



- c) Two witness statements from Mr. Richard Burnstein, Chief Executive Officer of Burnstein Technologies, Inc (BTI), one of the co-applicants
- d) Two witness statements from Mr. Russell M. Jeide, an associate attorney at the US firm of Knobbe, Martens, Olson & Bear, LLP (KMOB)

## Background

- 5 One of the co-applicants in this case, Burnstein Technologies, Inc (BTI) was the sole proprietor of the patent in suit during the *relevant period* in these proceedings. The relevant period in this case is the period set under rule 39(1) in which the patent can be renewed early from three months before the due date for renewal - in this case that was from the 27<sup>th</sup> November 2002 – until the period allowed under section 25(4) in which the renewal fees can be paid up to six months late with fines - in this case that is the 27<sup>th</sup> August 2003. I mention this period specifically at this early point because much of the evidence filed in this case refers to events outside this relevant period. I shall say more on this later in this decision.
- 6 BTI was a research and development (R & D) company operating out of California, USA. As an R & D company, it never had any product sales. Accordingly BTI was completely dependent on investment funds in order to finance its daily operations.
- 7 The evidence shows that in 2002 and 2003 i.e. throughout the relevant period in these restoration proceedings, BTI found itself in serious financial difficulties. In fact BTI became so short of funds towards the end of 2002 that it became unable to operate on a day-to-day basis. This included the financial inability to maintain its patent portfolio, which at the time included some 200 or so cases, including the patent in suit.
- 8 However, because of the nature of its operation, BTI recognized the importance of its patent portfolio and from November 2000 had employed a patent attorney and a paralegal to prosecute and maintain patent matters. The patent attorney was Mr. Bollella, referred to above. He and the paralegal kept electronic status reports and other paper records for all patent matters, including renewals.
- 9 In October 2002, BTI employed about 75 staff, but at that time had little or no money to maintain patent matters, despite requests from Mr. Bollella. After about February 2003, BTI was unable to maintain its budget for patents and spent no further money on several patent matters, including renewals.
- 10 In December 2002 to January 2003, BTI began laying off staff due to lack of capital. On 4<sup>th</sup> April 2003, all BTI's employees (excluding officers, but including Mr. Bollella and the paralegal) were sent away on an unpaid furlough. Mr. Bollella's employment was terminated on 5<sup>th</sup>

September 2003 followed on 31<sup>st</sup> October 2003 by that of all BTI's officers other than Mr. Burnstein himself. Due to the departure of all BTI employees, records relating to the patent in suit were not consistently updated during 2003.

- 11 Throughout 2003, BTI approached several individuals and corporations requesting funds for continuing operations. Several of these attempts to secure financial investment occurred outside the period relevant to these proceedings, but the evidence clearly shows that much of it was within the period I should consider as admissible.
- 12 BTI finally secured a financial backer in the form of the co-applicants Nagaoka Co. Ltd in November 2003, but this was outside the relevant period in these proceedings.

### **The Law**

- 13 Section 28 (3) of the Patents Act 1977 states:

*If the comptroller is satisfied that –*

*(a) the proprietor of the patent took reasonable care to see that any renewal fee was paid within the prescribed period or that that fee and any prescribed additional fee were paid within the six months immediately following the end of that period,*

*the comptroller shall by order restore the patent on payment of any unpaid renewal fee and any prescribed additional fee”*

- 14 In accordance with Section 28 (3), I have to determine whether or not the proprietor at the time took “reasonable care” to see that the sixth year renewal fees were paid on the patent in suit. In deciding this matter it is helpful to bear in mind the following direction given by Aldous J in *Continental Manufacturing & Sales Inc's Patent* [1994] RPC pages 535 to 545:

“The words “reasonable care” do not need explanation. The standard is that required of the particular patentee acting reasonably in ensuring that the fee is paid”.

### **The applicant's case in summary**

- 15 Essentially the applicant's case is one of a total inability to pay the annuity with fines where appropriate during the entire period in which this could have happened (i.e. a period of 9 months from 27<sup>th</sup> November 2002 to 27<sup>th</sup> February 2003). This was not because it had no intention to renew the patent in suit, but because of a complete financial inability to pay. However, the co-applicants argue they have fulfilled the statutory requirement to effect restoration, because they have shown reasonable care to renew the patent through aggressive attempts to

secure financial backing to revitalise the ailing company during the relevant period.

### **The office's case in summary**

- 16 The office's case for refusing the application for restoration is that reasonable care has not been shown because:
- a) Mr. Burnstein took a conscious decision not to pay the annuity on this patent
  - b) The cost of renewing the patent would not have been a great burden to the applicant and as a valuable asset, it should not have been allowed to lapse
  - c) The actions of Nagaoka Co. Ltd (the co-applicants) cannot be taken into consideration as they were not responsible for the patent at the time in which it could have been renewed (see paragraph 17 and 24 below).

### **Assessment**

17 Much of the evidence submitted in this case referred to events and actions from November 2003 onwards. This was the date when the co-applicants part-acquired the patent. However, whilst much of it corroborates other admissible evidence and sheds more light on the financial state of BTI and of its patent records, it is itself of little admissible assistance to me. Much of Mr. Nagaoka's evidence and most of Mr. Jeide's first witness statement falls into this category, although I draw from them what I can in reaching my decision.

18 The two important deponents in these proceedings are to my mind Mr Bollella, BTI's patent attorney and Mr Burnstein, the CEO of BTI. I will look at their roles in more detail below and on the arguments of Ms, Smaggasgale at the hearing:

#### *Mr Bollella's role*

19 What is clear is that BTI regarded the care of their patent portfolio, which included the patent in suit, very seriously. They appointed a full-time patent attorney in Mr Bollella in November 2000 and a paralegal to assist him. The evidence shows that Mr Bollella and the paralegal kept electronic and paper records to prosecute and maintain the portfolio and I am satisfied that they undertook their duties professionally and competently. In October 2002 for example, Mr Burnstein attests in his first witness statement that Mr Bollella requested money to proceed with "certain patent matters". It is not clear whether these matters included the renewal of this particular patent (although it might be a reasonable assumption to make given that it could have been renewed early from 27<sup>th</sup> November 2002), but Mr Burnstein does confirm in his second witness statement that another reference in his first witness statement to "patent matters" did include renewals in general.

20 Further evidence of Mr Bollella's diligence is provided by the other deponents' accounts of the poor state the patent records of BTI got into after his furlough in April 2003 and after termination of his services in September that year. This was the sixth year renewal of the patent in suit, so the systems Mr Bollella had in place had clearly served to renew the patent in the UK before. In the circumstances he found himself, I am satisfied that Mr Bollella and the paralegal did what they could to maintain this patent, although this obviously did not ultimately lead to its renewal.

*Mr Burnstein's role*

21 Mr Burnstein was clearly what Lord Oliver in the House of Lords in the *Textron* case [1989] RPC 441, described as the "directing mind" in this particular case. That is to say he was responsible for the ultimate decision making processes regarding the patent in suit. Indeed he confirmed this specifically in his second witness statement. Mr Burnstein's role is key in the determination of these proceedings.

22 In so far as his general role of care towards this patent is concerned, clearly Mr Burnstein regarded this very seriously. It was he who ultimately appointed Mr Bollella and the paralegal to maintain it and BTI's entire patent portfolio of around 200 cases. However, the evidence shows that at around the time and before this patent was due for renewal, BTI found itself in serious financial difficulty, but the evidence does not address the reasons for this. BTI as an R & D company had no sales as such to rely upon, therefore its ability to attract funding lay in the value of its assets, which to a large degree were its patents.

23 I have outlined above at paragraphs 9 and 10 the extent and effect of BTI's financial problems.

24 During these troubled times, Mr Burnstein was extremely busy. The evidence points to his substantial attempts to secure financial backing to continue BTI's operations. At the hearing, Ms. Smaggasgale said that this was taking up probably 100% of his time. During 2003 and during the relevant period in these proceedings, he approached several individuals and corporations requesting funds, but without success until November 2003, when BTI agreed to sell an individual partial ownership interest in all intellectual property matters to the co-applicants in these proceedings, Nagaoka & Co. Ltd. Although negotiations were clearly in progress during the relevant period, agreement was only signed on 4<sup>th</sup> November 2003, after the end of the six months in which the patent could have been renewed late. No monies were forthcoming within the relevant period. Mr Nagaoka attests that the normal due diligence tests on the status of the patents they had acquired were not possible prior to this date. None of the actions clarifying status information on the patent portfolio Nagaoka Co. Ltd had purchased are therefore relevant to these proceedings.

### ***Arguments at the hearing***

25 At the hearing, Ms. Smaggasgale argued forcefully that Mr Burnstein's attempts to secure funding were exactly the sort of actions which were referred to in *Ament's Patent* [1994] RPC 647 and which would illustrate that despite the financial inability to pay the annuity, the applicant was "taking reasonable care to avoid impecuniosity" by seeking financial assistance. She quoted Aldous J. in the following extract:

"It is not a requirement of section 28 that a patentee must at all times keep himself in a financial position to pay. It is sufficient that he takes reasonable care to see the fee is paid. That may require seeking financial assistance and, in appropriate cases, taking reasonable care to avoid impecuniosity".

26 Addressing the official reasons for refusing the application, she went on to say that at no point did Mr Burnstein as the directing mind, take the decision to abandon his patent portfolio, including this patent, during these difficult times. He was very aware of how important these patents were, but he just had no money to pay at that time and it was not helpful of the office to suggest that the official fees for renewal were not high. This was a relative matter and no matter how low the official fees were at the time, BTI could not pay them. She went on to argue that BTI's financial state, however, did not show a lack of reasonable care because of Mr Burnstein's actions to secure funding.

27 I was concerned at the hearing about the state of BTI's patent records after the furlough and eventual dismissal of Mr Bollella and his assistant. I was particularly concerned that in his attempts to secure finances, Mr Burnstein was not aware of the need to renew individual patents at any given time. His was primarily a need to secure finances for the well-being of the company in general, which would obviously include the renewal of patents, but of which patents and when, I was not convinced he specifically knew.

28 Ms Smaggasgale characterised this as a "nice legal point", but one which takes little account of the "realities of commercial life". She said that Mr Burnstein was of course aware that he had an important portfolio of patents; he knew he needed them to maintain his business; he knew that there was this patent and several others due for renewal in the period because he had renewed them in previous years. He had not decided not to pay their annuities, as suggested in the official refusal, but had made a decision not to pay them yet. That was because he knew at that point in time that he could defer the payments until later. The crux of the matter was that he had wanted to pay, but simply couldn't. He had no money to pay, but it was his firm belief that his attempts to secure financial backing would be successful. This was where the reasonable care had clearly been demonstrated.

## The finding

- 29 Having carefully considered all the evidence and arguments submitted, in my judgement the co-applicants have **not** been successful in demonstrating reasonable care to see that the renewal fee was paid on this patent in the period in which it could have been, either on time or late with fines.
- 30 My reasons are set out below.

## Reasoning

- 31 As stressed above, the co-applicants' case is based largely around the principle established in *Ament's Patent* [1994] RPC 647 referred to above. Here the Patents Court *rejected* a long-standing practice of the Office in regarding the inability of a proprietor to pay a renewal fee due to lack of funds as not demonstrating reasonable care. In that case, Aldous J. found that if sufficient evidence could be adduced to demonstrate that the inability of the patentee to pay the annuity had not come about due to a lack of reasonable care on his part, then restoration should be allowed. The learned judge went on to say that if the circumstances surrounding the impecuniosity were complicated, as they had been in that case, then this will be a heavy onus to discharge. In the event, the patentee was not able to discharge that heavy onus and the appeal to The Patents Court ultimately failed, but the principle was established.
- 32 The passage from *Ament's* immediately following the extract of Aldous J. quoted by Ms. Smaggasgale at the hearing (reproduced at paragraph 25 above) reads:
- "I have come to the conclusion that a patentee who merely establishes inability to pay does not establish that he has taken reasonable care to see that the fee is paid. To establish that, he must go further and show that he wanted to pay and that he had taken reasonable care to ensure that he was in a position to pay."
- 33 I accept that Mr Burnstein wanted to pay the renewal fee on this and other patents, but I am not convinced that he has demonstrated that the mere seeking of funds, strenuous though it had clearly been, has shown that he was in a position to even *know* whether he was able to pay the annuity on the patent in suit at any point during the relevant period, let alone that he had ensured that "he was in a position to pay".
- 34 I have every sympathy with the position BTI found itself in at the time in which this patent could have been renewed. In its favour, BTI had in place staff and systems to administer and maintain its portfolio of patents. However, because of its financial position and despite reminders on from its patent attorney, the directing mind in the form of

Mr. Burnstein decided not to pursue patent matters at that time. I fully understand the reasons for this.

- 35     However, in *Convex Ltd's Patent* [1980] RPC 423, the point was made that because patents are a valuable property, it is the proprietor's responsibility to safeguard them by setting up a system containing more safeguards than might be sufficient to ensure the discharge of ordinary commercial obligations. I take that to mean that patents must be given a high priority in business considerations. Ms Smaggasgale characterized the application of that principle to this case as a "chicken and egg" situation in the circumstances BTI was in at the time. In order to care for its patents, finance had to be secured, yet the efforts required to secure that finance detracted from the ability to maintain them fully.
- 36     I am content that Mr. Burnstein understood the importance of his patents in the round, but the evidence does not show that he was in a position to know or judge at any given time during the relevant period which ones were due for renewal. If he had been, Mr. Burnstein might at least have been able to avail himself of the opportunity to try and pay them. Ms Smaggasgale asserted at the hearing that he was aware of renewal requirements because he had renewed them in previous years, but I am not convinced by that argument, not least of all because previously Mr. Burnstein had Mr. Bollella, the paralegal and the systems they had put in place at that time to remind him and so that he could authorize renewal.
- 37     I am even less convinced that Mr. Burnstein was in a position to know the renewal status of this particular patent. Whilst it would perhaps be unreasonable for me to expect this of an individual in the case where, as with BTI, a company was in great difficulty, in the hands of just one individual and had more than 200 patents in its portfolio, I have to examine the reasons as to why it was this lack of specific knowledge on the patent arose.
- 38     The reasons for this are unfortunate, but clear. It was because the staff whose responsibility it was to notify Mr. Burnstein on patent matters had been laid off. As a result Mr. Burnstein found himself in a position where he had, in my view, no more than a general understanding that some of BTI's patent portfolio needed renewing at this time. He was generally aware that some would have been within the early renewal period, some within the six month period of grace for late renewals, some still within the nineteen month period allowed under rule 41(1) (a) in which to apply for restoration etc, but the evidence does not point to the fact that he was specifically aware of *any* of these statuses on *any* given patent, during any point during the relevant period.
- 39     It appears Mr. Burnstein's approach with regards to the patents portfolio was to secure whatever finance he could, whenever he could and *then* review the status of the patents portfolio to see which could be salvaged within whatever timeframe the financial rescue package

*happened to allow.* This cannot in my view be regarded as reasonable care of the patents in the portfolio in general and certainly not of the patent in suit. To allow potential renewal of his patents to the chance of an unspecified and uncontrollable timeframe is not by any standards, reasonable.

- 40 In my view in order to satisfy the statute, Mr. Burnstein should at least have shown that he was aware when renewal *could* have been effected on the patents portfolio. This I believe would have informed his strategy to the extent where he could have (e.g.) prioritized his patent needs either in terms of date, or relative importance to BTI's recovery and in turn focused more clearly the level or type of financial backing required at that juncture. Notwithstanding his dire position, it seems to me it would have been prudent to have at least made regular checks after his approaches for financial assistance were unsuccessful, to see which of the patent portfolio was in imminent danger of lapsing and judging their relative priority according to BTI's needs. This was not done for reasons I accept to a point, but which to my mind do not show the reasonable care expected by the law. It was in my view a fatally (in the case of this patent) one dimensional approach, only addressing the financial problem and tacitly leaving the patents to the vagaries of hopeful business negotiation and good fortune within an open-ended and uncontrollable time frame.
- 41 It might be argued that in hind-sight one can always speculate on what more can be done, and of course the exercise of *reasonable* care is not the pursuit necessarily of what more could have been done or certainly not of perfection. However, in these circumstances, to operate almost entirely devoid of specific renewal status information was in my judgment some way short of the statutory requirement.
- 42 It was of course Ms. Smaggasgale over-riding assertion at the hearing that even had Mr. Burnstein been specifically aware of the renewal status of the patent in suit he still could not have paid its renewal fee. However, in my view a different approach utilizing information that was available to him might have avoided this position.
- 43 Finally, at the hearing Ms. Smaggasgale drew my attention to two decisions of the European Patent Office (EPO) - EPO Decision J11/98 and EPO Decision J22/88. She did not make full submissions based on these cases, but said that the main reason for bringing these before me was that they are two EPO cases where restoration was allowed on the basis of impecuniosity. In fact "restoration" was not the issue, in either of these cases, but rather the principle fully dealt with by Aldous J also in *Ament's* as to the proper construction of section 28(3) in relation to its origins in Article 122 of the European Patent Convention. I do not intend to deal with this any further save to say that the learned judge did not accept that the section and Article had the same effect. In saying this, he did express interest in the latter decision quoted by Ms. Smaggasgale (EPO Decision J22/88) and this in fact resulted in his quoted extract at paragraph 25 of this decision. As this is essentially the principle and the

test I have used to assist my judgment in this case, I think the point has been sufficiently dealt with. The former EPO reference is essentially the same issue.

### **Conclusion**

44 Whilst I have considerable sympathy with the co-applicants in this case, on the evidence before me I am not satisfied that they exercised the degree of care necessary to see that the renewal fee was paid in time or during the grace period in which it could have been paid late with fines. As in *Ament's Patent*, the circumstances surrounding the impecuniosity of the patentee in this case were complicated. Thus the onus on the co-applicants in this case, as in that one, is also a heavy one. In my careful consideration of the evidence before me, they have failed to discharge that onus.

45 I therefore refuse the application for restoration.

### **Appeal**

46 Under the Practice Direction to Part 52 of the Civil Procedure Rules, any appeal must be lodged within 28 days.

**G J Rose' Meyer**

Divisional Head of Administration

Acting for the Comptroller