

"Small Entity" Status – Improved but Perhaps not Perfected

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The Canadian patent regime, like many others, provides a 50% reduction in government fees to eligible sole inventors, small companies and universities. Those who qualify for the fee reduction are called "small entities," a term defined in the *Patent Rules*. Small entity status was considered in *Barton No-Till and Flexi-Coil v. Dutch Industries* (2003), 24 C.P.R. (4th) 157 (F.C.A.), reversing in part, 14 C.P.R. (4th) 499 (F.C.T.D.), in which it was decided that the entity status of an applicant was determined, once and for all, when the applicant first "engaged" the patent regime.

The definition of small entity that was in effect when *Dutch Industries* was decided was:

"**small entity**" in respect of an invention, means an entity that employs 50 or fewer employees or that is a university, but does not include an entity that

(a) has transferred or licensed, or is under a contractual or other legal obligation to transfer or license, any right in the invention to an entity, other than a university, that employs more than 50 employees, or

(b) has transferred or licensed, or is under a contractual or other legal obligation to transfer or license, any right in the invention to an entity that employs 50 or fewer employees or that is a university, and has knowledge of any subsequent transfer or license of, or of any subsisting contractual or other legal obligation to transfer or license, any right in the invention to an entity, other than a university, that employs more than 50 employees. [*Patent Rules*, S.O.R./96-423, s.2]

The draconian consequences of failing to correctly determine and claim small entity status for a client were made apparent in *Johnson & Johnson Inc. et al. v. Boston Scientific Ltd.* 2004 F.C. 1672 (F.C.), in which the Court found that the applicant was not a "small entity" when its applications were filed. Consequently, its applications had been abandoned 12 months after they were filed, due to the payment of insufficient filing fees, and had not been reinstated within the 12 months thereafter. As a result, those applications were irrevocably abandoned and the patents issuing from them were invalid. A similar finding was made in *Johnson & Johnson et al. v. Arterial Vascular Engineering Canada, Inc. et al.* 2004 F.C. 1673 (F.C.).

The Government of Canada has responded to these cases by enacting amendments to the Patent Rules to clarify the definition of a small entity and to provide relief in circumstances where small entity status has been erroneously claimed. The present definition of small entity, which came into force June 2, 2007, is set out in s.3.01 of the *Patent Rules*:

"**small entity**," in respect of an invention, means an entity that employs 50 or fewer employees or that is a university, but does not include an entity that

(a) is controlled directly or indirectly by an entity, other than a university, that employs more than 50 employees; or

(b) has transferred or licensed or has an obligation, other than a contingent obligation, to transfer or license any right in the invention to an entity, other than a university, that employs more than 50 employees.

While this definition of small entity is certainly clearer than the definition it replaced, neither the terms "directly or indirectly controlled" nor "contingent obligation" are defined in the *Patent Act* or *Patent Rules* and we will have to await the appropriate case before the courts have an opportunity to interpret these terms. For example, it is not clear if a Canadian subsidiary having only five employees but owned by a U.S. parent having several hundred employees would qualify as a small entity. Similarly, while "contingent obligation" would appear to refer to a security agreement, the exact terms of such agreements may determine if they are contingent or not.

As indicated above, the *Patent Rules* now have a provision for making corrective payments when insufficient fees were paid on the basis of an erroneous claim of small entity status. S.26 states:

26(3) Except in respect of Part V, if the appropriate fee under subsection 3(3), (5), (7), (8) or (9) in respect of a proceeding or service is either a small entity fee or a standard fee, and if, after the coming into force of this subsection, a person pays the small entity fee but the applicant or patentee later becomes aware that the standard fee should have been paid, the Commissioner is authorized to extend the time fixed by these Rules for payment of the appropriate fee if the Commissioner is satisfied that the circumstances justify the extension.

(4) An extension may be authorized under subsection (3) only if the following conditions are satisfied:

- (a) the applicant or patentee files a statement that, to the best of their knowledge, the small entity fee was paid in good faith and the subject application for the extension is being filed without undue delay after the applicant or patentee became aware that the standard fee should have been paid;
- (b) the applicant or patentee pays the difference between the amount of the small entity fee that was paid and the standard fee as set out in Schedule II to the *Patent Rules* as they read at the time the small entity fee was paid; and
- (c) the applicant or patentee pays the fee set out in item 22 of Schedule II in respect of each fee that is the subject of an application for such an extension.

It should be noted that acceptance of corrective payments is at the Commissioner's discretion. Furthermore, the applicant or patentee must file a statement that the incorrect payment was made in good faith, and that the corrective payment was made without undue delay after the error was discovered. Clearly, such a statement would be closely scrutinized in the event of subsequent litigation involving a patent issuing from an application during the prosecution of which such a statement was filed.

Given the potential loss of patent rights that may occur if insufficient fees are paid, and subsequent corrective payments are either not accepted or subsequently challenged as being improper, Lang Michener LLP continues to recommend to its clients that large entity fees be paid unless there is absolutely no doubt that an entity satisfies the definition of small entity when the Canadian patent regime is engaged.

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