



COMMENT

By
**Arnold
Ceballos**

Inventor's patents invalidated posthumously

patents were finally granted between 1978 and 1994 and were then used to extract – some say extort – royalty payments of some \$1.5 billion from almost 1000 companies, including such heavyweights as Ford, General Electric, and Boeing.

Many critics saw Lemelson's tactics as an abuse of the patent system, which consists of a trade-off or contract between society and an inventor, under which the inventor is given a time-limited monopoly to exploit their invention before it can be used freely by society.

"Anything he claims to have invented, he didn't. He's a science fiction writer," said Robert Shillman of Cognex Corp. about Lemelson in a recent Associated Press article. Shillman is one of Lemelson's biggest critics and runs Cognex, the world's largest maker of machine vision products. Cognex notes on its website that Lemelson never built or developed any of the products outlined in the Lemelson machine vision patents.

Nonetheless, armed with his patents, Lemelson aggressively focused on companies with deep pockets and, along with his lawyer

Gerald Hosier, who took the cases on contingency, was not afraid to tangle with them in court if necessary, making both of them extremely wealthy along the way. Some of his targets fought back. In a 1993 lawsuit, Mitsubishi alleged that "When his applications are questioned by the patent examiners, as they often are, Lemelson delays, continues, retracts, supersedes, redrafts and churns the applications."

The company added that he "has become adept at fraudulently manipulating the...patent application process and the overworked or inexperienced patent examiners to cause various patents to wrongfully issue to him." However, for various reasons, many of his targets decided to settle their disputes with Lemelson and pay licensing fees, including Mitsubishi.

However, the bonanza may now be over. On September 9, 2005, the U.S. Court of Appeals for the Federal Circuit affirmed the decision of a federal judge in Nevada, who held in January 2004 that 14 of the patents were invalid and unenforceable. The case was brought by a number of companies, including

Lemelson foe Shillman's Cognex Corp.

Although the lower court had ruled against the Lemelson Medical, Education & Research Foundation, LP, the assignee of the patents, on a number of grounds, the appellate court based its decision only on the issue of laches, holding that this was one of the rare cases where the delays amounted to an abuse of process. It upheld the judge's finding that in examining the totality of the circumstances, including the prosecution history of the series of related patents and overall delay in issuing the claims, laches was triggered.

Noting that Lemelson patents occupied the top thirteen positions for the longest patent prosecutions in the United States from 1914 to 2001, as well as recognizing the existence of intervening rights, the lower court essentially found this case to be the poster child for a finding of prosecution laches. The court held that the 18 to 39 year delay in filing and prosecuting the claims under the fourteen patents was unreasonable and unjustified. The Nevada judge added that

"[i]f the defense of prosecution laches does not apply under the totality of circumstances here, the Court can envision few circumstances under which it would." The appeals court agreed, holding that the lower court thoroughly examined the facts and the equities and exercised its discretion reasonably.

Partly as a result of the problems caused by "submarine patents" such as those owned by Lemelson, the United States changed its patent laws in 1995 to introduce a twenty year term of protection measured from the earliest U.S. filing date.

Like the United States, Canada's term of protection for patents is also twenty years from filing. It is not clear how many of the so-called submarine patents still exist in the United States, although figures in 1994 indicated at the time that 673 applications had been pending for more than twenty years. For now, however, it looks like the most feared "submarine" in the United States, at least to those in the patent world, has been sunk.

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COMMENT

By
**Karen J.
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Creating a charitable green gifts program

land and partial interests in land, which includes the provision of tax credits or deductions, and a reduction in the taxable capital gain realized on the disposition of the property. Since the EGP's inception in 1995, hundreds of Canadians have donated ecological gifts valued at more than \$110 million. Nearly half of these gifts contain habitats designated as having national, provincial, or regional importance, and many include rare or threatened habitats that are home to species at risk.

Requirements

For donors to receive the tax benefits associated with the EGP, the ITA requires that Environment Canada or a designated authority certify the following:

- that the land, including a servitude, covenant or easement, is ecologically sensitive and its conservation and protection is important to the preservation of

Canada's environmental heritage;

- that the recipient is qualified to receive the gift, eg. territorial, provincial or federal departments or agencies, a municipality, or a registered charity whose main purpose is the conservation and protection of the environment; and what the fair market value of the gift is.

Once a donor has identified the land subject to the gift and a qualified recipient, information regarding the ecological sensitivity of the land must be filed with Environment Canada.

After the property is determined to be ecologically sensitive, as defined by national, provincial or territorial criteria, which are outlined in "The Canadian Ecological Gifts Program Handbook 2005," the donor may apply for certification of the value of the donation. The donor must submit an independent appraisal of the fair market value of the donation to Environment Canada, along with a signed application form. If the donor agrees with the fair market value that Environment Canada is prepared to certify, the donation can then be completed (i.e. the title to the land can be transferred or the conservation easement, covenant or servitude registered).

Once Environment Canada has evidence of this, a Statement of Fair Market Value will be sent to the donor and the recipient can issue an official tax receipt.

Tax Benefits

The tax benefits related to the donation of ecological gifts are more significant than those attributable to ordinary gifts, including the removal of the upper donation limit and a reduction in the taxable capital gain realized on the disposition of the property.

Corporate donors may deduct the amount of their ecological gift directly from their taxable income, while the value of an individual's ecological gift is converted to a non-refundable tax credit. The tax credit is calculated by applying a rate of 16 per cent to the first \$200 of the donor's total gifts for the year and 29 per cent to the balance. Unlike other charitable gifts,

there is no limit to the total value of ecological gift donations eligible for the deduction or credit in a given year. Further, any unused portion of the donor's gifts may be carried forward up to five years.

Donors of ecological gifts also receive a reduction in the taxable capital gain realized on the disposition of their property. Donors who dispose of capital property, such as land, may realize a capital gain—a portion of which is taxable—where the deemed proceeds of disposition exceed the property's adjusted cost base (usually the original purchase price of the land). For most gifts the taxable portion is 50 per cent of the capital gain but for ecological gifts the inclu-

sion rate is only 25 per cent. Donors may also reduce their capital gain by electing to make the designated amount of the gift somewhere between its fair market value and its adjusted cost base (however, this designated amount will also be used for the purpose of calculating the tax credit or deduction).

To benefit from these provisions, donors must include the following in their income-tax returns: a Certificate for Donation of Ecologically Sensitive Land (or, in Quebec, a Visa pour dons de terrains ou de servitudes ayant une valeur écologique); a Statement of Fair Market Value; and an official receipt for income tax purposes from the recipient.

On May 13, 2005, amendments to the ITA were passed by Parliament which include provisions that allow for split-receipting in respect of donations to registered charities.

These provisions also apply to ecological gifts and will facilitate the donation of ecologically sensitive land by providing more flexibility to donors.

However, the ITA requirements and tax implications of making an ecological gift, are becoming more complex, and care should be taken to ensure that all legal and tax implications of the gift are clearly understood.

Karen J. Cooper is practising charity and not-for-profit law, particularly related to tax issues, with Carter & Associates.

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