouni as the applicant for US purposes only.

2. Solargen, which is the present name of a company previously known as Northstar Investment Corporation BVI (Northstar), is a company incorporated in the British Virgin Isles, though it would appear that it also has an administrative office in the Isle of Man. Mr Gaye is a UK resident. Solargen and Mr Gaye are represented in these proceedings by their patent agents Keith W Nash & Co. Professor Herouni is not using an agent, and is conducting these proceedings personally from Yerevan in the Republic of Armenia. Whilst English is not his native language, it is clear from his evidence that he has a good understanding of written English. However, he is not fully familiar with the British legal system and that has caused some difficulties in the prosecution of this case. In particular, his statement of case was a lengthy and somewhat acrimonious explanation of the history of events and the arguments as

seen from his perspective, containing a number of accusations of deceit and the like, and the other side understandably found it difficult to prepare a comprehensive counterstatement in reply to all this. Nevertheless, we have got to the stage where both parties have filed their evidence and the reference can now be decided. The evidence consists of statutory declarations from Professor Herouni on one side and from Mr Adrian Gaye and Mr Andrew Malim, Chairman of Solargen, on the other,

3. The two sides have agreed that I should decide the reference on the basis of the written evidence, without an oral hearing. Whilst in general the Comptroller is happy to encourage this approach because it saves costs, in this particular case I have to say that an oral hearing with cross examination of the three deponents could have been useful because it might have helped resolve some of the issues. However, I recognise this would probably only have been effective if Professor Herouni had been legally represented and that would have increased his costs significantly. I will therefore do the best I can from the papers before me.

### **The law**

4. This reference is being made under both sections 8 and 12 of the Patents Act 1977. The relevant part of section 8 reads:

(1) At any time before a patent has been granted for an invention (whether or not an application has been made for it) -

(a) any person may refer to the comptroller the question whether he is entitled to be granted (alone or with any other persons) a patent for that invention or has or would have any right in or under any patent so granted or any application for such a patent; . . .

and the comptroller shall determine the question and may make such order as he thinks fit to give effect to the determination.

5. Section 8 applies only to patent applications under the UK Act. However, section 12 has similar provisions in respect of applications made under the law of any country other than the United Kingdom or under any treaty or international convention, so between them the two sections cover all four patent applications. Patents have not been granted in respect of any of

the applications and so the requirements in the preambles of sections 8 and 12 are therefore met.

6. So far as the UK is concerned, entitlement to a patent is determined by section 7(2) of the Act. The relevant parts read as follows:

A patent for an invention may be granted -

- (a) primarily to the inventor or joint inventors;
- (b) . . .
- (c) in any event, to the successor or successors in title of any person or persons mentioned in paragraph (a) . . .

The key issue in the present case is (c), and in particular, whether title to the inventions has passed from the inventor to Solargen under the law governing contracts.

7. International patent applications are made under the Patent Cooperation Treaty (“PCT”). This Treaty does not specify who is entitled to be granted any patent resulting from an international application because this is left to the laws of each designated state (or, in the case of regional treaties such as the European Patent Convention, the provisions of the relevant convention). So far as GB is designated, the provisions of the preceding paragraph apply. For any other country it will depend on what the law of that country says, and I have been provided with no evidence on this. I suspect that in most countries the basic law governing entitlement is broadly similar to section 7(2) of the UK Act as quoted above, but the same may not always be true of the law of contracts. For the moment, though, I shall work on the assumption that the provisions and principles of UK law apply.

### **The history of events**

8. There is no real dispute about the main sequence of events. It is well documented in the

extensive series of correspondence and agreements exhibited to Professor Herouni's first statutory declaration.

9. The inventions relate to a solar energy collecting device which concentrates solar energy so as to heat gases in a heat exchanger. It is not in dispute that, before his association with Northstar, Professor Herouni invented the device and applied for patent protection in Russia on 18 August 1992. He was eventually granted a Russian patent RU 2034204 on 30 April 1995. In the meantime, though, Mr Gaye visited him in Yerevan in November 1993 with a view to financing the building of a prototype solar energy station using the inventions. The station was to be built in Armenia on ground belonging to the Institute of Radiophysical Measurements, for whom Professor Herouni worked.

10. The outcome was a letter dated 1st February 1994 from a body called Lion Services Trust, signed by Mr Gaye in his role as Chairman of the Board of that Trust. They offered to provide the money for the project as a scientific research grant of US\$110,000, in four equal stages over a period of one year (the time it was expected the project would take) commencing in March 1994. Professor Herouni endorsed the letter with his signature on 2 February to signify his agreement to the proposal.

11. A few days later, on 7 February 1994, Professor Herouni entered into an agreement with Northstar to construct in Armenia a Solar Energy Station (S.E.S.) “as described in Priority Claim Number 5059045/06 039253 registered at the Patent Office, Moscow”. This agreement was signed by Mr Gaye and Mr Malim, representing Northstar, and Professor Herouni. It contained a total of 19 paragraphs, but the following are the most important provisions so far as the present reference is concerned:

1. . . . Herouni grants to Northstar the exclusive option worldwide to raise the finance, as described below, and agrees to accept shares in Northstar, this company to develop, produce and market the S.E.S. This option shall expire on 7th April 1994 . . .
4. Northstar hereby undertakes to make a general patent search relating to the S.E.S.

prior to the expiry date of the option date, as described in (1) above.

5. Northstar hereby undertakes, except in the event of a seriously conflicting patent being revealed in the patent search, to register applications for patents in Herouni's name in all territories deemed necessary by Northstar.

6. On exercising the option, on or before 7th April 1994, Northstar undertakes to provide the required finance and management to finance the development of the S.E.S. prototype with a projected energy output of 50-100 Kw. When Northstar exercises the option, Northstar shall provide Herouni with US\$300,000 for design and full construction of the prototype within a period of twelve months . . .

7. Northstar shall provide an additional amount of finance to be allocated to patent applications, consultancy fees, travel, public relations and other management costs.

8. On exercising the option, as described in (1) above, Northstar undertakes to allocate 25% of the shares in Northstar to Herouni or his nominees.

9. On receipt of notification from Northstar that it has exercised the option on or before 7th April 1994, Herouni shall receive a minimum of US\$100,000 such amount being the first instalment of the total US\$300,000.

10. On receipt of this US\$ 100,000 and 25% shares in Northstar, Herouni undertakes to assign the full and unimpeded patent rights, previously granted and to be granted in the future, in the S.E.S., with Priority Claim Number 5059045/06 039253, to Northstar in perpetuity.

12. Northstar undertakes to provide the financing for the design and manufacture of the prototype according to a schedule of payments which shall be instalments of US\$50,000 in July 1994, October 1994, January 1995 and April 1995 - the final instalment in April 1995 to cover costs of testing. These dates to (*sic*) may be varied

by mutual agreement between Herouni and Northstar.

14. In the event that Northstar fails to provide the funding within 30 days of the dates specified in the agreed schedule, (except in the case of force majeure), proof of provision being documents acknowledging receipt signed by Herouni, Northstar shall release its rights to the patent granted by Herouni, such rights to revert to Herouni or his nominees.

19. This agreement shall be subject to the Laws of England and/or International Laws regarding Intellectual Property. . . .

12. It is my understanding that the money supplied by Lion Services Trust was part of what was to be supplied by Northstar. It seems to be accepted by both parties that the arrangement to pay money via a trust made the money available to the project in a tax-efficient way and that to all intents and purposes the provider of the money was the company. However, even if I have misunderstood the position, it does not affect my decision.

13. About six weeks later, Northstar decided to exercise its option. This is confirmed by a signed letter dated 29 March 1994 from Professor Herouni to Northstar, in which Professor Herouni wrote:-

SOLAR ENERGY STATION SES AREV

According to our Agreement, dated 7th February 1994, signed by myself, regarding the Solar Energy Station, Moscow Patent Priority Number 5059045/06 039253, registered 18th August 1992:

I hereby acknowledge receipt of US\$100,000 in cash, delivered by the representative of Northstar on 26th March in Yerevan:

I acknowledge that, by making this first payment as set out in the schedule in the

Agreement, 7th February 1994, Northstar Investment Corporation has exercised the option, as set out in the Agreement;

I hereby assign all rights in the Priority Claim 5059045/06 and in any and all patents granted as a result of this Claim to Northstar Investment Corporation in perpetuity, subject to the terms of the Agreement dated 7th February 1994.

I hereby acknowledge receipt of the Commitment of Northstar Investment Corporation, as set out in the letter dated 29th March 1994, to transfer 25% of 100% of the shares in Northstar to myself or my assignees. The letter confirms that the official formalities to complete this transfer of shares shall be completed during my next visit to the U:K:

The transfer of shares took place later in 1994 when Professor Herouni visited London.

14. A few weeks later, in June 1994, the two GB patent applications were made in the name of Northstar. They could not claim priority from the earlier Russian application because the one year allowed for doing this had already expired, but there is no dispute between the parties that these applications fall within the scope of the 7 February agreement. The application forms indicated that the applicant (ie Northstar) was not the inventor, but in accordance with common UK practice Form 7/77s to identify the inventor were not filed at that stage. Later that summer Professor Herouni learned that he had not been named as inventor when the applications were originally filed and became concerned about this. Mr Gaye assured him that he would be named as inventor in due course, but Professor Herouni remained concerned that what he believed to be an error was not put right immediately.

15. In the meantime, the project went ahead and the payment for July 1994 duly arrived. However the October 1994 payment was not made until November and was for only \$31,400, not \$50,000, whilst the payment due in January 1995 was not made until April 1995 and was for only \$40,000. By this time Professor Herouni had also lost all confidence in Mr Gaye. He sent a long letter dated 25 April 1995 setting out *inter alia* complaints about the financing, the

absence of his name on the patent applications and what Mr Gaye was doing. He also announced that he was stopping all work on the project. I am not quite sure whether this happened in April or June because his evidence is inconsistent on this, but the exact date is not material.

16. By this time Professor Herouni was insisting that, under the conditions of clause 5 of the agreement, he should be named not only as inventor but also as applicant. When the company's patent agent, Mr Keith Nash, attempted to get a signature from him to confirm *inter alia* that "the subject matter of these two Applications is included within the assignment of the original Priority Claim No. 5059045/06" he refused. Instead, he signed a declaration that:

"I am the Sole Inventor, Applicant and Owner of above said Applications and Patents. After receiving the patents I will assign to Northstar the rights of using my patents in accordance with our Agreement from 07.02.1994."

17. The company however considered that, once they had exercised their option under the agreement, clause 10 came into effect and superseded clause 5. Clause 5, says Mr Malim, was only there because they thought they might have to file patent applications quickly, before they were in a position to decide whether or not to exercise their option. The company therefore took the view that having exercised the option, they owned all the patent rights and were entitled to make the patent applications in their own name. Mr Malim did later say that with hindsight, Professor Herouni might have been happier if the applications had been filed first in Professor Herouni's name and then assigned to Northstar. However they considered that the *quid pro quo* for such assignment was already in existence by the time the applications were made and that therefore this was unnecessary.

18. As for the financing, in his letter dated 25 April 1995 Professor Herouni drew attention to the fact that the last two payments had been late and for less than the amount agreed, and then said:



"So according to Agriment (*sic*) position 14, I am free from granting to Northstar patent rights. This position have to be discussed and agreed once more."

From this time onwards Professor Herouni maintained that, even if he had given up his rights to ownership of the invention under the agreement, they had reverted to him under clause 14 as a consequence of the company's failure to pay the instalments within 30 days of the specified time. Mr Malim does not dispute that these payments were made late, saying that he did not always find it possible to liquidate funds to meet the timetable. For example, in a letter to Professor Herouni dated July 1995 he explained that another of his projects had run into problems and that he had been forced to divert funds to it.

19. In June 1995 the company applied for the two PCT applications, using the GB applications as priority documents. However, relations between Professor Herouni and the company deteriorated further, and with a view to resolving matters the company appointed a Mr Lionel St James to act as an intermediary and sent him out to Armenia. They sent \$20,000 out with Mr St James because Professor Herouni urgently needed this money to cover the cost of mirrors and their transportation from St Petersburg to Yerevan. Discussions must have gone on, and the company sent a further \$60,000 to Professor Herouni via Mr St James in September. In the end, in November 1995, Mr Malim travelled to Yerevan with Mr St James to negotiate and prepare a new agreement. By this stage the company was known as Solargen.

20. The company had committed large amounts of money to the project and Mr Malim states he had expected that, when it was explained to Professor Herouni that as a major shareholder and a director of Solargen he would gain more from the capital appreciation of the shares he already owned than he would from royalty income under a licence, he would agree to maintain what the company believed to be the position under the original agreement, but this proved not to be the case. Accordingly, the two sides ended up negotiating a completely new agreement.

21. This second agreement was dated 12 November 1995. It was signed by Mr Malim, for

Solargen, and Professor Herouni. Both signatures were witnessed by Mr St James, and every individual paragraph was initialled by the two signatories. The agreement includes the following provisions:

1. SEC (*ie Solargen*) will provide Herouni with a scientific research grant of US\$ 471,000 for the design, construction and completion of the SOLARGEN AREV-100 Prototype. Herouni has received US\$ 301,400 of this grant. The final US\$169,600 will be paid as follows: . . .
  
  2. Herouni gives SEC the exclusive worldwide licence (rights) to develop, make, sell and commercially exploit the SOLARGEN AREV invention in perpetuity (for ever). SEC will pay Herouni personally US\$80,000. This US\$80,000 payment must be made by SEC to Herouni personally within 30 days after AREV 100 “completion”. If US\$80,000 is not paid within 30 days, all rights referred to in this paragraph, will revert to Herouni at no cost. . . . Herouni gives SEC the exclusive first option forever to buy the licence (rights) to any and all future (after the date of this agreement) Herouni patents connected to Solargen AREV for a purchase price to be agreed.
  
  3. Herouni gives SEC the exclusive right to buy the patents and patent applications as related to Solargen AREV, at any time for US\$ 2 million. If SEC company is sold, Herouni will receive US\$ 2 million at that time for the above patents. Herouni gives SEC the exclusive first option forever to buy any and all future patents connected to Solargen AREV for a purchase price to be agreed.
  
  5. SEC gives Herouni 1,250,000 shares in SEC, and appoints Herouni as a Director of the company.
  
  7. Herouni agrees that the AREV 100 prototype and all drawings concerning construction belong to SEC. . . .
22. The day before this agreement was signed, Lion Sciences Trust made a further grant of

\$275,000 for the work to be continued. Again the relationship between this money and the money coming from Solargen is not clear, but that does not appear to be relevant.

23. Unfortunately the signing of the second agreement did not result in a re-establishment of a harmonious working relationship between the two parties and in fact the situation steadily deteriorated. This was in part because the company subsequently felt that the terms of the licence would have to be carefully negotiated to ensure that any agreement was watertight and did not have any unfortunate tax or fiscal implications for either party and in part because Professor Herouni again considered that Solargen were being tardy in amending the patent applications to name him as applicant. Mr Malim states that the delay in doing this was firstly due to his own pre-occupation with technicalities and with his other business commitments and secondly because, with the PCT examination reports imminent, he wanted to wait to see the strength and scope of the patents and confirm that the prototype currently being developed clearly fell within their scope. If the latter was the case then it might, he says, have been preferable to exercise the option of buying the patents and hence avoid the expense of the legal costs involved in first re-assigning the patents back to Professor Herouni and then assigning them back to Solargen. They sent a relatively brief explanation of their position in a letter of 12 April 1996 coupled with the information that Mr Gaye had been named as a co-applicant for the PCT applications. This did not satisfy Professor Herouni and in fact made matters worse. In a letter dated 7 May 1996 he wrote that unless they changed the patent applications within one week to name him as applicant and owner he would, *inter alia*, "stop fully all works of AREV building; say Good Buy (*sic*) to you and never will be Solargen".

24. Considering that they were now in a much the same position as before, the company sought advice from the British Armenian Law Society who recommended to them an Armenian lawyer, Michael Sookias of Sookias & Sookias, Solicitors, to act as an intermediary. The company say they hoped that using an Armenian would reduce the risk of further misunderstanding, and that because Mr Sookias had a legal background, understood commerce and was not known to either side he could bring an impartial view to the matter. Professor Herouni took the view that, since Mr Sookias was paid by the company, he was really representing them and initially refused even to see or talk to him. With work once again

fully stopped on the project, on 17 May 1996 Professor Herouni sent a fax signed by himself and other directors of the organisations at Yerevan which included the sentence:

"Solargen is out befor (*sic*) our new agreement."

and was signed "Good bye". Subsequently Professor Herouni did meet Mr Sookias but the meeting did not produce any agreement.

25. In July 1996 the chairman of Solargen, four of the directors and two advisers sent a letter to Professor Herouni. in which they re-iterated their position that they considered that they had the legal right to register the patents in the Company's name and that by stopping all work to complete the prototype on budget and on schedule Professor Herouni had put the company and investors in a situation of extreme duress. They also wrote:

"The November '95 document is not, legally or commercially, an agreement which can be adopted either for the Company or for the investors, present or future."

In their letter they invited Professor Herouni to make proposals to take the project forward, but further correspondence between the parties failed to resolve matters.

26. During the course of this correspondence Professor Herouni was informed that the company had decided not to proceed further with the PCT applications because they felt they had been substantially damaged by the publication of the Russian patent. This was because priority could not be claimed from the GB applications in respect of any matter which had previously been disclosed in the earlier Russian application. Mr Malim states that therefore they did not wish to incur any further patenting costs but had they been so requested they would have re-assigned the benefit of the applications to him.

27. Eventually Professor Herouni filed the present reference, and in July 1997 he was removed from the board of directors of Solargen.

## **The issues**

28. In the normal course of events I would expect to have the key issues clearly identified in the pleadings and/or in the oral submissions made at a hearing. In the present case I have not had the benefit of oral submissions. Further, as I indicated earlier the pleadings are not very satisfactory - for example, the counterstatement does not even mention the second agreement even though it is clear from the subsequently filed evidence that it is an important factor in the dispute. Rather than relying solely on the pleadings, therefore, I have taken account of everything that has been filed, including all the evidence, to identify the arguments that are being made.

29. The key documents are clearly the two agreements of 7 February 1994 and 12 November 1995 and I will look at these in turn. The main issues centre on what these agreements mean and whether or not they were annulled by what happened. However, some problems have arisen because of Professor Herouni's concerns and mistrust about the way the patent applications were handled, and I will look at this first. Whilst it is largely peripheral to the main questions I have to decide, it does have some bearing because it accounts in part for the way he behaved in relation to the agreements.

## **Handling of the patent applications**

30. In the first instance, Professor Herouni was very concerned that he was not named as inventor when the British applications were first filed. However, having looked at the papers I can assure Professor Herouni that the procedures were carried out perfectly properly so far as naming him as inventor is concerned. Under British law it is not necessary to name the inventor when the application is first filed so his concerns were unjustified. Some of the confusion arises because Professor Herouni does not seem to have been sent a copy of the application forms. Rather, what he received was an internal sheet, prepared I assume by the patent agents, which does not contain all the information on the application form. Had he been sent the actual application forms, he would have seen that the answer given to the question "Are you (the applicant or applicants) the sole inventor or the joint inventors?" was

"no". When the answer to this question is "no", the applicant has to file a Form 7/77 - that is, a "Statement of inventorship and of right to grant of a Patent" - within 16 months, and it is on this form, and not the application form, that the inventor is named. In this instance these forms were filed in less than 12 months on 5 June 1995 and they named Professor Herouni as the sole inventor. Had the cases proceeded, in due course the Office would have copied those forms to Professor Herouni and he would have seen for himself that he was correctly named.

31. Subsequently the PCT applications were made using the UK Patent Office as the receiving office and claiming priority from the GB applications. When these applications were eventually published, Professor Herouni was very angry to see that on one of them Mr Gaye was named as a co-inventor. Solargen claimed that this was due to an error by the World Intellectual Property Organisation (WIPO), the body responsible for administering the PCT, but Professor Herouni did not believe them. I have therefore checked the PCT application forms and can confirm that they name him alone as the inventor. Thus I can assure Professor Herouni that it was WIPO, not Solargen, who made the error. Again, had Professor Herouni been sent copies of the application forms he would have been able to see for himself that they name the inventor correctly. WIPO have, I am glad to say, now corrected their error.

32. Professor Herouni was also angry that Mr Gaye was named as a co-applicant with Solargen for the PCT applications. The explanation given by Solargen was that a PCT application can only be filed via the UK Patent Office if at least one of the applicants is either resident in or a national of the UK, and since neither Solargen nor Professor Herouni met this requirement it was necessary to add an applicant who did. Professor Herouni does not believe this and thinks he was being deceived. Again I can assure Professor Herouni that it is quite correct to say the applications could not have been filed via the UK Office - under rule 19 of the PCT Regulations one normally has to be a resident or national to file at a national Office. In saying that I am not ruling that Mr Gaye was entitled to apply, I am merely saying that without the name of a UK resident or national as an applicant the PCT applications could not have been filed via the UK.

33. Finally, Solargen say they decided to cease prosecuting the applications because the

publication of the Russian patent had seriously damaged the PCT applications. They had, they say, asked Professor Herouni to withdraw the Russian application or at least notify them of when it was due to be published. He had done neither because he did not believe there was any problem as the priority date claimed by the PCT applications was before the date of publication of the Russian patent. Now I have not looked at the Russian patent specification to compare it with the contents of the PCT applications because the validity or value of any patent that might have emerged from the PCT applications is not a question that is before me. However, if it is the case that most of what is in the GB and PCT applications is also in the Russian patent specification, Solargen are right to believe that the Russian publication was damaging. Professor Herouni has, I fear, not understood the internationally-agreed rules on claiming priority. These rules are contained in the Paris Convention for the Protection of Industrial Property, as mentioned in Article 8 of the PCT. The crucial Article is 4B. To put it simply, this says that if you file a first application A for an invention on a first date  $\hat{T}$ , then a second application B on a later date  $\check{T}$  and finally a third application C on an even later date  $\mathfrak{D}$ , application C can only claim priority from date  $\check{T}$  if the first application A has been abandoned before publication and without leaving any rights outstanding. In the present case, A is his Russian application, B the GB applications and C the PCT applications, and the rule means that the PCT applications cannot claim the priority date  $\check{T}$  of the GB applications, because his Russian application was not abandoned. That means the PCT applications can only be accorded the date  $\mathfrak{D}$  on which they were filed, and by that time his invention had already been published in the Russian patent specification. Thus I have to tell Professor Herouni that Solargen and their patent agent were absolutely right when they tried to explain this to him at an earlier stage in the proceedings, and it is a great pity he did not believe them. I must again stress that I am not making any ruling on the priority date of the PCT applications because I have not attempted to compare the contents of the various applications. I am merely confirming what the position will be if the Russian, GB and PCT applications are all concerned with essentially the same invention.

34. In summary then, on all the issues I have just looked at Professor Herouni misunderstood the position. These misunderstandings were very unfortunate because they contributed to his belief that Solargen could not be trusted. Had they not occurred it is possible trust between

the two sides would not have broken down as much as it did. Equally I must stress that these were not the only matters giving rise to that mistrust, so I must now turn to the other aspects of the case. I will start with the first of the two agreements.

### **The first agreement (February 1994)**

35. This agreement has to be considered in conjunction with Professor Herouni's letter of 29 March 1994. It was drawn up without the advice of a lawyer and it is not as clear as it might be. Nevertheless both parties accept that the GB and PCT patent applications fall within the scope of clause 10 of the agreement and paragraph 3 of the letter even though they did not (and could not) claim priority from the Russian patent application. Further, whatever may have happened later, I think that it is clear from the evidence that, at the time, both parties considered that Northstar had exercised their option under the agreement.

36. The first problem concerns the relationship between clauses 5 and 10 of the agreement. Clause 5 says Northstar will register applications for patents in Professor Herouni's name, but clause 10 says that on receipt of \$100,000 following exercise of the option "Herouni undertakes to assign the full and unimpeded patent rights, previously granted and to be granted in the future" to Northstar. Solargen say that clause 5 was only there to cover the possible need to file patent applications before they had decided whether to exercise their option. Professor Herouni says this is nonsense because it would have been impossible to file applications worldwide in the space of 1-2 months.

37. It is a pity the agreement did not explain the intentions behind these two paragraphs more fully, but having looked carefully at the agreement as a whole, I have come to the conclusion that the only sensible interpretation is that clause 10 would supersede clause 5 as soon as the option was exercised. Professor Herouni's objection to this interpretation is unsound because it is quite possible to file applications at short notice - it is something patent agents have to do regularly - and it is quite feasible to do this worldwide, especially if one uses the PCT. Accordingly, because the option was exercised, I find that clause 5 ceased to have effect and that clause 10 became the operative clause so far as filing future patent applications was



concerned.

38. I am aware that at a later date Mr Malim, in an attempt at conciliation, said that perhaps the applications should have been filed in Professor Herouni's name and then assigned to Northstar. However, I do not believe that the agreement required this. Once Northstar had the full rights under paragraph 10, it would be nonsense to expect applications to be filed in Professor Herouni's name.

39. That takes me on to the next problem. Northstar assert that “assign the full and unimpeded patent rights” meant that he would transfer ownership of the patents to them. Professor Herouni disagrees. He says it simply meant he would give Northstar a licence to work the patents, and he bases this argument on his belief that there is a fundamental difference between owing the full patent rights and owning the patent. Northstar, however, say a licence agreement was never discussed at the time.

40. I cannot accept Professor Herouni's interpretation. The reference to assigning the rights can only mean that ownership was to be transferred. I cannot say for certain what Professor Herouni thought the agreement meant when he signed it. He says this was the first deal he had concluded with anyone in the West and so it is just conceivable he may have misunderstood the meaning of the expression "assign the full and unimpeded patent rights". I do, though, have some difficulty believing that he could have reasonably expected the company to invest so heavily in a project without having something more than just a licence to work the invention. Further, if all they were to get was a licence, I would have expected to see something in the agreement about the terms of the licence, and there is nothing. Professor Herouni argued that it would not be unusual in Armenia for someone to give a free licence in these circumstances, but I would still expect to see something about the terms. The agreement concluded by saying that it was to be subject to “the Laws of England and/or International Laws regarding Intellectual Property”. I do not understand what was intended by the reference to International Laws, and given that the parties had no legal background I rather suspect they had no clear idea themselves what this meant. However, so far as the agreement is subject to the laws of England, in English law “assign” is the term for the transference of

personal property and Professor Herouni's interpretation of the expression "assign the full and unimpeded patent rights" is wrong.

41. I should perhaps say that Section 30(6) of the Patents Act 1977 requires any assignment of a patent or patent application to be in writing and signed by both parties. Professor Herouni's letter of 29 March was not, of course, signed by both parties and so to that extent the assignment to Northstar was not perfected. However, I am satisfied that, taken together, the agreement of 7 February 1994 and the letter of 29 March 1994 constitute an equitable assignment of all the patent rights to Northstar, in accordance with clause 10 of the agreement.

42. I find, therefore, that ownership of the patent applications transferred to Northstar by virtue of the agreement of February 1994 and the exercise by Northstar of their option. However, that is not the end of the matter, as Professor Herouni claims that even if Northstar did acquire the patents under clause 10 of the first agreement, they subsequently reverted to him under clause 14 because the company did not provide the money in accordance with the schedule of clause 12. The schedule of payments in clause 12 is quite clear, and the company had agreed to it willingly. Similarly they had agreed willingly to the penalty in clause 14 for failing to keep to the schedule. Whilst this penalty might with hindsight seem a little draconian once large sums of money had been invested by Northstar, one must remember that failure to keep the money rolling in could easily have led to the project's collapse. Given the penalty, I find it surprising that at the time the company was not showing more concern about its failure to keep to the schedule. For example, even though clause 12 includes the proviso that the dates "may be varied by mutual agreement", there is no evidence that they ever wrote to Professor Herouni to try and get a written agreement to vary the schedule. There is also no evidence that they had grounds for pleading "force majeure", which would have nullified the effect of clause 14.

43. However, even though the company do not deny that they did not comply with this schedule and there was no written agreement to vary it, I need to decide whether there was any unwritten or implicit agreement to either vary the schedule or waive the penalty of clause

14. I have therefore looked carefully at what was said and what was done during the relevant period.

44. I have no evidence that Professor Herouni made any complaint about the fact that the payment due in October 1994 was late and for less than the full amount. That can be interpreted as an implicit agreement by him to allow a variation of the schedule. However, when the January 1995 payment eventually arrived in April, and again for less than it should have been, he wrote his long letter dated 25 April 1995 in which, after drawing attention to the fact that payments had not been made as agreed, says:

“So in accordance with Agriment (*sic*) position 14, I am free from granting to Northstar patent rights.”

45. It is very clear from this statement that Professor Herouni was not at this stage agreeing, explicitly or implicitly, to vary the schedule. However the letter goes on to say that he would like the project to continue in cooperation with Northstar. This did indeed happen, because in July 1995 Professor Herouni accepted a further payment of \$20,000 and in September yet another payment of \$60,000, by which time the total amount he had received (\$301,400) was very slightly more than the amount (\$300,000) provided for in the agreement.

46. Thus the situation was this: having said in effect that the agreement was finished because the first party to an agreement (Northstar) had failed to perform all its obligations, the second party (Professor Herouni) then continued to accept money due under the agreement. In such a situation, one would normally say that the second party was implicitly waiving or varying those obligations and accepting that the agreement otherwise continued in force. In other words, one would say that, by his actions, Professor Herouni was withdrawing his claim that the agreement was finished and was agreeing to vary the original terms so as to allow Northstar to pay late. If that was the case, it follows from my previous finding that ownership remained with Northstar.

47. I do not, however, feel the position here is so clear cut. These extra payments were

accepted during the period when Mr St James was acting as an intermediary between the parties. His role, according to the unchallenged evidence of Professor Herouni, was to negotiate and prepare a new agreement, but these payments were made before that new agreement had been made. The company must have been very well aware throughout this period that Professor Herouni was continuing to claim ownership of the patent rights notwithstanding the first agreement, and they have provided no evidence that Professor Herouni said anything to suggest he was retracting his claim that clause 14 had become operative. It is therefore not at all clear from the evidence on what basis these extra payments were made and accepted. The truth, I suspect, is that despite the dispute over ownership, there was optimism on both sides that the project would still go ahead to completion and therefore a willingness on both sides to try to resolve the financial situation even though other problems remained unresolved. Indeed, I do not consider that the payments were at the heart of the dispute. It is clear from Professor Herouni's own evidence that he stopped work on the project not merely because he had run out of money but to put pressure on the company in respect of ownership of the patent applications.

48. I have not found this an easy point to decide, but having looked at the available evidence and considered all the surrounding circumstances, I have come to the conclusion that by his actions in accepting more money Professor Herouni was not retracting the claim made in his letter dated 25 April 1995 that clause 14 had become operative. In short, therefore, I find that:

- a) ownership of the patent applications (at least in equity) transferred to Northstar by virtue of the first agreement once Northstar took up their option;
- b) because Northstar failed to adhere to the timetable for payments, ownership reverted to Professor Herouni under clause 14 of the first agreement when he invoked that clause in April 1995;
- c) ownership did not revert back to Northstar when Professor Herouni accepted further payments from them.

## **The second agreement (November 1995)**

49. I must now consider what effect the second agreement has on these findings. Like the first agreement, this second agreement is not as clear as it might be. However, from its wording I am satisfied that both parties signed it on the understanding that it completely superseded the first agreement. What that means is that provided the second agreement is both enforceable and in force - and I will come back to that - it is the second agreement, and not the first, which determines who now owns the patent rights because the parties were, in effect, saying: “never mind who owns it under the first agreement, let's wipe the slate clean and start again”.

50. So who does own the patent rights under the terms of the second agreement? There are four relevant sentences in the agreement, which I shall label A to D for convenience:

A. Herouni gives SEC the exclusive worldwide licence (rights) to develop, make, sell and commercially exploit the SOLARGEN AREV invention in perpetuity (for ever).

B. Herouni gives SEC the exclusive first option forever to buy the licence (rights) to any and all future (after the date of this agreement) Herouni patents connected to Solargen AREV for a purchase price to be agreed.

C. Herouni gives SEC the exclusive right to buy the patents and patent applications as related to Solargen AREV, at any time for US\$ 2 million.

D. Herouni gives SEC the exclusive first option forever to buy any and all future patents connected to Solargen AREV for a purchase price to be agreed.

Comparing B with A and D with C, and taking account of the context in which this agreement was being made, I am satisfied that B and D were intended to refer only to future patents and future patent applications. They are therefore irrelevant to the issue before me, because by this time the GB and PCT applications had all been filed. Sentence A does not mention

patents, but I think it must be construed as including them implicitly because otherwise the exclusive licence would have been worthless. Thus I find that sentence A grants Solargen an exclusive licence under the patents - or rather, under the patents had they been granted. Sentence C, then, must have been intended to allow Solargen to actually own the patents, rather than just have an exclusive licence, on payment of \$2 million.

51. To the detached observer, it will seem strange that Solargen could apparently contemplate spending \$2 million to buy the patents when it already had all it needed in an exclusive licence. However, whether it made commercial sense or not, in the circumstances in which this agreement was made I do not find my interpretation of A and C to be implausible, for two reasons. Firstly, from the evidence it is clear Professor Herouni himself felt passionately about the question of ownership and was much more ready to let Solargen have a licence than he was to let them have ownership. Secondly, it is also clear from the evidence that Mr Malim himself freely admits that he doesn't really understand patents, so it is entirely possible in my view that he could agree to provisions like this.

52. There is another matter that I will mention in passing. In May 1996 Professor Herouni complained that a paragraph about registering the patent applications in his name had been left out of the second agreement. I must say that I do not find Professor Herouni's evidence convincing in this matter. The document was clearly closely scrutinised by all involved in its drafting and I think that it is very unlikely that an omission such as this would have been missed at the time by the three signatories. However, the paragraph would have made no difference to my finding.

53. I conclude, then, that under the terms of the second agreement ownership of the patent rights rested with Professor Herouni but Solargen had an exclusive licence to exploit them. However, that still leaves two questions outstanding: First, is the second agreement enforceable, and second, is it still in force?

54. Doubts about whether the agreement is enforceable arise from claims in Mr Malim's evidence that the agreement was made under duress. By this time, the company had

committed a large amount of money to the project. As far as I can see from the evidence of money spent month by month, work on the project had restarted after Professor Herouni had stopped it earlier in the year, but his continued cooperation was crucial if the project were to go ahead so that the company could see a return on their investment. However, Professor Herouni was refusing to budge on the question of ownership and was now asking the company for a large sum of money if they wished to buy the patent rights. Negotiations on the second agreement were clearly very difficult, and Mr Malim says they had to continue through the night to get them concluded. The company, according to Mr Malim, had no option but to give in to Professor Herouni's demands. Unless they agreed to re-assign the rights to Professor Herouni in return for a licence, they were faced with a permanent down-tools in Armenia. He describes this as blackmail.

55. Neither side has referred me to any case law, but I am aware that there have been cases in which a contract has been declared void by the courts because one party was forced by economic duress to sign it. In the present case I accept that the potential for an “economic duress” argument exists because the company either had to agree to Professor Herouni's demands or lose a very large sum of money. However, there are other factors:

C The company were resisting Professor Herouni's demands on ownership because they considered they already owned it themselves under the terms of the first contract. I have, though, already found that by this time ownership had reverted to Professor Herouni under clause 14 of that contract, so the basis on which the company were resisting this was ill founded.

C On Mr Malim's own admission, he took a lot of care to ensure the terms of the second contract were acceptable to both sides. In his evidence he says:

“It will be seen that each of the sections of that Agreement is initialled by myself and Paris Herouni. We agreed to do this so that at no stage in the future could it be argued that both of us had not read and fully understood each of the sections of the Agreement that we were now signing. The Agreement

was witnessed by Lionel St James who had accompanied me to Armenia.”

This hardly suggests that the contract was only signed by Mr Malim because he was backed into a corner and had no room to negotiate.

C When he got back to England, Mr Malim had a meeting with the patent agents to discuss the way ahead now that the new agreement had been made. He says that it became clear that there would be a lot of work to do on such matters as negotiating the detailed terms of the licence, but he also says:

“We were content that we had committed ourselves to this new arrangement, and Paris Herouni seemed content with the undertaking we had given in the November 1995 Agreement.”

56. One of the precedents on the doctrine of “economic duress” is *Pao On and others v Lau Yiu and another* [1980] AC 614. This was a Privy Council case originating from an action in Hong Kong, but it has been relied on in subsequent English cases such as *B&S Contracts and Design Ltd v Victor Green Publications Ltd* [1984] ICR 419. In *Pao On* the Privy Council said that for there to be duress there had to be coercion of will so as to vitiate consent and that in considering whether this had happened, one should take account, *inter alia*, of whether the party alleged to have been coerced protested and whether, after entering the contract, they had taken steps to avoid it. In the present case, neither the care taken by Mr Malim to ensure both sides understood what they were signing nor the later commitment to making the agreement work sit comfortably with these Privy Council guidelines. Having regard to these factors, I do not feel that the level of coercion on the company was such as to vitiate consent to the agreement, particularly as the duress they felt they were under arose at least in part from an incorrect belief that they owned the patent rights at this stage.

57. I must now turn to the question of whether the second agreement is in force. Both parties have indicated their intention of rescinding the second agreement, Professor Herouni by stopping work on the project at the end of April 1996 and then sending his fax of 17 May



1996 and the company by their letter of 18 July 1996. I have carefully considered the subsequent correspondence between the parties produced in evidence but I do not think that it alters the position because nothing has happened to restore a working relationship between them. In these circumstances, I conclude that the second agreement has probably been rescinded by consent. I must observe, however, that whether or not the second agreement has been rescinded makes no difference to the question of ownership, because I have found this rests with Professor Herouni under both agreements.

## **Mr Gaye's position**

58. There is one final matter I must turn to. So far I have considered the dispute as though it were solely between Professor Herouni and Solargen. However, Mr Gaye is also named as an applicant for the PCT cases, so I need to rule on his position too. I can only say that there is nothing whatsoever in the evidence to suggest he has any claim to the ownership of these applications, so there is nothing to displace my finding that they belong to Professor Herouni.

## **Giving effect to my findings**

59. I have found that entitlement to the four patent applications, at least under UK law, passed from Professor Herouni to the company that is now known as Solargen by his letter of 29 March 1994, taken in conjunction with the agreement signed by both parties on 7 February 1994, but that it reverted to Professor Herouni with his letter dated 25 April 1995. The agreement of 12 November 1995 did not alter that position. Accordingly, Professor Herouni has succeeded in his reference. I must now consider what order I should make to give effect to this finding.

60. Professor Herouni has asked the Comptroller declare that “he is the true and sole owner of all rights to the invention and to the patent applications and that he is registered as sole owner of the patent applications from the applications' filing dates”. However, the two GB patent applications were abandoned before publication and the two international applications have now ceased as well. Thus I cannot simply order that the patent applications be transferred to Professor Herouni's name so that they can continue on their way to grant. I can declare that he is the true and sole owner of all rights to patents for the inventions contained in the four patent applications, at least so far as the UK is concerned, but *prima facie* it seems to me that I cannot register him as the sole owner of the applications because they are dead. Further, even if the PCT applications were alive, I would not have the power to “register” him as their owner because I have no power over the registers in other countries. I think, therefore, Professor Herouni needs to think much more carefully about what order he would like me to make.

61. It may help him if I look briefly at the options. So far as the GB applications are concerned, what I can do is constrained by subsections (2) and (3) of section 8 of the Act. These say what the comptroller can do in certain circumstances, and it will be sufficient if I just quote parts of them:

(2) Where a person refers a question . . . after an application for a patent for the invention has been filed and before a patent is granted in pursuance of the application, then, unless the application is refused or withdrawn before the reference is disposed of by the comptroller, the comptroller may, without prejudice to the generality of subsection (1) above . . .

(a) order that the application shall proceed in the name of that person . . . instead of in the name of the applicant . . .

(3) Where a question is referred to the comptroller under subsection 1(a) above and . . .

(c) any such application is refused under any other provision of this Act or is withdrawn before the comptroller has disposed of the reference, but after the publication of the application;

the comptroller may order that any person by whom the reference was made may within the prescribed period make a new application for a patent . . . (which) shall be treated as having been filed on the date of filing the earlier application.

62. The applications are already withdrawn so I cannot invoke the options of subsection (2). Further they were withdrawn before publication, so I cannot invoke the option of subsection (3) either since (3)(c) applies only if they had been withdrawn after publication. It seems to me I can do nothing beyond making the general declaration mentioned in the previous paragraph. Certainly I do not appear to have the power to resurrect the applications.

63. I will now consider the PCT applications. I assume that under Article 24(1)(iii) of the Patent Cooperation Treaty the applications will by now have ceased in all designated states. However, under Articles 24(2) and 11(3) it is possible for individual designated states to treat the PCT applications as regular national applications. So far as the UK is concerned, this possibility is covered by section 12(6)(c) of the Patents Act 1977, and Professor Herouni may wish to consider whether he wants to seek an order under this section. The relevant parts of

section 12(6) read:

. . . where an international application for a patent (UK) is withdrawn . . . after publication of the application, the comptroller may order that any person (other than the applicant) appearing to him to be entitled to be granted a patent under this Act may within the prescribed period make an application for such a patent . . . (which) shall be treated as having been filed on the date of filing of the earlier application.

64. I cannot comment on the laws of other countries - Professor Herouni will need to check them - but it is possible they may contain similar provisions. If so, Professor Herouni will need to consider whether there is any other order he would like to seek, though he must remember I do not have the power to tell other patent offices what they must do. However, there is a more fundamental question he needs to address first. It is a waste of time trying to revitalise the PCT applications in individual designated states if, in fact, any patent application is then going to be rejected anyway because of the problems with priority date discussed under paragraph 33 above. He needs to consider this point very carefully before doing anything else.

65. In short, whilst I can make a simple declaration about entitlement at this stage, I will have to allow Professor Herouni an opportunity to consider whether he wishes to seek any further declaration or order to give full effect to my determination of these references. Deciding what, if anything, to seek will be a tricky matter, and I strongly advise Professor Herouni to obtain professional advice from a patent agent before making any decision. I will, of course, also have to give Solargen and Mr Gaye the opportunity to comment on any request Professor Herouni makes.

## **Conclusion**

66. I declare that Professor Herouni is the true and sole owner of all rights to UK patents for the inventions contained in the four patent applications, viz UK Patent Application Nos 9412260.3 and 9412243.9 and PCT Application Nos WO 95/35469 and WO 95/35470. That means that he is also the true and sole owner of all rights to patents in other countries whose law is, in the relevant respects, the same as our own. Further, I hereby allow Professor Herouni a period of two months, starting from today, in which to request a further declaration

or order to give effect to my determination that he is the true and sole owner. If he does seek a further declaration or order, I will then give such directions as seem appropriate. These directions will be such as to allow Solargen Energy BVI and Mr Gaye the opportunity to comment on what Professor Herouni seeks before I make any declaration or order.

67. I feel I must in conclusion observe that in my view this is a sad case. Had cooperation between Professor Herouni and Solargen continued, there would have been immense benefits to both sides. The project would have been adequately funded, Professor Herouni's invention would have been fully proven and possibly a large market opened up to their mutual benefit. Cooperation collapsed because trust between the two sides broke down completely, and yet the breakdown was due almost entirely to mistaken beliefs, dogmatic attitudes and misunderstandings. Professor Herouni did not understand the patent application process as well as he thought he did, and this led him to believe, wrongly, that it was not being conducted properly and that he was being cheated. He also became obsessed with owning the patent applications, without recognising that a little more flexibility on this point might well have preserved the project and benefitted him. Further, neither side employed a lawyer to make sure they understood the significance of the agreements they were signing and that they were clear - had they done so, some of the misunderstandings may not have occurred. The end result is that both sides have lost out. Solargen has lost a lot of money; Professor Herouni has lost the funding for his project and may well have lost all patent protection except in Russia. It need not have happened.

68. Since Professor Herouni has succeeded in his reference, he is entitled to costs. Accordingly I order Solargen to pay Professor Herouni £600 as a contribution towards his costs.

69. As this decision does not relate to matters of procedure, under the Rules of the Supreme Court any appeal must be lodged within six weeks.

Dated this 13<sup>th</sup> day of July 1998

**P HAYWARD**

Superintending Examiner, acting for the Comptroller

**THE PATENT OFFICE**