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IP: Navigating microentity status under the America Invents Act

Which companies qualify, and what your business should consider

BY SANDRA THOMPSON
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President Obama signed the America Invents Act (AIA), commonly referred to as the "patent reform bill," into law late last year and business owners are still wondering what, if anything, it means to them. One interesting fee-related provision relates to the creation of a microentity designation. Currently, patent applicants are either designated as large entities or small entities with the latter getting a 50 percent decrease on most U.S. Patent and Trademark Office (PTO) patent fees. The microentity designation would mean a 75 percent decrease on most PTO patent fees. This status is generally reserved for institutions of higher education or those small entities with four or fewer previously-filed patent applications and agross income less than three times the median household income for the calendar year most recently reported by the Bureau of the Census. The PTO has published the proposed rules for microentity status and is asking for comments from the public until July 30.

A company can qualify for microentity status if:

- The applicant's employer, from which the applicant obtains the majority of the its income, is an institution of higher education as defined in section 101(a) of the Higher Education Act of 1965, **or**
- The applicant has assigned, granted or conveyed, or is under an obligation by contract or law, to assign, grant or convey a license or other ownership interest in the particular applications to such an institution of higher education.

In each of these cases, the company must initially be a small entity. As the PTO states, the purpose of setting the microentity status is to provide assistance to those with little capital and/or few inventions; therefore, to allow a large-entity to claim microentity status through licensing or assigning some interest to an institution of higher education would be "inconsistent with the purposes of microentity status". Another consideration is the fact that a "small entity" is defined within the field of business and is not necessarily consistent across all categories. So, while a pharmaceutical company that makes $10 million a year may be a small entity in the pharmaceutical business, a chain of auto parts stores making $2 million a year may be a large entity in the aftermarket auto space.

There are a couple of things to consider, if a company is attempting to claim microentity status for a patent application.

- The PTO has made it clear that if the patent application names more than one applicant, each applicant must individually meet the microentity requirements.
- If an applicant assigns or is obligated to assign the invention to more than one assignee (such as a university and a company), each of the assignees must meet the requirements of microentity status.
- The income consideration is not the same as the small entity status consideration. Companies can initially claim small entity status when the patent application is filed, but according to the PTO, the applicant "need only determine continued eligibility to small entity status for issue and maintenance fee payments, but can pay intervening fees at small entity rate without determining whether still entitled to small entity status."

For microentity status, one must determine whether microentity status applies at each stage of the process and with each fee payment.

For start-ups and small companies, it may be feasible to claim microentity status for the first few patent applications filed as long as the applicant fulfills all the following requirements:

1. Qualifies as a small entity
2. Has not been named as an inventor on more than four previously-filed patent applications
3. Does not meet the income requirements, as stated earlier
4. Has not assigned, granted or conveyed, and is not under an obligation by contract or law to assign, grant or convey, a license or other ownership interest in the application concerned to an entity that is not a microentity.

It is important in these cases to note that an applicant is not considered to meet the second requirement above if the applicant has assigned or is under an obligation to by contract or law to assign all ownership rights in the application as the result of the applicant's previous employment. Therefore, it is important for inventors who are starting new businesses or are working at businesses considered to be microentities to review, understand and keep copies of previously-signed employment agreements and contracts where intellectual property ownership was documented.

Businesses that routinely include patent filings in their annual budgets should consider doing several things.

- **Break out the budget into legal fees and government fees.** In this instance, companies should determine the government fees portion annually and then apply a 10 percent buffer. Patent offices throughout the world are shortening the timeline between patent fee increases, and therefore, it is smart to be proactive on this point in budgets.
- If a company files more than 10 U.S. patent applications a year, it may be wise to **negotiate a cap on legal fees per application** with the company's patent professional.
- **Review quarterly** whether microentity status is something that the company should consider in order to reduce government fees.
- If you are starting a new business or have a small business and are considering filing patent applications, **review previously-executed employment agreements and independent contractor agreements** to ensure that you do not fall under the "more than four patent applications" provision in this section.

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