

Micro Entity Status And Universities: A Practical Guide

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U.S. patent law instructs the director of the United States Patent and Trademark Office to charge fees for patent-related activities.[1] Two separate provisions for reducing the fees paid to the USPTO are small entity status and micro entity status. Both categories of reduced fees are available to institutions of higher education.

Small Entity Status

Under 37 C.F.R. §1.27(b) and 35 U.S.C. §41(h), many fees charged by the USPTO are reduced by 50 percent of the undiscounted fees for entities that qualify for small entity status. An entity qualifies for small entity status if the entity is a person, small business concern or nonprofit organization, and the entity has not assigned, granted, conveyed, or licensed, and is not under an obligation to assign, grant, convey, or license, rights in the invention to another entity that does not qualify as a small entity.[2]

An applicant may establish small entity status by making an assertion in writing.[3] The USPTO treats payment of a small entity filing fee or basic national fee as a written assertion of entitlement to small entity status.[4] “Once status as a small entity has been established in an application or patent, fees as a small entity may thereafter be paid in that application or patent without regard to a change in status until the issue fee is due or any maintenance fee is due.”[5] “Notification of a loss of entitlement to small entity status must be filed in the application or patent prior to paying, or at the time of paying, the earliest of the issue fee or any maintenance fee due after the date on which status as a small entity ... is no longer appropriate.”[6]

Relevant to universities, 37 C.F.R. §1.27(a)(3)(ii)(A) defines nonprofit organizations as including a “university or other institution of higher education located in any country.”[7] With respect to small entity status, the Manual of Patent Examining Procedure §509.02 defines a “university or other

institution of higher education” as an accredited educational institution that admits as students only persons that have graduated from a school providing secondary education and provides an educational program awarding a bachelor’s degree or provides not less than a two-year program which is acceptable for full credit toward such a degree.[8] The definition of “university or other institution of higher education” given in MPEP §509.02 essentially follows the definition of “institution of higher education” contained in 20 U.S.C. §1000.[9]

Micro Entity Status

The America Invents Act introduced a new, micro entity, status on March 19, 2013. If a patent applicant qualifies for micro entity status, most patent fees are 25 percent of the undiscounted patent fees, or 50 percent of the small entity status fees.[10]

Applicants may qualify for micro entity status under a “gross income basis” under 35 U.S.C. §123(a) or an “institution of higher education basis” under 35 U.S.C. §123(d). For an applicant to qualify for micro entity status under the institution of higher education basis, the applicant must satisfy two requirements. First, the applicant must certify that the applicant qualifies as a small entity as defined in 37 C.F.R. §1.27. Second, the applicant must certify that either:

(i) The applicant’s employer, from which the applicant obtains the majority of the applicant’s income, is an institution of higher education as defined in section 101(a) of the Higher Education Act of 1965 (20 U.S.C. 1001(a)); or

(ii) The applicant has assigned, granted, conveyed, or is under an obligation by contract or law, to assign, grant, or convey, a license or other ownership interest in the particular application to such an institution of higher education.[11]

Section 101(a) of the Higher Education Act of 1965 (20 U.S.C. §1001(a)) defines an institution of higher education as an accredited educational institution in any state that admits as students only persons that have graduated from a school providing secondary education and provides an educational program awarding a bachelor’s degree or provides not less than a two-year program that is acceptable for full credit toward such a degree.

Differences Between Small Entity and Micro Entity Status

Most notably, fees are reduced by 50 percent for small entity status and by 75 percent for micro entity status. However, the criteria for micro entity status qualification are more stringent than the criteria for small entity status qualification.

The definition of institution of higher education for micro entity status is narrower than the definition of institution of higher education for small entity status. Specifically, 37 C.F.R. §1.27(a)(3)(ii)(A) defines a non-profit organization as a “university or other institution of higher education located in any country.”[12] In contrast, 37 C.F.R. §1.29(d) refers to Section 101(a) of the Higher Education Act of 1965, which defines an education institution in a “state.” Section 103 of the Higher Education Act of 1965 (20 U.S.C. §1003) defines “state” as the 50 states of the United States as well as “the Commonwealth of Puerto Rico, the District of Columbia, Guam, American Samoa, the United States Virgin Islands, the Commonwealth of the Northern Mariana Islands, and the Freely Associated States.”[13] Thus, an institution located anywhere in the world offering certain educational programs is an “institution of higher education” for purposes of establishing small entity status under 37 C.F.R. §1.27(a). However,

only an institution located in one of the 50 states or U.S. territories offering certain educational programs is an “institution of higher education” for purposes of establishing micro entity status under 37 C.F.R. §1.29(d).

Additionally, a patent application with an applicant that is an institution of higher education may qualify for small entity status. However, due to the language used in 35 U.S.C. §123(d), a patent application with an applicant that is an institution of higher education does not qualify for micro entity status. Instead, for a patent application to qualify for micro entity status under the institution of higher education basis, the applicant for that patent application must be able to certify that the applicant’s employer is an institution of higher education or that or that the applicant has assigned, granted, conveyed or is under an obligation to assign, grant, or convey, a license or other ownership interest in the patent application to an institution of higher education.[14] An institution of higher education cannot be its own employer or assign, grant, or convey ownership of the patent to itself. Accordingly, for the patent application to qualify for micro entity status, the applicant of the patent application must be the inventor or another entity that is under an obligation to assign, grant, convey, license, or otherwise transfer an ownership interest to the institution of higher education.

Furthermore, small entity status can be established when filing a patent application or during prosecution of a patent application, and it is with the payment of the issue fee that small entity status needs to be reassessed.[15] In contrast, with micro entity status there is an obligation to determine micro entity status qualification with each fee payment, throughout prosecution of the patent application.[16] Micro entity status thus imposes a burden on the applicant to continually reassess micro entity status qualification.

Practical Application

An institution of higher education can establish micro entity status in its patent applications in a number of different ways, as set forth below.

1. Name the inventors as applicants and leave the inventors as applicants throughout prosecution of a patent application.

This option maintains micro entity status through prosecution of the patent application and the life of the patent by retaining the inventors as the applicants. An assignment of the patent application from the inventors to the institution of higher education may be recorded during prosecution of the patent application. Recording such an assignment does not change the applicant of the patent application, and the inventor-applicants would continue to qualify for micro entity status.

If micro entity status is established in this manner, the inventors may need to provide powers of attorney to the institution of higher education's attorneys, as only an applicant for a patent can appoint power of attorney.[17] A drawback of this option is that conflicts of interest may arise for the attorneys between the inventors and the institution of higher education during prosecution of the patent application.

2. Name the inventors as applicants and leave the inventors as applicants until an issue arises in which POA is needed.

Most actions that a patent attorney needs to perform in the prosecution of a patent application do not require POA. Some actions that do require POA include filing a terminal disclaimer or an express

abandonment.[18] A patent attorney who is established as an attorney of record (e.g., by filing the patent application) may prosecute the patent application without POA until an issue arises that requires POA. At that time, the attorney could name the institution of higher education as the applicant and file a POA for the institution of higher education.

This option takes advantage of the reduced fees accorded to micro entities up until a point where POA is needed without introducing potential conflicts of interest.

3. Name the inventors as applicants in the patent application filing and immediately change the applicant to the institution of higher education after the patent application filing.

With this option, the initial patent application filing is made with micro entity fee payments. All other payments would then be small entity fee payments, as changing the applicant of the patent application to the institution of higher education leads to a loss of micro entity status for the patent application.

An advantage of this option is that the requirement imposed by micro entity status to continually reassess whether the applicant qualifies for micro entity status is avoided. However, the benefit of the reduced micro entity fees would only be available for the patent application filing and not for any patent fees thereafter.

4. Establish a patent holding entity and have the inventors assign the patent application to the patent holding entity.

An institution of higher education can establish a patent holding entity that is under an obligation to assign, grant, or convey a license or other ownership interest in its patent rights to the institution of higher education. The patent holding entity may be named as applicant in a patent application filing. Since the patent holding entity is under an obligation to assign, grant or convey patent rights to the institution of higher education, the patent holding entity should qualify as a micro entity so long as the patent holding entity qualifies as a small entity.

This option does not impose any of the risks associated with option 1. Further, unlike options 2 and 3, the institution of higher education may take advantage of micro entity status until the patent is licensed to an entity that is not a small entity or for the life of the patent. Option 4, however, does require that the institution of higher education establish the patent holding entity.

Correcting Status If Micro Entity Status Is Incorrectly Claimed

Micro entity status under the institution of higher education basis is established in error if an institution of higher education is identified as the applicant. Unfortunately, the USPTO does not permit a change in the applicant from an institution of higher education assignee to the inventor. Accordingly, if micro entity status is established in this manner, the best solution is usually to file papers notifying the USPTO that micro entity status was established in error, establishing small entity status, and providing a deficiency payment for the difference between all micro entity fees that were paid and small entity fees that should have been paid.

If micro entity status is established in error but in good faith, and fees as a micro entity are paid in good faith, the USPTO may excuse the error.[19] The error will be excused if the applicant submits an itemization of the total deficiency payment and the deficiency payment owed.[20] This deficiency fee payment will be treated by the USPTO as notice the loss of entitlement to micro entity status.[21] The

deficiency payment owed for each fee erroneously paid as a micro entity is the difference between the current fee amount (i.e., small entity fee) on the date the deficiency payment is paid in full and the amount of the erroneous micro entity fee payment. In order to pay a deficiency payment based on the current small entity fees, the applicant must submit a written assertion of small entity status to qualify as a small entity.

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[1] See 35 U.S.C. §41(a)-(e)

[2] See 37 C.F.R. §1.27(a)(1)-(3)

[3] See 37 C.F.R. §1.27(c)(1)

[4] See 37 C.F.R. §1.27(c)(3).

[5] 37 C.F.R. §1.27(g)(1)

[6] 37 C.F.R. §1.27(g)(2)

[7] 37 C.F.R. §1.27(a)(3)(ii)(A)

[8] M.P.E.P. §509.02

[9] See 20 U.S.C. §1000

[10] See Federal Register, Vol. 77, No. 244

[11] See 35 U.S.C. §123(d) and 37 C.F.R. §1.29(d)

[12] See 37 C.F.R. §1.27(a)(3)(ii)(A)

[13] See 37 C.F.R. §1.29(d)

[14] See 35 U.S.C. §123(d)

[15] See 37 C.F.R. §1.27(g)

[16] See 37 C.F.R. §1.29(i)

[17] See 37 C.F.R. §1.32(b)

[18] See 37 C.F.R. §1.321 and 37 C.F.R. §1.138

[19] See 37 C.F.R. §1.29(h)

[20] See 37 C.F.R. §1.29(k)

[21] See 37 C.F.R. §1.29(k)(4)

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