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INTELLECTUAL PROPERTY NEWSLETTER

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You are holding in your hands the 11th Edition of our IP-Newsletter. It is the bi-annual distribution and therefore full with up-to-date information including the latest news from many jurisdictions.

I like to thank all authors who have contributed to the 11th edition of the Terralex IP-Newsletter. I encourage you to print copies and make them available to your colleagues and clients.

In our 11th edition you will find 27 Articles covering legal issues from 15 different jurisdictions (plus 5 different state law jurisdictions in the US). We are proud to see that also this time after only six months from our last edition the volume of our newsletter remains as great as before.

Take a quick glance through the contents: You will find a number of highlights in patents, trademark, registered designs and copyrights including database Protection and Licensing.

Wolfgang Leip

TerraLex Intellectual Property Practice Group
Frankfurt am Main, April 2005

U.S. Patent and Trademark Office Clarifies its Rules on Small Entity Qualifications

By Harvey Agosto and Todd Garabedian
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In the 9th edition of the TerraLex Intellectual Property Newsletter, we discussed the consequences of improperly claiming small entity status as articulated by the Court of Appeals for the Federal Circuit in Ulead Systems, Inc. v. Lex Computer Management Corp. (351 F.3d 1120 (Fed. Cir. December 9, 2003)). We also noted that ambiguities in the present small entity rules have led to confusion over whether an applicant may claim small entity status. As part of the changes to support implementation of the U.S. Patent and Trademark Office 21st Century Plan (69 Federal Register 56482, September 21, 2004), new rules and commentary were recently promulgated which clarify some of these ambiguities, in particular whether small companies based outside the United States could qualify for small entity status, and what is “an obligation” for purposes of small entity designation.

Prior to the rule changes, to qualify as a small business concern, the Patent Office indicated that an entity must meet the requirements set forth in the Small Business Administration (SBA) regulations codified at 13 C.F.R. §121, and referred to the entire chapter on SBA regulations. However, while the SBA regulations included a size standard of 500 employees or fewer, including affiliates, the SBA regulation also referred to other criteria, including revenue streams, payment of U.S. taxes, and having primary places of business within the United States, which on their face were not excluded in the Patent Office rule. Therefore it was unclear whether a small business concern must have a place of business in the United States, and operate primarily in the United States, to be eligible to pay reduced patent fees.

To address this concern, the Patent Office amended the rules for small entity qualification to state that a business concern which meets all the requirements set forth in 13 C.F.R. §§ 121.801- 121.805 (i.e., having 500 employees or fewer) and complies with applicable

USPTO procedures, is eligible to pay reduced small entity fees, regardless of whether it is located or operates primarily in a foreign country. In reviewing the prior rules, the Patent Office determined that excluding foreign concerns would violate United States treaties in the patent area. For example, excluding small non-US business concerns from small entity qualification would violate Article 2 of the Paris Convention for the Protection of Industrial Property, which provides that nationals of any Paris Convention country enjoy the advantages that their respective laws grant nationals of that country. The new rule explicitly permitting non-U.S. businesses to qualify for small entity status if they meet the requirements is a welcome clarification, and can save these small businesses significant costs over the entire lifetime of a U.S. patent.

In addition, the Patent Office has clarified that a small entity must be under a “currently enforceable” obligation to assign, grant, convey or license the rights in the invention to a large entity before disqualification of small entity status can occur. Section 1.27 of the Patent rules was amended by adding a new paragraph which states that a security interest does not involve an obligation to transfer rights inventions unless the security interest is defaulted upon. This clarification is very helpful to applicants because one question that would typically arise was whether a security interest held by a large entity in a small entity’s application or patent is sufficient interest or obligation to prohibit claiming small entity status. For example, an applicant or patentee may take out a loan from a large entity bank and use as collateral rights in a patent application or patent of the applicant or patentee. The Patent Office has now clarified that the granting of such interest to the bank would not be a currently enforceable obligation to assign, convey, or grant a license to the bank. Only in the event that the applicant or patentee defaults on its loan will an obligation to transfer the interest arise. Thus, the fact that

the bank is a large entity would not preclude the claiming of small entity status just because it holds a security interest. However, if the loan is defaulted on there would be a loss of the small entity status. In contrast, an applicant or patentee that would otherwise qualify to claim small entity status but who executes an agreement with a large entity which would require the assignment of a patent application within a certain number of days from the execution of the agreement would not be entitled to claim small entity status. Since the applicant or patentee would be under an existing obligation to assign the rights to the large entity it would be precluded from claiming small entity status. Thus the amendment to § 1.27 ends the confusion of what constitutes an "obligation" to assign, convey, grant or license

rights for the purposes of determining small entity status.

Despite the clarification of small entity requirements, given the potentially severe consequences of improperly claiming small entity status in terms of claims of inequitable conduct and potential patent unenforceability (as we have previously discussed), we continue to recommend that applicants or patentees should consider carefully whether to claim small entity status even though they may be entitled to do so. In certain situations, applicants and patentees may still wish to consider not claiming small entity status, and instead simply pay large entity fees in order to avoid potentially serious repercussions of incorrectly claiming small entity status.