AIPLA
AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION

July 30, 2012

The Honorable David J. Kappos
Under Secretary of Commerce for Intellectual Property and
Director of the United States Patent and Trademark Office
United States Patent and Trademark Office
600 Dulany Street
Alexandria, VA 22314 Via email: *micro_entity@USPTO.gov*

RE: Request for Comments on the Changes to Implement Micro Entity Status for Paying Patent Fees <u>77 Fed. Reg. 31806 (May 30, 2012)</u>

Dear Under Secretary Kappos:

The American Intellectual Property Law Association (AIPLA) is pleased to have the opportunity to present its views with respect to the Request for Comments on the "Changes to Implement Micro Entity Status for Paying Patent Fees" as published in the Federal Register (77 Fed. Reg. 31806) on May 30, 2012 (the "Notice"). Pursuant to the Leahy-Smith America Invents Act (AIA), Public Law 112-29, Section 10(g), which establishes a new Section 123 under Title 35, the United States Patent and Trademark office (USPTO) is seeking comments on the proposed rules to implement the provisions of 35 U.S.C. §123 concerning micro entity status.

AIPLA is a national bar association with approximately 14,000 members who are primarily lawyers in private and corporate practice, government service, and the academic community. AIPLA represents a diverse spectrum of individuals, companies, and institutions involved directly and indirectly in the practice of patent, trademark, copyright, unfair competition, and trade secret law, as well as other fields of law affecting intellectual property. Our members practice or are otherwise involved in patent law and other intellectual property law in the United States and in jurisdictions throughout the world.

While we support the creation of micro entity status for qualified individuals and entities along with the attendant benefits of reduced fees, we are concerned that the proposed procedures and requirements for an applicant to qualify for micro entity status are overly complex and burdensome. Our comments below track the individual sections of proposed 37 CFR 1.29.

As a preliminary matter, we note that provisions of 35 U.S.C. §123 and the proposed amendments to Title 37 of the Code of Federal Regulations that implement those provisions use the term "applicant" throughout. The term is considered in the Notice, page 31808, to be "virtually synonymous with 'inventor' on September 16, 2011 (the date of enactment of the Leahy-Smith America Invents Act as well as the effective date of 35 USC 123)." As the Notice points out, as of September 16, 2012, an entity who is not an inventor because of assignment or possession of a sufficient proprietary interest may make an application for a patent. Thus, the terms “will no longer be synonymous on and after September 16, 2012.” In the Discussion of Specific Rules at page 31808 of the Notice, the USPTO has invited comment on whether the term “inventor” should be used in place of “applicant” at any instance in the proposed Rule 29.

Notably, while the current provisions of the Patent Act do not define an “inventor,” Section 101 of the Act does grant the right to obtain a patent to “whoever invents or discovers,” and Section 102(f) prevents a person from obtaining a patent if he did not himself invent the subject matter sought to be patented. Further, MPEP § 2137.01 identifies the basis for being an inventor as “one who contributes to the conception of an invention.” That same Section notes that "the requirement that the applicant for a patent be the inventor is a characteristic of U.S. patent law."

Under the AIA, the term “inventor” is defined at Section 100(f) as the individual “who invented or discovered the subject matter of the invention,” and thus still would be an individual who contributes to conception. However, an “applicant” under the new 35 U.S.C. §118 may be, for example, a company, a partnership, a trust, or a joint venture. The terms “inventor” and “applicant” are used together in proposed Rule 29(a) in a manner that requires some certifications that would be applicable to all entities who are “applicants,” but requires other certifications that are applicable only to “inventors.” For example, paragraph (a) states that to establish micro entity status under this paragraph the applicant must certify that s/he satisfies requirements (1)-(4). However, the requirement of proposed Rule 29(a)(2) is properly focused on an “inventor,” but it would not be applicable to many of the other categories of “applicants” who are not individuals. This inconsistency could be resolved by amending the proposed rule to state “(2) who is a natural person, has not been named as an inventor…."

AIPLA notes, by way of comment and not criticism, that many of the provisions of Rule 29, which are intended to place a limit on those entities entitled to a 75% reduction in fees, can be satisfied by creative legal and financial structuring of the entities that are the assignees/applicants of the application.

1. *Certifying that an applicant is entitled to micro entity status can be difficult and must be constantly reviewed under proposed 37 CFR 1.29.*

The proposed rules generally follow the statute, which is consistent with the requirement that rules be promulgated consistent with law. Thus, under both the statute and the new rule, the applicant must show that s/he:

(1) qualifies as a small entity as defined in 37 CFR 1.27;

(2) has not been named as an inventor on more than four previously filed patent applications, other than applications filed in another country, provisional applications under 35 U.S.C. 111(b), or international applications for which the basic national fee under 35 U.S.C. 41(a) was not paid;

(3) did not, in the calendar year preceding the calendar year in which the applicable fee is being paid, have a gross income, as defined in section 61(a) of the Internal Revenue Code of 1986 (26 U.S.C. 61(a)), exceeding three times the median household income for that preceding calendar year, as most recently reported by the Bureau of the Census; and

(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, in the calendar year preceding the calendar year in which the applicable fee is being paid, had a gross income, as defined in section 61(a) of the Internal Revenue Code of 1986 (26 U.S.C. 61(a)), exceeding three times the median household income for that preceding calendar year, as most recently reported by the Bureau of the Census.

However, the rules implementing these requirements raise significant concerns given the numerous procedural steps in determining micro entity status set forth in proposed 37 CFR 1.29, coupled with the requirement that such status be reviewed at the time of paying *each* fee pursuant to proposed 37 CFR 1.29(i).

AIPLA's overall recommendation is to simplify the procedures created by the rules. Otherwise, the complex procedural steps for certification and accompanying pitfalls may prevent use of the micro entity provisions by those entitled to their benefits, thereby frustrating the intended economic incentive of this component of the AIA.

In this regard, the Notice states that "the provision will also set out procedures relating to micro entity status that largely track the provisions in 37 CFR 1.27 for small entity status." If this is a goal, further alignment of the two provisions are warranted, for example, with regard to retaining micro entity status, once established, until payment of the issue fee or maintenance fees.

Specifically, Rule 27(g)(2) permits use of the 50% discount applicable to small entities to be continued until payment of the issue fee. It would make sense to permit the micro entity to keep its status in the same way for several reasons. First, even if there is a loss of micro entity status after initial filing, but the entity still is entitled to small entity status, the small entity would be entitled to at least the 50% reduction in fees. Second, given the difference of only 25% between the small entity discount and the micro entity discount, it would seem to be inefficient for both applicants and the USPTO to force submissions and processing for all fees that may arise during prosecution. Third, such fees are typically extension fees and the difference is quite small. Finally, the requirement for constant review of micro entity status would be quite burdensome for the true micro entity that has few resources and may have less sophistication.

Given the desire to have micro entities and the public benefit from the use of the patent system, a further policy reason for simplifying the requirements is based on a practical concern that any patent obtained using micro entity fees may be tainted in the eyes of future licensees because of potential errors in the payment of appropriate fees. Such concerns may be a barrier to investment in the applicant's or entity's technology. In fact, use of the micro entity status in prosecution, for some, could result in an *ab inititio* reason not to take a license or otherwise invest in the patented technology.

2. How does marital status impact micro entity status?

Since the applicant in many instances would be the inventor in proposed 37 CFR 1.29(a), and Rule 29(a)(3) places a limit on "gross income" that the "applicant" may have in order to qualify for the micro entity benefits, it is unclear how the marital status and joint or separate filing of an inventor's tax returns may affect the amount of income that is calculated in the "gross income" computation. Further, it is unclear as to whether the "gross income" of the applicant changes on the basis of changes in his/her marital status. Reference in the Notice at page 31809 to Section 61(a) of the Internal Revenue Code does not provide the needed guidance. The proposed rules should be clarified to prevent confusion and creation of later issues regarding a patent's enforceability, especially if a spouse's income was not considered in determining an applicant's gross income.

A further consideration of the gross income limitations under proposed Rule 29 may arise from the law in community property states, where the law may be construed such that the inventor/applicant in fact has assigned his/her rights in part by law to a spouse. Thus, the final Rules should clarify how to assess the assignment by law to a spouse or partner in community property states for purposes of determining whether each applicant under 37 CFR 1.29(a)(3) or assignee under 37 CFR 1.29(a)(4) satisfies the specified gross income limits.

3. Recertifying as a small entity if micro entity status is lost is redundant or inconsistent in some circumstances.

The requirement under 37 CFR 1.29(i) to recertify small entity status if the micro entity status is lost appears unnecessary since (1) an applicant already has had to certify that they are a small entity under proposed 37 CFR 1.29(a) or (d) at the time of filing (*see* 77 F.R. 31810), and (2) thereafter, even if micro entity status were lost prior to payment of an issue fee, the applicant should continue to be qualified for small entity status under 37 CFR 1.27(g); otherwise there would be an inconsistency between the two rules. Recertification of small entity status in the case of loss of micro entity status would appear to be appropriate at the time of payment of the issue fee or maintenance fees, consistent with the provisions of 37 CFR 1.27(g)(2).

4. Proposed 37 CFR 1.29(c).

This section defines the manner of assessing an applicant's status under proposed 37 CFR 1.29(a) or (d) if the applicant's income is not in U.S. dollars. Specifically, for proposed 37 CFR 1.29(a)(3) and (a)(4), the applicant's gross income would be based on the average currency exchange rate during "that calendar year." Clarification is recommended to proposed 37 CFR 1.29(c) to explicitly state "the preceding calendar year" instead of "that calendar year." Such a change to the rule is consistent with the notes on 77 Fed. Reg. 31809, center column.

5. Proposed 37 CFR 1.29(d) requires more than § 123(d) under the AIA.

Unlike 35 U.S.C. § 123(a), Section 123(d) does not expressly require qualification of the applicant as a small entity. Nonetheless, proposed 37 CFR 1.29(d)(1) requires every applicant to certify that it qualifies as a small entity, for the reasons explained at page 31809 of the Notice.

Rule 27(a) defines a "small entity" to be "any party (person, small business concern, or nonprofit organization) under paragraphs (a)(1) through (a)(3) of this section." A non-profit organization is expressly defined in paragraph (a)(3) to include "[a] university or other institution of higher education located in any country" and "[a]ny nonprofit scientific or educational organization that is qualified under a nonprofit organization statute of a state of this country," as well as similar organizations in other countries.

The scope of the category of "small entity" under Rule 27(a) is quite broad and the definition of an "applicant" is similarly quite broad, including an assignee or a "person who otherwise shows a sufficient proprietary interest," without specifying the minimum percentage of ownership or interest. Thus, a small business (as defined in Rule 27(a)) that would not qualify for micro entity status may otherwise qualify as a micro entity by granting a minimum amount of rights to a university that is an "institute of higher education," as defined at page 31808 of the Notice. While this "marginal alignment" may appear to present a "loophole" for avoiding fees, it appears unlikely that this rule will foster widespread abuse given the fact that only an additional 25% of the fees would be saved by such arrangement.

6. Proposed 37 CFR 1.29(e) does not appear to be required.

Proposed 37 CFR 1.29(e) requires that the status as a micro entity be specifically established in each related, continuing, and reissue application in which the status is appropriate and desired. Given that proposed 37 CFR 1.29(g) requires the applicant to review its status as a micro entity for each and every fee, proposed 37 CFR 1.29(e) appears to be unnecessary. The USPTO may consider the provision to be necessary in order to parallel 37 CFR 1.27(c)(4), which requires an assertion of small entity status in related continuing and reissue applications. However, the provisions of Rule 27 do not require an evaluation of loss of entitlement to small entity status until an issue fee or maintenance fee is to be paid. Unless the USPTO implements a provision similar to Rule 27(g)(2), AIPLA suggests that proposed 37 CFR 1.29(e) should be deleted.

7. Proposed 37 CFR 1.29(h) appears to require an opinion on whether all the parties holding rights in the invention qualify for micro entity status in order to comply with Proposed 37 CFR 1.29(g)

As noted previously, marital status of an individual applicant may have an impact on the assignment or ownership of rights in an invention and the gross income of an applicant. Such arrangements may be complex and, to ensure accurate determination of micro entity status, may require an opinion from an accountant or tax lawyer with respect to the income of the applicant under proposed 37 CFR 1.29(h).

Further, as discussed below, paragraphs (g) and (i) of proposed Rule 29 appear to require a reevaluation of micro entity status by the applicant or his/her representative at the time of any fee payment. AIPLA urges the Office instead to adopt a procedure similar to that used for small entities under Rule 27, which requires a reevaluation of status and corrective fee payment only on the occasion of an issue fee or maintenance fee payment.

Alternatively, AIPLA urges at a minimum that micro entity status may be maintained by an applicant through the end of a calendar year, even if there has been a change in income status during the calendar year that disqualifies the applicant from a continued claim to micro entity status.

8. Proposed 37 CFR 1.29(i).

Compliance with proposed 37 CFR 1.29(i) for notification of loss of micro entity status prior to, or concurrent with, paying *any* fee in an application is unduly burdensome. The advantages of compliance with the requirements are greatly outweighed by the combined cost to the applicant and the USPTO of having to determine if the micro entity status still applies. For example, under the proposed rules, for a non-university situation involving more than one inventor, their income may have to be examined at least annually, if not constantly. At a minimum, the rules should clearly state that at most, an inventor would have to determine micro entity status only once per year, no matter how many fees are paid that year. Alternatively and preferably, AIPLA suggests that the USPTO institute a micro entity certification and associated fees system that mirrors the current system for small entity status.

9. Proposed 37 CFR 1.29(j) is vague as the Notice does not define what constitutes fraud.

Fraud is a legal conclusion and generally requires proof of an intent to deceive. Therefore, further clarification on what would be considered fraud should be provided. If it is intended that fraud is to be interpreted as common law fraud, then the rules should be clarified to provide such definition. Additionally, since some small entities may be tempted to “marginally align” with a university in order to take benefit of 37 CFR 1.29(d), because they would not otherwise qualify under proposed 37 CFR 1.29(a), the rules or comments should make clear whether such a strategy would be considered a fraud, even if the letter of the rules is met.

10. Proposed 37 CFR 1.29(k) should be revised to parallel the rule that applies to an error of paying a small entity fee when large entity fee should be paid.

Consistent with the theme of AIPLA's comments supporting a reduced burden on qualified micro entity applicants, the process for establishing micro entity status should be streamlined for the benefit of users and the USPTO. For example, correction of an incorrect micro entity fee payment could be handled in the same fashion as rectifying a small entity fee payment when a large entity fee should have been paid.

Making the micro entity certification and fees rules mirror the rules for small entity certification and fees would be a benefit to all, because it would allow case law regarding small entity issues to be referenced for future cases involving micro entity fees. The provision of similar small entity and micro entity status also would provide some economic valuation guidance, thereby benefiting both patent and patent application holders, as well as potential investors and licensees. In this regard, AIPLA recommends that proposed 37 CFR 1.29(k) be amended to mirror to the extent practical the current small entity certification and payment system.

Alternatively, the proposed rules could be amended to require: (1) one base fee for rectifying the failure to correct micro entity status, and (2) an accounting of when the change of status occurred. This process would be simpler for both the USPTO and the applicant to comply with. Otherwise, the requirements to rectify an improper micro entity certification would appear unduly burdensome. The burden in turn would cause at least non-university applicants to potentially only certify as a small entity instead of as a micro entity.

Additionally, given the procedural issues in demonstrating micro entity status, it may be underutilized and avoided as is the case with small entity status. Many firms, as a matter of policy, choose not to pay small entity fees given the potential concern for lack of enforceability due to an improper certification and potential inequitable conduct allegations. Similarly, it could be less risky and more economical to claim small entity status, or even large entity status, given the many micro entity procedural steps where error could occur.

Thank you for allowing AIPLA the opportunity to provide comments on this Notice. AIPLA looks forward to further dialogue with the USPTO in finding solutions and defining programs to maintain and enhance the USPTO's mission.

Sincerely,

William G. Barber
President
American Intellectual Property Law Association