

Client Alert

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“Micro Entity” Status Benefits Are Limited

The America Invents Act of 2011 (AIA) authorizes the U.S. Patent Office to create a new third tier of fees for patent prosecution and maintenance — “Micro Entity Status” — where fees may be reduced by up to 75 percent. Micro entities are eligible to pay fees 50 percent lower than those paid by small entities and 75 percent lower than those paid by large entities. However, limitations on who may qualify as a micro entity and complications associated with the process for complying with micro entity regulations may make micro entity status attractive for only some universities and some of their inventors, but unattractive for all but a few other inventors.

The U.S. Patent Office issued regulations implementing the AIA’s micro entity provisions in Federal Register Vol. 77, No. 104, 31806-31814, Wednesday, May 30, 2012. According to these regulations, an inventor may qualify for the micro entity status in one of two ways — by meeting an income standard or through association with a U.S. institution of higher education.

To qualify as a micro entity based on income, the inventor must meet the following criteria:

- 1) Qualify as a small entity;
- 2) Have been named as an inventor on no more than four patent applications that have not been assigned (or are not subject to an obligation to assign) to a previous employer;
- 3) Have a gross income that does not exceed three times the median household income for the preceding calendar year; and
- 4) Have not assigned, granted or conveyed, and not be under an obligation to assign, grant or convey, a license or other ownership interest in the application to an entity that in the preceding calendar year had a gross income exceeding three times the median household income for that year.

To qualify as a micro entity through association with a U.S. institution of higher education, the inventor must meet the following requirements:

- 1) Qualify as a small entity;
- 2.a) Be employed by and have received the majority of income from a U.S. institution of higher education; or
- 2.b) Have assigned, granted or conveyed a license or other ownership interest in the patent application to a U.S. institution of higher education. See 35 U.S.C. § 123 (a)-(d) and 20 U.S.C. § 1001(a).

If a patent application names more than one inventor, each inventor must meet the foregoing requirements individually.

To maintain micro entity status, qualification must be determined each time a fee is paid, in contrast to small entity status, which is determined at only three specific time points [i.e., (1) filing, (2) payment of the issue fee and (3) payment of a maintenance fee]. Consequently, micro entity status may be lost at *any* time during prosecution, and the status of the applicant reverts to that of a large entity (i.e., a fourfold increase in the cost of official fees). As such, an applicant may effectively “skip” small entity status and forfeit any discount on fees for the remainder of the prosecution and maintenance.

Maintaining micro entity status based on income is precarious, due to the relatively low income threshold of “three times the median household income,” about \$148,000 for calendar year 2011. Many small businesses, entrepreneurs and successful inventors easily exceed this amount and do not qualify for the micro entity status. More importantly, micro entity status can be lost due to ordinary events, such as inheritances, promotions or, worse yet, commercial success of the invention. On the other hand, micro entity status based on affiliation with a U.S. institution of higher education is not likely to change unless the invention is licensed to a large entity. (Such licensing would change the applicant’s status at the next time point for status determination — i.e., the next fee payment for a micro entity, but not until close of prosecution for a small entity.)

In summary, micro entity status based on income is available to only a very few inventors: generally, inventors proceeding *pro se* or *pro bono*, or hobbyist inventors with very few patent applications that are not assigned or otherwise the subject of rights granted to third parties. For other inventors, the savings on fees may not pay for the increased prosecution costs due to increased complexity in maintaining and proving micro entity status. However, the regulations may make micro entity status an attractive option for some U.S. institutions of higher education or their inventors by allowing the majority of university-affiliated researchers to qualify as micro entities and to obtain a significant reduction in official fees.

If you believe that you may qualify as a micro entity, and you would like to take advantage of reduced fees in the U.S. Patent Office, we would be happy to discuss the relevant regulations with you in detail.

Please feel free to contact the members of the Hunton & Williams Intellectual Property practice to discuss this, or any other issues.

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