

## UNDERPAID MAINTENANCE FEES CAUSED PATENT TO LAPSE, FEDERAL COURT RULES

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A recent decision of the Trial Division of the Federal Court of Canada allowed an application for judicial review in a case where Canada's Commissioner of Patents had accepted payments on account of underpaid patent maintenance fees after the prescribed date for payment had passed. Lower and erroneous maintenance fees had been paid over several years on the basis that the patentee was entitled to claim small entity status (and thus smaller maintenance fees) when in fact it was not (*Dutch Industries Ltd. v. Canada (Commissioner of Patents)*, court dockets T-967-00, T-968-00, August 13, 2001, Dawson, J.).

On November 24, 1994, patentee Barton No-Till Disk Inc. ("Barton") entered into an exclusive license agreement with Flexi-Coil Ltd. ("Flexi-Coil") whereby rights to practice the invention described in Canadian Patent No. 2,121,388 (" '388 patent ") were granted to Flexi-Coil. The '388 patent was based on an application filed on April 15, 1994 and issued on July 23, 1996. Barton also granted rights to Flexi-Coil in an invention described in Canadian Patent Application No. 2,146,904 (" '904 application ").

In other proceedings pending before the Federal Court, Dutch Industries Ltd. was named as defendant and was alleged to have infringed the '388 patent. In its defence in that case, Dutch Industries Ltd. alleged that the '388 patent had lapsed for non-payment of the required maintenance fees within the prescribed time. The circumstances of alleged non-payment were described as underpaid maintenance fees flowing from the fact that small entity status was claimed by the patentee when in fact such status was not available to it.

The maintenance fees in accordance with small entity status were paid by the patentee up to March 29, 2000. At that time, the solicitors for patentee Barton wrote to the Commissioner with respect to both the '388 patent and the '904 application indicating that in fact Barton was not entitled to such

small entity status as of November 25, 1994 and forwarding the balance of the official fees that had not been paid since that date. The Commissioner of Patents accepted these payments.

The applications for judicial review that were launched by Dutch Industries Ltd. sought orders quashing the Commissioner's decision to accept such retroactive payments and finding that both the '388 patent and the '904 application had lapsed for failure to pay the prescribed maintenance fees and for failure to apply for reinstatement in a timely fashion.

Regarding the '388 patent, the Court reviewed the applicable provisions of Canada's *Patent Act*, R.S.C. 1985, c. P-4 in force at the relevant time: Subsection 27.1(1) provided that "an applicant for a patent shall, to maintain the application in effect, pay to the Commissioner such fees, in respect of such periods, as may be prescribed". The Act further provided that an application for a patent shall be deemed to have been abandoned if the fees payable by the applicant in respect of a period prescribed for the purposes of said Subsection 27.1(1) were not paid before the expiration of that period. The Act also provided that an application deemed to have been abandoned under Section 27.1 "may be reinstated" on petition by the applicant presented to the Commissioner within such period as may be prescribed and on payment of a prescribed fee. Such application so reinstated retained its original filing date and its priority, if any.

Reference was also made by the Court to Section 76.1 of the then applicable Rules which read in part: "The fee to maintain an application for a patent in effect shall be paid for each one-year period between the first and nineteenth anniversaries of the date of the filing of the application in Canada". The Rules further provided that these fees "shall be paid" before the expiration of each period referred to in that subsection. Finally, it was also mentioned in the Rules that a petition to reinstate an application for a patent pursuant to Section 27.1 of the *Patent Act* "shall be presented" within six (6) months after the date on which the application for the patent was deemed to have been abandoned. While Section 139 of the Rules gave the Commissioner broad discretion and authority to extend certain time limits on other matters, such discretion and authority was removed as far as the above provisions of Section 76.1 of the Rules were concerned (See Subsection 76.1(6) in force at the time).

In light of the clear provisions of the *Patent Act*, the Court found that there was a mandatory requirement to pay the prescribed fees and an equally mandatory consequence of deemed abandonment if the specified fees were not paid before the expiration of the period prescribed for payment. Moreover, the Court found that any request for reinstatement should have

been initiated according to the Rules in force at the time, i.e. within the prescribed period of six (6) months.

In light of the conclusion that the Commissioner did not have the discretion to allow for the payment of the balance of maintenance fees after the expiration of the period for applying for reinstatement, the Court therefore made a finding that both the '388 patent and '904 application had lapsed.

This Court decision appears to be a warning for patentees and their agents alike to take note of any change of status of the patentee which might influence the scale of maintenance fees it is called to pay. Any underpayment and lack of request for reinstatement made within the prescribed time period will lead to what the Court called an apparently harsh but inevitable result considering the clear and unambiguous language of the Act.

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