

DEPARTMENT OF COMMERCE

Patent and Trademark Office

37 CFR Part 1

[Docket No.: PTO–P–2011–0016]

RIN 0651–AC78

**Changes To Implement Micro Entity
Status for Paying Patent Fees**

AGENCY: United States Patent and
Trademark Office, Commerce.

ACTION: Final rule.

SUMMARY: The United States Patent and Trademark Office (Office) is revising the rules of practice in patent cases to implement the micro entity provision of the Leahy-Smith America Invents Act (AIA). Certain patent fees set or adjusted under the fee setting authority in the AIA will be reduced by seventy-five percent for micro entities. The Office is

revising the rules of practice to set out the procedures pertaining to claiming micro entity status, paying patent fees as a micro entity, notification of loss of micro entity status, and correction of payments of patent fees paid erroneously in the micro entity amount. In a separate rulemaking, the Office is in the process of proposing to set or adjust patent fees under the Leahy-Smith America Invents Act, including setting fees for micro entities with a seventy-five percent reduction. The Office has sought to address the concerns of its stakeholders as expressed in the public comment, and plans to seek additional public comment on the micro entity provisions after the Office and the public have gained experience with the micro entity procedures in operation. The Office will pursue further improvements to the micro entity procedures in light of the public comment and its experience with the micro entity procedures.

DATES: Effective March 19, 2013. **FOR FURTHER INFORMATION CONTACT:** James Engel, Senior Legal Advisor ((571) 272-7725), Office of Patent Legal Administration, Office of the Deputy Commissioner for Patent Examination Policy.

SUPPLEMENTARY INFORMATION:

Executive Summary: Purpose: The AIA provides that: (1) The Office may set or adjust any patent fee, provided that the aggregate revenue generated by patent fees recovers only the aggregate estimated costs to the Office for processing, activities, services, and materials relating to patents (including administrative costs); and (2) most fees set or adjusted under this authority are reduced by fifty percent for small entities and by seventy-five percent for micro entities. The AIA also adds a new section to Title 35 of the United States Code that defines a “micro entity.” The rules of practice currently have provisions pertaining to small entity status, as the patent laws provided a small entity discount prior to the Leahy-Smith America Invents Act. This final rule revises the rules of practice to implement the “micro entity” provisions added by the Leahy-Smith America Invents Act.

Summary of Major Provisions: The Office is adding a provision to the rules of practice pertaining to micro entity status. The provision sets out the requirements to qualify as a micro entity tracking the statutory requirements for a micro entity set forth in section 10 of the Leahy-Smith America Invents Act. The provision also sets out procedures relating to micro entity status that largely track the regulatory requirements

and procedures in 37 CFR 1.27 for small entity status. These new procedures pertain to claiming micro entity status, paying patent fees as a micro entity, notifying the Office of loss of micro entity status, and correcting payments of patent fees paid erroneously in the micro entity amount. The procedures for claiming micro entity status require the filing of a certification of entitlement to micro entity status. The Office is developing forms (paper and electronic) for use by members of the public to provide a certification of micro entity status. The procedures for paying fees as a micro entity provide that a micro entity certification need only be filed once in an application or patent, but that a fee may be paid in the micro entity amount only if the applicant or patentee is still entitled to micro entity status on the date the fee is paid. The procedures pertaining to notifying the Office of loss of micro entity status and correcting payments of patent fees paid erroneously in the micro entity amount track the corresponding small entity provisions for notifying the Office of loss of small entity status and correcting payments of patent fees paid erroneously in the small entity amount.

Costs and Benefits: This rulemaking is not economically significant as that term is defined in Executive Order 12866 (Sept. 30, 1993).

Background: The AIA was enacted into law on September 16, 2011. *See* Public Law 112–29, 125 Stat. 283 (2011). Section 10(a) of the AIA provides that the Office may set or adjust by rule any patent fee established, authorized, or charged under title 35, United States Code, provided that aggregate patent fees recover only the aggregate estimated costs to the Office for processing, activities, services, and materials relating to patents (including administrative costs). *See* 125 Stat. at 316. Section 10(b) of the AIA provides that “the fees set or adjusted under [section 10(a)] for filing, searching, examining, issuing, appealing, and maintaining patent applications and patents shall be reduced by 50 percent with respect to the application of such fees to any small entity that qualifies for reduced fees under [35 U.S.C.] 41(h)(1) * * *, and shall be reduced by 75 percent with respect to the application of such fees to any micro entity as defined in [35 U.S.C.] 123.” *See* 125 Stat. at 316–17. The patent laws provided in 35 U.S.C. 41(h) for small entities prior to the Leahy-Smith America Invents Act. Section 10(g) of the AIA adds a new 35 U.S.C. 123 to define a “micro entity.” *See* 125 Stat. at 318–19.

35 U.S.C. 123(a) provides one basis under which an applicant may establish micro entity status. 35 U.S.C. 123(d) provides another basis under which an applicant may establish micro entity status. Each will be discussed in turn.

35 U.S.C. 123(a) provides that the term “micro entity” means an applicant who makes a certification that the applicant: (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, exceeding three times the median household income for that preceding calendar year, as most recently reported by the Bureau of the Census. *See* 125 Stat. at 318. 35 U.S.C. 123(a) provides one basis under which an applicant may establish micro entity status.

The Office will indicate the income level that is three times the median household income for the calendar year most recently reported by the Bureau of the Census (the income threshold set forth in 35 U.S.C. 123(a)(3) and (a)(4)) on its Internet Web site, with its Independent Inventor resource information, and on the Office’s certification of micro entity status (gross income basis) form (Form PTO/SB/15A). The Office will also make available resources to micro entities to help navigate the new micro entity procedures.

35 U.S.C. 123(b) provides that an applicant is not considered to be named on a previously filed application for purposes of 35 U.S.C. 123(a)(2) if the applicant has assigned, or is under an obligation by contract or law to assign, all ownership rights in the application as the result of the applicant’s previous employment. *See id.*

35 U.S.C. 123(c) provides that if an applicant's or entity's gross income in the preceding calendar year is not in United States dollars, the average currency exchange rate, as reported by the Internal Revenue Service, during that calendar year shall be used to determine whether the applicant's or entity's gross income exceeds the threshold specified in 35 U.S.C. 123(a)(3) or (4). *See* 125 Stat. at 319.

35 U.S.C. 123(d) provides that a micro entity shall also include an applicant who certifies that: (1) 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 (2) 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. *See id.* As explained earlier, 35 U.S.C. 123(a) provides one basis under which an applicant may establish micro entity status, and 35 U.S.C. 123(d) provides another basis under which an applicant may establish micro entity status.

35 U.S.C. 123(e) provides that in addition to the limits imposed by this section, the Director has the discretion to impose income limits, annual filing limits, or other limits on who may qualify as a micro entity pursuant to this section if the Director determines that such additional limits are reasonably necessary to avoid an undue impact on other patent applicants or owners or are otherwise reasonably necessary and appropriate. 35 U.S.C. 123(e) also provides that at least three months before any limits proposed to be implemented pursuant to 35 U.S.C. 123(e) take effect, the Director shall inform the Committee on the Judiciary of the House of Representatives and the Committee on the Judiciary of the Senate of any such proposed limits. *See id.*

The micro entity provisions of 35 U.S.C. 123 are currently in effect. However, no patent fee is currently eligible for the seventy-five percent micro entity reduction as no patent fee has yet been set or adjusted under section 10 of the Leahy-Smith America Invents Act. The Office is in the process of proposing to set or adjust patent fees under section 10 of the AIA in a separate rulemaking. *See Setting and Adjusting Patent Fees*, 77 FR 55028 (Sept. 6, 2012). The fees set or adjusted by the Office under section 10 of the AIA for filing, searching, examining, issuing, appealing, and maintaining a

patent application and patent will be reduced by: (1) Fifty percent for an applicant or patentee who establishes small (but not micro) entity status in the patent application or patent; and (2) seventy-five percent for an applicant or patentee who establishes micro entity status in the patent application or patent.

The Office plans to rely upon the applicant's certification of micro entity status (except where it conflicts with the information contained in the Office's records, such as where Office records indicate that the applicant is named as an inventor on more than four previously filed and unassigned nonprovisional patent applications) and will not require any additional documents from the applicant concerning the applicant's entitlement to claim micro entity status. This practice is similar to small entity practice where the Office generally does not question a claim of entitlement to small entity status. *See* 37 CFR 1.27(f); *see also Manual of Patent Examining Procedure* § 509.03 (8th ed. 2001) (Rev. 9, Aug. 2012) (MPEP).

The Office does not plan to provide advisory opinions on whether a particular entity is entitled to claim micro entity status. *See* MPEP § 509.03. The Office, however, is providing the following information concerning procedures for micro entity status under 35 U.S.C. 123:

35 U.S.C. 123 uses the term "applicant" throughout, which was virtually synonymous with "inventor" on September 16, 2011 (the date of enactment of the AIA as well as the effective date of 35 U.S.C. 123). 35 U.S.C. 118, however, as amended effective on September 16, 2012, by Section 4 of the AIA, now permits an application to be made by a person to whom the inventor has assigned or is under an obligation to assign the invention. In addition, a person who otherwise shows sufficient proprietary interest in the matter may make an application for patent on behalf of and as agent for the inventor. Thus, 35 U.S.C. 118 now allows a person other than the inventor to file an application as the applicant if the inventor has assigned or is under an obligation to assign the invention to the person or if the person shows sufficient proprietary interest in the matter. Note also that as of March 16, 2013, 35 U.S.C. 100 will be amended to provide new and specific definitions of the terms "inventor," "joint inventor," and "coinventor."

35 U.S.C. 123 does not explicitly preclude an assignee-applicant under 35 U.S.C. 118 from claiming micro entity status under 35 U.S.C. 123(a) or (d),

although some provisions of 35 U.S.C. 123(a) and (d) refer to an applicant who is a natural person inventor rather than a juristic entity. *See* 35 U.S.C. 123(a)(2) (provides that a micro entity applicant under 35 U.S.C. 123(a) must not have "been named as an inventor on more than 4 previously filed patent applications") and 123(d)(1) (provides that the term micro entity includes an applicant who certifies that "the applicant's employer, from which the applicant obtains the majority of the applicant's income, is an institution of higher education" as defined by section 101(a) of the Higher Education Act of 1965). In addition, 35 U.S.C. 123(a), (b) and (d) specifically refer to a situation in which the applicant has assigned rights in the invention to an assignee. *See* 35 U.S.C. 123(a)(4) (provides that a micro entity applicant under 35 U.S.C. 123(a) must not have "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" exceeding a specified gross income); 35 U.S.C. 123(b) (provides that an applicant is not considered to be named on a previously filed application for purposes of 35 U.S.C. 123(a)(2) if "the applicant has assigned, or is under an obligation by contract or law to assign, all ownership rights in the application as the result of the applicant's previous employment"); and 35 U.S.C. 123(d)(2) (provides that the term micro entity includes an "applicant [who] 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 applications" to an institution of higher education as defined by section 101(a) of the Higher Education Act of 1965). Finally, the legislative history of 35 U.S.C. 123 includes a reference to micro entities as inventors and not the assignees of inventors. *See* H.R. Rep 112–98 at 50 (2011) (describing micro entities as "a group of inventors" and "truly independent inventors"). Nevertheless, 35 U.S.C. 123 does not explicitly preclude an assignee-applicant under 35 U.S.C. 118 from claiming micro entity status for an application under 35 U.S.C. 123(a) or 123(d), provided there is compliance with the applicable micro entity criteria. Each applicant must qualify for micro entity status, and any other party holding rights in the application must qualify for small entity status. *See* 37 CFR 1.29 (h). Note that a party who qualifies for micro entity status necessarily qualifies for small entity status, as under 37 CFR 1.29 a

micro entity must first qualify as a small entity under 37 CFR 1.27.

An “institution of higher education,” as that term is used in 35 U.S.C. 123(d), is defined in the Higher Education Act of 1965 (20 U.S.C. 1001(a)). Section 101(a) of the Higher Education Act of 1965 (20 U.S.C. 1001) provides that: “For purposes of this chapter, other than subchapter IV, the term ‘institution of higher education’ means an educational institution in any State that—(1) Admits as regular students only persons having a certificate of graduation from a school providing secondary education, or the recognized equivalent of such a certificate, or persons who meet the requirements of section 1091(d)(3) of this title; (2) is legally authorized within such State to provide a program of education beyond secondary education; (3) provides an educational program for which the institution awards a bachelor’s degree or provides not less than a 2-year program that is acceptable for full credit toward such a degree, or awards a degree that is acceptable for admission to a graduate or professional degree program, subject to review and approval by the Secretary; (4) is a public or other nonprofit institution; and (5) is accredited by a nationally recognized accrediting agency or association, or if not so accredited, is an institution that has been granted pre-accreditation status by such an agency or association that has been recognized by the Secretary for the granting of pre-accreditation status, and the Secretary has determined that there is satisfactory assurance that the institution will meet the accreditation standards of such an agency or association within a reasonable time.” Section 103 of the Higher Education Act of 1965 (20 U.S.C. 1003) provides “the term ‘State’ includes, in addition to the several States of the United States, 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” and that the Freely Associated States means the “Republic of the Marshall Islands, the Federated States of Micronesia, and the Republic of Palau.”

The Office is setting out in the rules of practice the requirements for micro entity status and procedures for claiming micro entity status, paying patent fees as a micro entity, notifying the Office of loss of micro entity status, and correcting payments of patent fees paid erroneously in the micro entity amount. The Office is also developing forms for use by members of the public to provide a certification of micro entity

status. The procedures track the corresponding provisions in 37 CFR 1.27 and 1.28 for small entities, except where the small entity procedure is not appropriate for micro entity status under the provisions of 35 U.S.C. 123. For example, 35 U.S.C. 123 requires a certification as a condition for an applicant to be considered a micro entity. Thus, the process in 37 CFR 1.27(c)(3) for establishing small entity status by payment of certain fees in the small entity amount cannot be made applicable to establishing micro entity status, and the process in 37 CFR 1.28(a) for a refund based upon subsequent establishment of small entity status is not applicable where there is subsequent establishment of micro entity status. In addition, 35 U.S.C. 123(a)(3) and (a)(4) require that the income level be met for the calendar year preceding the calendar year in which the applicable fee is paid. Thus, the provision in 37 CFR 1.27(g)(1) that the applicant need only determine continued eligibility for 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, cannot be made applicable to payment of patent fees as a micro entity.

Discussion of Specific Rules

The following is a discussion of the amendments to Title 37 of the Code of Federal Regulations, Part 1.

Section 1.29: Section 1.29 is added to implement procedures for claiming micro entity status.

Since 35 U.S.C. 123(a) through (d) specify the requirements to qualify as a micro entity, the provisions in §§ 1.29(a) through (d) generally track the provisions of 35 U.S.C. 123(a) through (d).

Section 1.29(a) implements the provisions of 35 U.S.C. 123(a), and includes reference to inventors or joint inventors where appropriate. Section 1.29(a) provides that an applicant claiming micro entity status under 35 U.S.C. 123(a) must certify that: (1) The applicant qualifies as a small entity as defined in § 1.27; (2) neither the applicant nor the inventor nor a joint inventor has been named as the inventor or a joint inventor (see 35 U.S.C. 100) 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) neither the applicant nor the inventor nor a joint inventor, 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; and (4) neither the applicant nor the inventor nor a joint inventor has assigned, granted, or conveyed, nor is 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, exceeding three times the median household income for that preceding calendar year, as most recently reported by the Bureau of the Census. *See also* § 1.29(h) (each applicant must qualify for micro entity status, and each other party holding rights in the invention must qualify for small entity status).

Section 61(a) of the Internal Revenue Code of 1986 (26 U.S.C. 61(a)) provides that: “[e]xcept as otherwise provided in this subtitle, gross income means all income from whatever source derived, including (but not limited to) the following items: (1) Compensation for services, including fees, commissions, fringe benefits, and similar items; (2) Gross income derived from business; (3) Gains derived from dealings in property; (4) Interest; (5) Rents; (6) Royalties; (7) Dividends; (8) Alimony and separate maintenance payments; (9) Annuities; (10) Income from life insurance and endowment contracts; (11) Pensions; (12) Income from discharge of indebtedness; (13) Distributive share of partnership gross income; (14) Income in respect of a decedent; and (15) Income from an interest in an estate or trust.” The median household income for calendar year 2011 (the year most recently reported by the Bureau of the Census) was \$50,054. *See Income, Poverty, and Health Insurance Coverage in the United States in 2011* at pages 5 and 31 (Table A–1) (Sept. 2012). Thus, the income level specified in §§ 1.29(a)(3) and (a)(4) (three times the median household income) is \$150,162 for calendar year 2011 (the year most recently reported by the Bureau of the Census).

If an application names more than one applicant or inventor, each applicant and each inventor must meet the requirements of § 1.29(a) for the applicants to file a micro entity certification under § 1.29(a) in the application. It would not be appropriate

to file a micro entity certification under § 1.29(a) for the application if there were more than one applicant or inventor and not all of the applicants and inventors qualified as micro entities under 35 U.S.C. 123(a): *e.g.*, (1) an applicant or inventor exceeded the gross income levels; (2) an applicant or inventor had more than four other nonprovisional applications; or (3) an applicant or inventor had assigned, granted, or conveyed the application or was under an obligation to do so, to an entity that exceeds the gross income levels. Additionally, the income level requirement in 35 U.S.C. 123(a)(3) applies to each applicant's and inventor's income separately (*i.e.*, the combined gross income of all of the applicants and inventors need not be below the income level in 35 U.S.C. 123(a)(3)). Further, the assignment requirement in § 1.29(a)(4) applies to each applicant and inventor (*i.e.*, if an applicant or inventor assigns or is obligated to assign the invention to more than one assignee (*e.g.*, half interest in the invention to two assignees), each of the assignees must meet the income limit specified in § 1.29(a)(4)). Note also that in this context an inventor ordinarily should qualify as a small entity under §§ 1.29(a)(1) and 1.27(a)(1). Under § 1.27(a)(1), an inventor generally is a small entity and retains such status even if the inventor assigns some rights to another small entity. Similarly, to obtain micro entity status, § 1.29(h) requires that any non-applicant assignee be a small entity.

Section 1.29(b) implements the provisions of 35 U.S.C. 123(b). Section 1.29(b) provides that an applicant, inventor, or joint inventor is not considered to be named on a previously filed application for purposes of § 1.29(a)(2) if the applicant, inventor, or joint inventor has assigned, or is under an obligation by contract or law to assign, all ownership rights in the application as the result of the applicant's, inventor's, or joint inventors previous employment.

Section 1.29(c) implements the provisions of 35 U.S.C. 123(c). Section 1.29(c) provides that if an applicant's, inventor's, joint inventor's, or entity's gross income in the preceding calendar year is not in United States dollars, the average currency exchange rate, as reported by the Internal Revenue Service, during that calendar year shall be used to determine whether the applicant's, inventor's, joint inventor's, or entity's gross income exceeds the threshold specified in § 1.29(a)(3) or (a)(4). The Internal Revenue Service reports the average currency exchange

rate (Yearly Average Currency Exchange Rates) on its Internet Web site (<http://www.irs.gov/businesses/small/international/article/0,,id=206089,00.html>).

Section 1.29(d) implements the provisions of 35 U.S.C. 123(d). Section 1.29(d) provides that an applicant claiming micro entity status under 35 U.S.C. 123(d) must certify that: (1) The applicant qualifies as a small entity as defined in § 1.27; and (2)(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. To the extent that 35 U.S.C. 123(d) (unlike 35 U.S.C. 123(a)) does not expressly require that an applicant qualify as a small entity under § 1.27, the Office is invoking its authority under 35 U.S.C. 123(e) to expressly require that a party claiming micro entity status via 35 U.S.C. 123(d) qualify as a small entity under § 1.27. The legislative history of 35 U.S.C. 123 refers to micro entities as a subset of small entities, namely, "truly independent inventors." See H.R. Rep 112-98 at 50 ("[t]he Committee was made aware, however, that there is likely a benefit to describing—and then accommodating—a group of inventors who are even smaller [than small entities], in order to ensure that the USPTO can tailor its requirements, and its assistance, to the people with very little capital, and just a few inventions, as they are starting out. This section of the Act defines this even smaller group—the micro-entity—that includes only truly independent inventors"). Thus, permitting an applicant who does not qualify as a small entity to take advantage of the benefits of micro entity status via 35 U.S.C. 123(d) would be inconsistent with the purposes of micro entity provisions of 35 U.S.C. 123. The statute and its legislative history do not, for example, contemplate a for-profit, large entity applicant becoming a "micro entity" (and thus obtaining a 75 percent discount) merely by licensing or assigning some interest (even merely a nominal or miniscule interest) to an institution of higher education. Accordingly, the Office has determined that requiring all micro entities to qualify as small entities is reasonably necessary and appropriate to ensure that

applicants who do not qualify as a small entity do not inappropriately attempt to take advantage of micro entity status. See also § 1.29(h) (each applicant must qualify for micro entity status, and each other party holding rights in the invention must qualify for small entity status).

Section 1.29(e) provides that micro entity status must be established in an application in by filing a certification in writing that complies with either § 1.29(a) or § 1.29(d) and that is signed in compliance with § 1.33(b). Section 1.29(e) also contains provisions for a micro entity that correspond to the provisions of § 1.27(c)(4) for a small entity. Section 1.29(e) provides that: (1) Status as a micro entity must be specifically established by an assertion in each related, continuing, and reissue application in which status is appropriate and desired; (2) status as a small or micro entity in one application or patent does not affect the status of any other application or patent, regardless of the relationship of the applications or patents; and (3) the refiling of an application under § 1.53 as a continuation, divisional, or continuation-in-part application (including a continued prosecution application under § 1.53(d)), or the filing of a reissue application, requires a new certification of entitlement to micro entity status for the continuing or reissue application.

Section 1.29(f) contains provisions for a micro entity that correspond to the provisions of § 1.27(d) for a small entity. Section 1.29(f) provides that a fee may be paid in the micro entity amount only if it is submitted with, or subsequent to, the submission of a certification of entitlement to micro entity status.

Section 1.29(g) contains provisions for a micro entity that correspond to the provisions of § 1.27(e) for a small entity. Section 1.29(g) provides that a certification of entitlement to micro entity status need only be filed once in an application or patent, and that micro entity status, once established, remains in effect until changed pursuant to § 1.29(i). However, a fee may be paid in the micro entity amount only if status as a micro entity as defined in § 1.29(a) or (d) is appropriate (which requires that status as a small entity is also appropriate) on the date the fee is being paid. Thus, while an applicant is not required to provide a certification of entitlement to micro entity status with each fee payment once micro entity status has been established in an application, the applicant must still be entitled to micro entity status to pay a fee in the micro entity amount at the

time of all payments of fees in the micro entity amount.

For micro entity status under 35 U.S.C. 123(a), the applicant must determine that the applicant and each inventor or joint inventor still meet the applicable conditions of 35 U.S.C. 123(a) and § 1.29(a) to claim micro entity status. For example, the applicant must determine that neither the applicant nor inventor nor joint inventor has had a change in gross income that exceeds the gross income threshold in 35 U.S.C. 123(a)(3) (a new determination must be made each year because gross income may change from year to year, and micro entity status is based upon gross income in the calendar year preceding the calendar year in which the applicable fee is being paid). In addition, the applicant must determine that neither the applicant nor inventor nor joint inventor has made, or is obligated by contract or law to make, an assignment, grant, or conveyance to an entity not meeting the gross income threshold in 35 U.S.C. 123(a)(4), and that no new inventor or joint inventor has been named in the application who does not meet the conditions specified in 35 U.S.C. 123(a) and § 1.29(a). For micro entity status under 35 U.S.C. 123(d), the applicant must determine that each applicant and inventor still complies with 35 U.S.C. 123(d) and § 1.29(d) (e.g., still obtains the majority of his or her income from an institution of higher education as defined in section 101(a) of the Higher Education Act of 1965 (20 U.S.C. 1001(a)). Section 1.29(g) also provides that where an assignment of rights or an obligation to assign rights to other parties who are micro entities occurs subsequent to the filing of a certification of entitlement to micro entity status, a second certification of entitlement to micro entity status is not required.

Section 1.29(h) contains provisions for a micro entity that correspond to the provisions of § 1.27(f) for a small entity. Section 1.29(h) provides that prior to submitting a certification of entitlement to micro entity status in an application, including a related, continuing, or reissue application, a determination of such entitlement should be made pursuant to the requirements of § 1.29(a) or 1.29(d). Section 1.29(h) also indicates that each applicant must qualify for micro entity status under § 1.29(a) or 1.29(d), and that any other party holding rights in the application must qualify for small entity status under § 1.27. As discussed previously, a party who qualifies for micro entity status necessarily qualifies for small entity status, as under § 1.29(a)(1) and (d)(1) a micro entity must first qualify as a small

entity under § 1.27. Section 1.29(h) also indicates that the Office will generally not question certification of entitlement to micro entity status that is made in accordance with the requirements of § 1.29.

Section 1.29(i) contains provisions for a micro entity that correspond to the provisions of § 1.27(g)(2) for a small entity. Section 1.29(i) provides that notification of a loss of entitlement to micro entity status must be filed in the application or patent prior to paying, or at the time of paying, any fee after the date on which status as a micro entity as defined in § 1.29(a) or 1.29(d) is no longer appropriate. The notification that micro entity status is no longer appropriate must be signed by a party identified in § 1.33(b). Payment of a fee in other than the micro entity amount is not sufficient notification that micro entity status is no longer appropriate.

Section 1.29(i) further provides that a notification that micro entity status is no longer appropriate will not be treated as a notification that small entity status is also no longer appropriate unless it also contains a notification of loss of entitlement to small entity status under § 1.27(f)(2). Thus, an applicant or patentee who files a notification that micro entity status is no longer appropriate will be treated as a small entity by default unless the notification also contains a notification of loss of entitlement to small entity status under § 1.27(f)(2).

Section 1.29 finally provides that once a notification of a loss of entitlement to micro entity status is filed in the application or patent, a new certification of entitlement to micro entity status is required to again obtain micro entity status.

Section 1.29(j) contains provisions for a micro entity that correspond to the provisions of § 1.27(h) for a small entity. Section 1.29(j) provides that any attempt to fraudulently establish status as a micro entity, or pay fees as a micro entity, shall be considered as a fraud practiced or attempted on the Office, and that establishing status as a micro entity, or paying fees as a micro entity, improperly, and with intent to deceive, shall be considered as a fraud practiced or attempted on the Office.

Section 1.29(k) contains provisions for a micro entity that correspond to the provisions of § 1.28(c) for a small entity. Section 1.28(c) permits an applicant or patentee to correct the erroneous payment of a patent fee in the small entity amount if status as a small entity was established in good faith, and fees as a small entity were paid in good faith. *See DH Tech. Inc. v. Synergystex Int'l Inc.*, 154 F.3d 1333 (Fed. Cir. 1998).

Section 1.29(k) provides that if: (i) An applicant or patentee establishes micro entity status in an application or patent in good faith; (ii) the applicant or patentee pays fees as a micro entity in the application or patent in good faith; and (iii) applicant or patentee later discovers that such micro entity status either was established in error, or that the Office was not notified of a loss of entitlement to micro entity status as required by § 1.29(i) through error, the error will be excused upon compliance with the separate submission and itemization requirements of § 1.29(k)(1) and the deficiency payment requirement of § 1.29(k)(2).

Section 1.29(k)(1) provides that any paper submitted under § 1.29(k) must be limited to the deficiency payment (all fees paid in error) required for a single application or patent. Section 1.29(k)(1) provides that where more than one application or patent is involved, separate submissions of deficiency payments (e.g., checks) and itemizations are required for each application or patent. Section 1.29(k)(1) also provides that the paper must contain an itemization of the total deficiency payment and include the following information: (1) Each particular type of fee that was erroneously paid as a micro entity, (e.g., basic statutory filing fee, two-month extension of time fee) along with the current fee amount for a small or non-small entity; (2) the micro entity fee actually paid, and the date on which it was paid; (3) the deficiency owed amount (for each fee erroneously paid); and (4) the total deficiency payment owed, which is the sum or total of the individual deficiency owed amounts as set forth in § 1.29(k)(2).

Section 1.29(k)(2) provides that the deficiency owed, resulting from the previous erroneous payment of micro entity fees, must be paid. The deficiency owed for each previous fee erroneously paid as a micro entity is the difference between the current fee amount for a small entity or non-small entity, as applicable, on the date the deficiency is paid in full and the amount of the previous erroneous micro entity fee payment. The total deficiency payment owed is the sum of the individual deficiency owed amounts for each fee amount previously and erroneously paid as a micro entity. This corresponds to the procedure for fee deficiency payments based upon the previous erroneous payment of patent fees in the small entity amount. *See* § 1.28(c)(2)(i) (“[t]he deficiency owed for each previous fee erroneously paid as a small entity is the difference between the current full fee amount (for non-small entity) on the date the deficiency is paid

in full and the amount of the previous erroneous (small entity) fee payment”).

Section 1.29(k)(3) provides that if the requirements of §§ 1.29(k)(1) and (k)(2) are not complied with, such failure will either be treated at the option of the Office as an authorization for the Office to process the deficiency payment and charge the processing fee set forth in § 1.17(i), or result in a requirement for compliance within a one-month non-extendable time period under § 1.136(a) to avoid the return of the fee deficiency payment.

Section 1.29(k)(4) provides that any deficiency payment (based on a previous erroneous payment of a micro entity fee) submitted under § 1.29(k) will be treated as a notification of a loss of entitlement to micro entity status under § 1.29(i).

Comments and Responses to Comments: The Office published a notice on May 30, 2012, proposing to change the rules of practice to implement the micro entity provisions of the AIA. *See Changes to Implement Micro Entity Status for Paying Patent Fees*, 77 FR 31806 (May 30, 2012). The Office received twenty-seven written comments (from intellectual property organizations, industry, law firms, individual patent practitioners, and the general public) in response to this notice. There were some comments received that related to practice before the agency but not related to the proposed changes to the rules of practice to implement the micro entity provisions of the AIA, and these comments have been forwarded to the Office of Innovation Development for further consideration. The Office is always interested to hear feedback from the public concerning ways in which it can assist small and independent inventors. The comments germane to the proposed changes to the rules of practice to implement the micro entity provisions of the AIA and the Office's responses to the comments follow:

Comment 1: One comment stated that there are several instances in 35 U.S.C. 123 and proposed § 1.29 where the term “applicant” is inapplicable to an organization and must really be referring to the inventor(s) (e.g., a certification that “applicant” has not been named as an “inventor” in more than four previously filed applications, references to applicant’s previous employment or employer). One comment indicated that the term “applicant” should be used in an interchangeable manner so as to mean either the inventor(s) or a company to which the patent application is assigned (i.e., the rules should refer to “applicant or inventor”) in view of the AIA’s

change to 35 U.S.C. 118. That comment further indicated, however, that the ability to vary from the statute “may be limited.” One comment similarly indicated that the final rules should replace all instances of “applicant” and “applicant’s” with “inventor” and “inventor’s” in § 1.29(a) (second instance), (b), (c), (d)(1), (d)(2)(i), and (d)(2)(ii) in view of the AIA’s change to 35 U.S.C. 118. One comment stated that in the case of university inventions, the university typically is the applicant and this creates anomalies in proposed § 1.29(d), since the institution (university) logically cannot make the certifications required under § 1.29(d)(2)(i) and (d)(2)(ii) (that the employer from which the university obtains the majority of its income is an institution of higher education as defined by section 101(a) of the Higher Education Act of 1965, or that the university itself 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).

Response: The Office specifically invited public comment in the notice of proposed rulemaking on the issue of whether the term “inventor” should be used in place of “applicant” at any instance in the proposed micro entity rules. *See Changes to Implement Micro Entity Status for Paying Patent Fees*, 77 FR at 31808. The Office agrees that some, though not all, provisions of 35 U.S.C. 123 refer to a situation where an inventor is the applicant. The micro entity provisions of 35 U.S.C. 123 were enacted as part of the AIA, which also revised the patent laws to provide a specific definition of the term “inventor” and to change who may be the applicant for a patent. *See* 125 Stat. at 285 (defining “inventor”) and 293–97 (changing the patent laws to distinguish between who may apply for a patent as the applicant and who must be named as the inventor); *see also* 35 U.S.C. 100; 35 U.S.C. 118. The Office does not consider it appropriate either to amend the language of 35 U.S.C. 123 as incorporated into the corresponding provisions of § 1.29 or to somehow view the terms “applicant” and “inventor” as interchangeable in all instances under 35 U.S.C. 123. *See Brown v. Gardner*, 513 U.S. 115, 118 (1994) (presumption that a given term is used to mean the same thing throughout a statute). As discussed previously, while some of the provisions in 35 U.S.C. 123(a) and (d) refer to an inventor-applicant, 35 U.S.C. 123 does not explicitly preclude an assignee-applicant under 35 U.S.C. 118 from claiming micro entity status under

35 U.S.C. 123(a) or (d), provided there is compliance with the applicable micro entity criteria by each applicant. However, each applicant must qualify for micro entity status, and any other party holding rights in the application must qualify for small entity status. *See* 37 CFR 1.29(h).

Comment 2: One comment stated that it is possible that the legislative intent of 35 U.S.C. 123(a)(2) was that an applicant should satisfy this criterion so long as the applicant has fewer than four previously filed applications in which micro entity fees were paid. One comment stated that the four application limit under 35 U.S.C. 123(a)(2) should apply only to applications filed within the past twenty years or so. One comment stated that it would make sense for the term “inventor” in § 1.29(a)(2) to refer to an applicant who has had the opportunity to claim micro entity status in four previously filed patent applications. One comment indicated that § 1.29(a)(2) should be amended to provide that if an application is entitled to micro entity status, then continuation and divisional applications of that parent application should normally be entitled to micro entity status without counting the parent application or any parallel filed continuing or divisional patent applications in the same patent family toward the four application limit.

Response: Section 1.29(a)(2) tracks the provisions of 35 U.S.C. 123(a)(2) with the clarification to reference non-applicant inventors and joint inventors. 35 U.S.C. 123(a)(2) provides a certification that the applicant, *inter alia*, “has not been named as an inventor on more than 4 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.” This provision refers to when an inventor-applicant has been named as an inventor in a previous application, including as one in a group of joint inventors. *See* 35 U.S.C. 100. An applicant that is not an inventor would plainly not violate this criteria. Moreover, this provision has been clarified to refer to an inventor or joint inventor who is not the applicant. 35 U.S.C. 123(a)(2) by its express terms does not, however, provide for exceptions to this four-application limit suggested by the comments. In addition, while 35 U.S.C. 123(e) authorizes the Office to place additional limits on who may qualify as a micro entity under 35 U.S.C. 123, it does not authorize the

Office to remove limitations contained in 35 U.S.C. 123.

Comment 3: One comment suggested expanding the scope of the § 1.29(b) exception to applications counted toward the four application limit in § 1.29(a)(2) by including applications assigned to the inventor's current employer when the invention is outside the current employer's scope of employment with the inventor.

Response: Section 1.29(b) tracks the provisions of 35 U.S.C. 123(b) with the clarification to reference non-applicant inventors and joint inventors. 35 U.S.C. 123(b) provides that an applicant is not considered to be named on a previously filed application for purposes of 35 U.S.C. 123(a)(2) if the applicant has assigned, or is under an obligation by contract or law to assign, all ownership rights in the application "as the result of applicant's previous employment." Thus, the exception in 35 U.S.C. 123(b) by its express terms does not apply to applications assigned to a current employer. In addition, as discussed previously, while 35 U.S.C. 123(e) authorizes the Office to place additional limits on who may qualify as a micro entity under 35 U.S.C. 123, it does not authorize the Office to remove limitations contained in 35 U.S.C. 123.

Comment 4: One comment noted that the Office has indicated that it will publish the income level that is three times the median household income for the calendar year most recently reported by the Bureau of the Census, but that 35 U.S.C. 123(a) (and § 1.29(a)) require that applicants use the median household income data for "the calendar year preceding the calendar year in which the applicable fee is being paid." The comment expressed concern that median household income data for a given year is not reported by the Bureau of the Census until the succeeding year. One comment suggested that § 1.29(a)(3) be amended to provide that an applicant may rely on his or her most recently filed income tax return regardless of whether the most recently filed tax return accounted for the previous calendar year's gross income.

Response: Section 1.29(a)(3) tracks the provisions of 35 U.S.C. 123(a)(3) with the clarification to reference non-applicant inventors and joint inventors. 35 U.S.C. 123(a)(3) provides that each inventor's gross income "in the calendar year preceding the calendar year in which the applicable fee is being paid" must not exceed "three times the median household income for that preceding calendar year as most recently reported by the Bureau of the Census." 35 U.S.C. 123(a)(3) does not provide for an applicant to simply rely

on his or her most recently filed income tax return if the most recently filed tax return does not pertain to the calendar year preceding the calendar year in which the applicable fee is being paid. The Office will post on its Internet Web site the U.S. dollar amount that equals three times the median household income as most recently reported by the Bureau of the Census. Thus, the Office's Internet Web site will contain the U.S. dollar amount that equals three times the median household income as most recently reported by the Bureau of the Census as provided for in § 1.29(a)(3) and 35 U.S.C. 123(a)(3).

Comment 5: One comment requested guidance as to what effect marital status has on "gross income" in terms of § 1.29(a)(3), and whether the inventor's tax return is filed jointly or separately changes the amount of "gross income" for purposes of meeting the requirement of proposed § 1.29(a)(3). The comment also indicated that in community property states, the law may be construed such that the inventor/applicant has assigned his or her rights in part to the spouse, as a matter of law. Another comment stated that marital status of an individual applicant may have an impact on the assignment or ownership rights in an invention and the gross income of the applicant, and that it may require an opinion from an accountant or tax attorney with respect to the applicant's income.

Response: The Office reads the "gross income" requirement contained in 35 U.S.C. 123(a)(3) and § 1.29(a)(3) with respect to a married person as applying to the amount of income the person would have reported as gross income if that person were filing a separate tax return (which includes properly accounting for that person's portion of interest, dividends, and capital gains from joint bank or brokerage accounts), regardless of whether the person actually filed a joint return or a separate return for the relevant calendar year. Additionally, the Office does not consider a spouse's ownership interest in a patent application or patent arising by operation of residence in a community property state as falling within the ambit of 35 U.S.C. 123(a)(4) and § 1.29(a)(4) because the spouse's ownership interest arises by operation of state law, rather than an assignment, grant, conveyance, or obligation to assign, grant, or convey.

Comment 6: One comment questioned the situation where the applicant's income is not in U.S. dollars and the applicable currency exchange rate is applied to determine the applicant's gross income in U.S. dollars in accordance with § 1.29(c), whether the

applicant's gross income in terms of U.S. dollars should be compared to three times the median household income for the preceding calendar year in the United States, or should be compared to the median household income for the preceding calendar year in the country in which the applicant obtained income.

Response: In all cases, the inventor's gross income in the previous calendar year must be compared to the U.S. dollar amount equaling three times the median household income as most recently reported by the Bureau of the Census (which will be posted on the Office's Internet Web site) at the time the applicable fee is being paid in order to meet the gross income requirement of § 1.29(a)(3).

Comment 7: One comment suggested that the language "that calendar year" in proposed § 1.29(c) should be changed to "the preceding calendar year" to clarify that applicants whose income is not in U.S. dollars must apply the currency exchange rate from the preceding calendar year when calculating income in U.S. dollars in order to determine whether the proposed § 1.29(a)(3) "gross income" requirement is met.

Response: Section 1.29(c) tracks the provisions of 35 U.S.C. 123(c) with the clarification to reference non-applicant inventors and joint inventors. The phrase "that calendar year" in 35 U.S.C. 123(c) and § 1.29(c) means "the preceding calendar year" as previously recited in 35 U.S.C. 123(c) and § 1.29(c).

Comment 8: One comment indicated that foreign applicants should be directed to make a "good faith attempt" to estimate their gross income in terms of U.S. tax law.

Response: 35 U.S.C. 123(c) provides that if an applicant's or entity's gross income in the preceding calendar year is not in United States dollars, the average currency exchange rate, as reported by the Internal Revenue Service, during that calendar year shall be used to determine whether the applicant's or entity's gross income exceeds the threshold specified in 35 U.S.C. 123(a)(3) or (4). 35 U.S.C. 123 does not provide any alternative basis, such as a good faith estimation as suggested by the comment, for determining whether an applicant or entity meets the gross income requirement of 35 U.S.C. 123(a)(3). For an applicant or entity whose previous calendar year's gross income was received partially in U.S. dollars and partially in non-United States currency, the gross income amount in non-United States currency must be converted into U.S. dollars in accordance with § 1.29(c) and then added to the gross income

amount in U.S. dollars to determine whether the applicant or entity meets the gross income requirement of § 1.29(a)(3).

Comment 9: One comment suggested that the definition of micro entity status should be broadened to benefit even more small inventors than those who meet the requirements of 35 U.S.C. 123(a).

Response: The legislative history includes a statement that Congress developed the micro entity provision to benefit truly independent inventors, people with very little capital and just a few inventions, who are just starting out. See H.R. Rep 112–98 at 50. Small entity inventors who do not meet the micro entity requirements of 35 U.S.C. 123 may still claim small entity status and receive the fifty percent small entity fee reduction. In any event, as discussed previously, while 35 U.S.C. 123(e) authorizes the Office to place additional limits on who may qualify as a micro entity under 35 U.S.C. 123, it does not authorize the Office to remove limitations contained in 35 U.S.C. 123 or expand the scope of 35 U.S.C. 123 to include more small entities.

Comment 10: Several comments objected to the requirement under § 1.29(d)(1) that in order to qualify for micro entity status under § 1.29(d), the applicant must qualify as a small entity as defined in § 1.27 in addition to meeting one of the requirements under § 1.29(d)(2)(i) or (d)(2)(ii).

Response: 35 U.S.C. 123(e) provides that in addition to the limits imposed by 35 U.S.C. 123, the Director may, in the Director's discretion, impose income limits, annual filing limits, or other limits on who may qualify as a micro entity pursuant to this section if the Director determines that such additional limits are reasonably necessary to avoid an undue impact on other patent applicants or owners or are otherwise reasonably necessary and appropriate. The Office has determined that requiring all micro entities to qualify as small entities (§ 1.29(d)(1)) is reasonably necessary and appropriate to ensure that applicants who do not qualify as a small entity do not inappropriately attempt to take advantage of micro entity status. As discussed in the notice of proposed rulemaking, the legislative history of 35 U.S.C. 123 includes a statement that micro entity status is directed to a subset of small entities, namely, “truly independent inventors.” See H.R. Rep 112–98 at 50.

Comment 11: Several comments indicated that § 1.29(d)(2)(ii) should provide that the rights transferred or owed to an institution of higher education should be substantial. The

comments indicated that institutions of higher education are generally non-practicing entities or that applicants could engage in sham transfers of a de minimus interest to an institution of higher education, and suggested the Office use its authority under 35 U.S.C. 123(e) to ensure the transfer of rights is for a substantial purpose. One comment indicated that micro entity status by a grant of rights to an institution of higher education under § 1.29(d)(2)(ii) should not be available to an institution of higher education and that without such a limitation, institutions of higher education could simply grant rights to each other and thereby qualify their patent for micro entity status.

Response: As discussed previously, the Office is requiring that all micro entities qualify as small entities (§ 1.29(d)(1)) to ensure that applicants who do not qualify as a small entity do not inappropriately attempt to take advantage of micro entity status. This requires that any person or entity claiming micro entity status not have assigned, granted, conveyed, or licensed, and be under no obligation under contract or law to assign, grant, convey, or license, any rights in the invention to any person, concern, or organization which would not qualify for small entity status as a person, small business concern, or nonprofit organization. See § 1.27(a). The Office plans to closely monitor the percentage of applicants claiming small entity status under 35 U.S.C. 123(d) and will propose additional limits under the authority provided in 35 U.S.C. 123(e) if it appears that a substantial number of applicants are engaging in sham transactions with institutions of higher education to obtain micro entity status.

Comment 12: One comment indicated that 35 U.S.C. 123(d) is unclear as to whether it was intended to cover a separate non-profit corporation, research foundation, or other institution that is legally separate from an institution of higher education but whose stated mission is to represent that institution of higher education, to act on its behalf, and/or commercialize the intellectual property of that institution of higher education. The comment suggested that a research foundation should be treated as a qualifying institution of higher education for purposes of micro entity status if the research foundation is acting on behalf of a university which is an institution of higher education as defined in section 101(a) of the Higher Education Act of 1965. Another comment suggested that the Office consider expanding the scope of § 1.29(d) to include technology transfer organizations whose primary

purpose is to facilitate the commercialization of technologies developed by one or more institutions of higher education as defined by section 101(a) of the Higher Education Act of 1965. Another comment suggested that micro entity status be made available to applicants whose inventions are co-owned with Federal Government research laboratories and that patent applications on inventions made solely or jointly by Federal laboratory personnel should be considered in the same manner as applications made solely by personnel at academic research laboratories. Another comment suggested amending § 1.29(d) to extend the definition of “institution of higher education” to include certain nonprofit scientific or educational organizations that are not institutions of higher education “as defined in section 101(a) of the Higher Education Act of 1965 (20 U.S.C. 1001(a))” as required by 35 U.S.C. 123(d). Another comment suggested that the Office interpret “institution of higher education as defined in section 101(a) of the Higher Education Act of 1965 (20 U.S.C. 1001(a))” as it appears in 35 U.S.C. 123(d) to include institutions of higher education set forth in subsection (b) of 20 U.S.C. 1001, thus making micro entity status available to institutions that grant only graduate degrees if they otherwise qualify as institutions of higher education under 20 U.S.C. 1001(a).

Response: 35 U.S.C. 123(d) provides that a micro entity shall also include an applicant who certifies that: (1) 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 (2) 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 applications to such an institution of higher education. Consistent with the discussion above and in the notice of proposed rulemaking about the statutory terms “applicant” and “inventor,” note that the statutory criteria in 35 U.S.C. 123(d) ordinarily would not be met by an institution of higher education that is itself an assignee-applicant. Also, while 35 U.S.C. 123(e) authorizes the Office to place additional limits on who may qualify as a micro entity under 35 U.S.C. 123, it does not authorize the Office to remove limitations contained in 35 U.S.C. 123 such as to expand the scope of 35 U.S.C. 123(d) to include a

separate, non-profit corporation, research foundation, technology transfer organization, Federal Government research laboratory, other non-profit scientific or educational organization, institution of higher education as defined in section 101(b) of the Higher Education Act of 1965, or other institution that is legally separate from an institution of higher education as defined in section 101(a) of the Higher Education Act of 1965 as suggested by the comments. An entity or institution must meet the definition of an institution of higher education as defined in section 101(a) of the Higher Education Act of 1965 for an applicant employed by, or who has assigned or is under an obligation to assign to, the entity or institution, to be eligible for micro entity status under 35 U.S.C. 123(d).

Comment 13: Several comments indicated that the proposed rules show a bias in favor of institutions of higher education and against independent inventors because an independent inventor has to meet certain criteria to be entitled to micro entity status.

Response: Both independent inventors under 35 U.S.C. 123(a) and those employed by or under a legal or contractual obligation to assign, grant, or convey an interest in an application to an institution of higher education as defined in section 101(a) of the Higher Education Act of 1965 under 35 U.S.C. 123(d), must meet certain criteria to be eligible for micro entity status. Specifically, the applicant must qualify as a small entity as defined in § 1.27. In addition, as to 35 U.S.C. 123(d) either the applicant's employer, from which the applicant obtains the majority of the applicant's income, must be 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 the applicant must have assigned, granted, conveyed, or be 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. The income and application filing criteria specified in § 1.29(a) tracks the criteria in 35 U.S.C. 123(a).

Comment 14: One comment questioned whether micro entity status will be available to foreign applicants.

Response: Micro entity status is available to any applicant (foreign or domestic alike) who meets the requirements of 35 U.S.C. 123 and § 1.29. Notably, 35 U.S.C. 123(d) provides that an institution must meet the definition of an institution of higher education as defined in section 101(a) of

the Higher Education Act of 1965 for micro entity status to be obtained based upon the applicant's employment at or the applicant's assignment or obligation to the institution. One criteria of the definition of "institution of higher education" set forth in section 101(a) of the Higher Education Act of 1965 is that the institution must be located in a "State." Section 103 of the Higher Education Act of 1965 provides that the term "State" as used in section 101(a) "includes the several States of the United States, the Commonwealth of Puerto Rico, the District of Columbia, Guam, American Samoa, the United States Virgin Islands, and the Freely Associated States" and that the Freely Associated States means the "Republic of the Marshall Islands, the Federated States of Micronesia, and the Republic of Palau."

Comment 15: Several comments urged deletion of the requirement in § 1.29(e) that micro entity status be specifically established by a new certification in each related continuing and reissue application. One comment indicated that unless the Office removes the provision in proposed § 1.29(g) that a fee may be paid in the micro entity amount only if status as a micro entity is appropriate on the date the fee is paid, the Office should remove the requirement in proposed § 1.29(e) that status as a micro entity must be specifically established in each related, continuing and reissue application in which status is appropriate and desired. One comment stated that § 1.29(e) contains an error in that contrary to its language, status as a micro entity in one application does affect the status of other applications. The commenter, however, suggests retaining language in § 1.29(e) stating that micro entity status must be specifically established in each continuing and divisional application in which status is appropriate and desired.

Response: The Office shares the concerns of the comments that the small entity and micro entity regulations and procedures be as simple as possible. For this reason, the Office is making the micro entity provisions as consistent with the small entity provisions as possible, including the provisions pertaining to claiming small entity status in related continuing and reissue applications. See § 1.27(c)(4). In addition, 35 U.S.C. 123 requires that the applicant make a certification under 35 U.S.C. 123(a) or (d) to qualify for micro entity status. An applicant's ability to meet the requirements in 35 U.S.C. 123(a) or (d) may change over time. For example, from a first application to a related continuing or reissue application, an applicant's gross income

(35 U.S.C. 123(a)(3)) and employment (35 U.S.C. 123(d)(1)) may change, and the number of applications naming the applicant as an inventor (35 U.S.C. 123(a)(2)) will change with the filing of a related continuing or reissue application. Therefore, the Office is concerned about permitting micro entity status to automatically carry over into a related continuing or reissue application without the certification required by 35 U.S.C. 123(a) or (d). Finally, while being named as an inventor in other applications may affect an applicant's ability to claim micro entity status in an application, status as a micro entity in one application does not affect the status of other applications. Finally, as discussed previously, the Office plans to seek additional public comment on the micro entity provisions after the Office and the public have gained experience with the micro entity procedures in operation, and will pursue further improvements to the micro entity procedures in light of the public comment and its experience with the micro entity procedures.

Comment 16: One comment stated that § 1.29 is unclear as to who must sign the micro entity certification in applications with more than one applicant. The comment suggested that § 1.29 be amended to make clear that each applicant must meet the requirements of 35 U.S.C. 123(a) or (d) for the applicants to file a micro entity certification in the application. Further, the comment suggested that §§ 1.29(a) and (d) be revised to state that "each applicant so establishing such status must certify that that applicant" meets all the requirements in order to establish micro entity status. One basis given for this suggestion is that joint applicants will generally not be privy to each other's private financial information, and should not be required to submit a certification as to the qualification of their joint applicants.

Response: Section 1.29(e) provides that a micro entity status certification must be signed in compliance with § 1.33(b). Section 1.33(b) requires that amendments and other papers filed in the application be signed by: (1) A patent practitioner of record; (2) a patent practitioner not of record who acts in a representative capacity under the provisions of § 1.34; or (3) the applicant (§ 1.42). Section 1.33(b) further provides that all papers submitted on behalf of a juristic entity must be signed by a patent practitioner unless otherwise specified. If the application names more than one inventor and the joint inventors are the applicant under § 1.42(a), a micro entity status certification must be signed by: (1) A patent practitioner of record; (2) a

patent practitioner not of record who acts in a representative capacity under the provisions of § 1.34; or (3) all of the inventors.

Comment 17: One comment suggested amending § 1.29(f) to include language permitting the micro entity certification to be filed in response to a notice of fee deficiency mailed by the Office.

Response: Certification of micro entity status can be made at any stage of prosecution, or at any time before or with payment of a maintenance fee after the patent issues. However, a fee may be paid in the micro entity amount only if it is submitted with, or subsequent to, the submission of a certification of entitlement to micro entity status.

Comment 18: Several comments argued that there should be no need to recertify small entity status if micro entity status is lost, because the applicant had to certify small entity status to qualify as a micro entity and the applicant should continue to qualify for small entity status after losing micro entity status.

Response: Section 1.29(i) as adopted in this final rule provides that a notification that micro entity status is no longer appropriate will not be treated as a notification that small entity status is also no longer appropriate unless it also contains a notification of loss of entitlement to small entity status under § 1.27(f)(2). An applicant or patentee who files a notification that micro entity status is no longer appropriate will be treated as a small entity by default unless the notification also contains a notification of loss of entitlement to small entity status under § 1.27(f)(2), thus minimizing burdens on small entity applicants and patentees. An applicant or patentee who is no longer a micro entity or a small entity must provide both a notification under § 1.29(i) of loss of entitlement to micro entity status and a notification under of § 1.27(f)(2) of loss of entitlement to small entity status.

Comment 19: A number of comments indicated that the proposed requirement in § 1.29(g) to determine continued qualification for micro entity status each time a fee is paid was overly burdensome. One comment indicated that this proposed requirement would inevitably lead to additional cost to applicants in prosecuting applications before the Office. Several comments suggested that § 1.29(g) be revised to be similar to small entity practice such that once micro entity status is acquired, fees can continue to be paid in the micro entity amount until the issue fee or any maintenance fee is due, or that micro entity status be permitted to be maintained throughout the calendar

year in which micro entity status was established without regard to continued qualification. The comments indicated that an entity that licenses multiple patent applications will need to confirm that each licensee does not have a gross income that exceeds three times the median household income for the preceding calendar year, and that an entity with a patent application naming multiple inventors will need to confirm that each inventor for each application does not have a gross income that exceeds three times the median household income for the preceding calendar year. One comment alternatively suggested that micro entity status be maintained by applicants 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.

Response: 35 U.S.C. 123(a) does not allow for a provision similar to small entity practice under which once micro entity status is acquired, fees can continue to be paid in the micro entity amount until the issue fee or any maintenance fee is due or that micro entity status be maintained throughout the calendar year in which micro entity status was established without regard to continued qualification. 35 U.S.C. 123(a) requires that a micro entity “not [have] been named as an inventor on more than 4 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” and “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.” 35 U.S.C. 123(a)(2) and (a)(3). Finally, while applicants with complex licensing arrangements may consider confirming the status of each licensee challenging, this is more a function of the complexity of the licensing arrangement than any complexity in the requirement that a fee may be paid in the micro entity amount only if status as a micro entity as defined in § 1.29(a) or § 1.29(d) is appropriate on the date the fee is being paid.

Comment 20: Several comments objected to the statement in proposed § 1.29(h) that “[i]t should be determined that all parties holding rights in the invention qualify for micro entity status.” One comment stated that

proposed § 1.29(h) appears to require an opinion that all parties holding rights in the invention qualify for micro entity status. One comment indicated that because “parties” could include an applicant under 35 U.S.C. 118 not qualifying as a micro entity but filing an application on behalf of an inventor qualifying as a micro entity, the statement should be deleted. Another comment indicated that the sentence cited from § 1.29(h) is redundant and/or inconsistent with the statute as 35 U.S.C. 123(a)(4) expressly includes such a limitation whereas 35 U.S.C. 123(d) does not. The comment also indicated that the sentence cited from § 1.29(h) is inconsistent with § 1.29(d) which would otherwise allow any entity that qualifies for small entity status to obtain the benefits of micro entity status by assigning, granting, or conveying, a license or other ownership interest to a qualified institution of higher education. The comment suggested amending the sentence cited from § 1.29(h) by replacing “qualify for micro entity status” with “qualify for small entity status,” or alternatively, replacing the phrase “all parties holding rights to the invention” with “all applicants.” One comment indicated that “invention” is not the equivalent of “application,” and thus the word “invention” in the phrase “all parties holding rights to the invention” should be changed to “application,” or the Office should provide guidance on the meaning of the expression “rights in the invention.”

Response: The Office is revising this provision to indicate that each applicant must qualify for micro entity status under § 1.29(a) or § 1.29(d), and that each other party holding rights in the application must qualify for small entity status under § 1.27. Note that § 1.27(a)(3) provides for small entity status with respect to nonprofit organizations and is applicable to universities or other institutions of higher education. See § 1.27(a)(3)(ii)(A). 35 U.S.C. 123(e) provides that in addition to the limits imposed by 35 U.S.C. 123, the Director may, in the Director’s discretion, impose income limits, annual filing limits, or other limits on who may qualify as a micro entity pursuant to this section if the Director determines that such additional limits are reasonably necessary to avoid an undue impact on other patent applicants or owners or are otherwise reasonably necessary and appropriate. As discussed previously, the Office has determined that requiring all micro entities to qualify as small entities and that all other parties holding rights in

the invention qualify for small entity status is reasonably necessary and appropriate to ensure that applicants who do not qualify as a small entity do not inappropriately attempt to take advantage of micro entity status.

Comment 21: One comment indicated that § 1.29(h) is an advisory opinion, and not a statement of any requirement, and thus should be deleted.

Response: Section 1.29(h) requires that each applicant qualify for micro entity status under § 1.29(a) or § 1.29(d), and that each other party holding rights in the application qualify for small entity status under § 1.27, in order for the applicant to make a certification of entitlement to micro entity status. With respect to the small entity status requirement, § 1.27(a) requires that any person or entity claiming small entity status not have assigned, granted, conveyed, or licensed, and is under no obligation under contract or law to assign, grant, convey, or license, any rights in the invention to any person, concern, or organization which would not qualify for small entity status as a person, small business concern, or nonprofit organization.

Comment 22: Several comments indicated that proposed § 1.29(i) is overly burdensome. One comment indicated that proposed § 1.29(i) would require that possible loss of entitlement to micro entity status be evaluated each time a fee is to be paid. One comment stated that the cost of compliance defeats the Congressional purpose of providing for micro entity status and thus proposed § 1.29(i) should be stricken.

Response: Section 1.29(i) requires only that a notification of a loss of entitlement to micro entity status must be filed in the application or patent prior to paying, or at the time of paying, any fee after the date on which status as a micro entity as defined in § 1.29(a) or § 1.29(d) is no longer appropriate. As discussed previously, § 1.29(g) provides that a fee may be paid in the micro entity amount only if status as a micro entity as defined in § 1.29(a) or § 1.29(d) is appropriate on the date the fee is being paid. Section 1.29(i) provides a necessary step for documentation of the cessation of micro entity status.

Comment 23: One comment suggested that § 1.29(i) be amended to permit payments for entity status other than micro entity as sufficient notification of loss of entitlement to micro entity status, without additional correspondence to the Office.

Response: Office experience with small entity payments is that some small entities will occasionally pay patent fees in the full (non-small entity)

amounts inadvertently. If mere payment of fees in the full or small entity amount is treated as a notification of loss of entitlement to micro entity status, a micro entity who inadvertently paid a patent fee in the full or small entity amount will thereafter no longer be treated as a micro entity. This could result in increased costs for entities that are entitled to claim micro entity status, and there would be a lack of clear documentation on whether micro entity status has ceased.

Comment 24: Several comments indicated that proposed § 1.29(j) is vague because the proposed rule does not define what constitutes fraud. The comments indicated that the Office should amend the rule to make clear what would constitute fraud. One comment stated that fraud is a legal conclusion including proof of mental state. One comment stated that some small entities not qualifying for micro entity status under § 1.29(a) may be tempted to marginally align with a university in order to take benefit under § 1.29(d), and requested that the Office clarify whether such a strategy would be considered a fraud, even if the letter of the rules is met. One comment requested guidance on what penalties the Office anticipates enforcing in the event that a fraudulent certification is made.

Response: Section 1.29(j) provides that “[a]ny attempt to fraudulently establish status as a micro entity, or pay fees as a micro entity, shall be considered as a fraud practiced or attempted on the Office,” and that “[i]mproperly, and with intent to deceive, establishing status as a micro entity, or paying fees as a micro entity, shall be considered as a fraud practiced or attempted on the Office.” The language in § 1.29(j) parallels the corresponding small entity provision in § 1.27(h), and thus terms “fraudulently” and “fraud” in § 1.29(j) have the same meaning as the terms “fraudulently” and “fraud” in § 1.27(h). The definition of common law fraud is based on the definition discussed by the U.S. Court of Appeals for the Federal Circuit (Federal Circuit). See *Unitherm Food Systems, Inc. v. Swift-Ekrich, Inc.*, 375 F.3d 1341, 1358 (Fed. Cir. 2004); *In re Spalding Sports Worldwide, Inc.*, 203 F.3d 800, 807 (Fed. Cir. 2000). Applicants questioning how to resolve close situations or what penalties may result from a fraudulent certification should consider that: (1) The Federal Circuit has noted that an applicant would be “foolish” to claim small entity status if there is the slightest doubt about an applicant’s entitlement to claim small entity (*DH Tech.*, 154 F.3d at 1343); (2)

depending on future developments in the case law, it is possible that a patent could be held unenforceable as a consequence of a fraud or inequitable conduct relating to a micro entity or small entity certification (this was clearly possible for small entity certifications prior to the Federal Circuit’s decision in *Therasense, Inc. v. Becton, Dickinson and Co.*, 649 F.3d 1276 (Fed. Cir. 2011) (see, e.g., *Nilssen v. Osram Sylvania, Inc.*, 504 F.3d 1223 (2007), and *Ulead Systems, Inc. v. Lex Computer Management Corp.*, 351 F.3d 1120 (Fed. Cir. 2003)), but the Federal Circuit has not yet decided the question of whether a false declaration of small entity status could constitute inequitable conduct under the *Therasense* standard (see *Outside the Box Innovations, LLC v. Travel Caddy, Inc.*, 695 F.3d 1285, 1294 (Fed. Cir. 2012); see also *Therasense*, 649 F.3d at 1299, n.6 (O’Malley, J., concurring in part and dissenting in part)); and (3) there can be further significant penalties for fraud (e.g., 35 U.S.C. 257(e) (provides that the matter shall be referred to the Attorney General if the Director becomes aware that a material fraud on the Office may have been committed in connection with a patent that is the subject of a supplemental examination)).

Comment 25: One comment stated that with respect to the provisions relating to fraudulent certification (§§ 1.29(g) through (k)), it would be beneficial to clarify the depth of inquiry which is considered acceptable (e.g., good faith attempt) for a representative of an applicant to obtain in order to sign a certification. The comment indicated that it would be too burdensome on a practitioner to expect more than obtaining verbal affirmation from an applicant that the applicant meets the guidelines for obtaining micro entity status.

Response: The depth of inquiry required for any paper presented to the Office, including a micro entity status certification, is specified in § 11.18. Specifically, § 11.18(b) provides that by presenting to the Office or hearing officer in a disciplinary proceeding (whether by signing, filing, submitting, or later advocating) any paper, the party presenting such paper, whether a practitioner or non-practitioner, is making two certifications. The first certification is that all statements made therein of the party’s own knowledge are true, all statements made therein on information and belief are believed to be true, and all statements made therein are made with the knowledge that whoever, in any matter within the jurisdiction of the Office, knowingly

and willfully falsifies, conceals, or covers up by any trick, scheme, or device a material fact, or knowingly and willfully makes any false, fictitious, or fraudulent statements or representations, or knowingly and willfully makes or uses any false writing or document knowing the same to contain any false, fictitious, or fraudulent statement or entry, shall be subject to the penalties set forth under 18 U.S.C. 1001 and any other applicable criminal statute, and further that violations of the provisions of this section may jeopardize the probative value of the paper. See § 11.18(b)(1). The second certification is that to the best of the party's knowledge, information and belief, formed after an inquiry reasonable under the circumstances: (1) The paper is not being presented for any improper purpose, such as to harass someone or to cause unnecessary delay or needless increase in the cost of any proceeding before the Office; (2) the other legal contentions therein are warranted by existing law or by a nonfrivolous argument for the extension, modification, or reversal of existing law or the establishment of new law; (3) the allegations and other factual contentions have evidentiary support or, if specifically so identified, are likely to have evidentiary support after a reasonable opportunity for further investigation or discovery; and (4) the denials of factual contentions are warranted on the evidence, or if specifically so identified, are reasonably based on a lack of information or belief. See § 11.18(b)(2).

Comment 26: Several comments suggested eliminating the requirement under proposed § 1.29(k) that any deficiency payment include an itemization and an accounting of the total deficiency payment. One comment indicated that proposed § 1.29(k) should be revised to parallel the rule that applies to an error in paying a small entity fee when the large entity fee should have been paid. The comment alternatively proposed that the 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.

Response: The fee deficiency payment provisions of § 1.29(k) track the small entity fee deficiency payment provisions of § 1.28(c). The Office needs the itemization to properly apply the fee deficiency payment so that the Office's records for the application or patent will properly show which fees have been paid for the application or patent and in what amount.

Comment 27: One comment suggested the Office establish a database of the various certification types and permit annual updating of applicant status, rather than individual application status. Another comment suggested that § 1.29 be amended to provide for micro entity status certifications contained in patent application assignments recorded under part 3 of 37 CFR.

Response: The suggestions are not currently feasible as inventor or assignee names are not always stated consistently from application to application (either in application papers or in assignment cover sheets). The suggestions will be considered if the Office moves to adopt a system under which there are unique inventor and applicant-assignee designations.

Comment 28: One comment indicated that many practitioners who have participated in the LegalCORPS Inventor Assistance Program (a pilot patent law pro bono program developed with the support of the Office) have seen first-hand that many inventors qualifying for free legal assistance through the program will not be able to file applications electronically, due in part to being unable to make electronic payments via deposit account or credit card. The comment suggested that the final rule could address this issue by providing for electronic filing of documents along with a written certification by the applicant that any fees associated with that filing are being submitted by check deposited in the U.S. mail on the date of application filing.

Response: Electronic filing remains a viable filing option for micro entities, even if the applicant does not have a deposit account at the Office and even if the applicant does not have sufficient access to credit to enable payment by credit card. Fees may be paid by electronic funds transfer (EFT), which requires nothing more than a checking account. However, before making any payments by EFT, an EFT profile must be created at the Office "Office of Finance On-Line Shopping Page" at <https://ramps.uspto.gov/eram/>. To begin, click the link titled "Create or Modify an EFT Profile" on the "Office of Finance On-Line Shopping Page." It is important that micro entities and other applicants file their applications electronically via EFS-Web in order to avoid the non-electronic filing fee under § 1.10, which is \$400 (and \$200 for small and micro entities). Additionally, a small or micro entity that files an application in paper (versus electronically via EFS-Web) will not receive the discount (currently \$97.00)

available only to small entities that file a patent application electronically.

Rulemaking Considerations

A. Regulatory Flexibility Act: For the reasons set forth herein, the Deputy General Counsel for General Law of the United States Patent and Trademark Office has certified to the Chief Counsel for Advocacy of the Small Business Administration that changes in this final rule will not have a significant economic impact on a substantial number of small entities. See 5 U.S.C. 605(b). The Office did not receive public comments on this certification.

This final rule revises the rules of practice to allow a subset of small entities—i.e., micro entities—to pay further reduced fees, namely, a seventy-five percent discount. This final rule sets out procedures pertaining to claiming micro entity status, paying patent fees as a micro entity, notification of loss of micro entity status, and correction of payments of patent fees paid erroneously in the micro entity amount. This final rule maintains the criteria in 35 U.S.C. 123(a) and (d) for entitlement to file a certification of micro entity status (note also the requirement in 37 CFR 1.29(d)(1) that an applicant claim small entity status in compliance with 37 CFR 1.27 in order to claim micro entity status; see also 37 CFR 1.29(h), 35 U.S.C. 123(e)). This rule also includes clarifications under 37 CFR 1.29(a) to refer to non-applicant inventors and joint inventors. The micro entity procedures in this final rule track to the extent feasible the corresponding small entity procedures under 37 CFR 1.27. Thus, the burden to all entities, including small entities, imposed by this final rule is no greater than those imposed by the pre-existing regulations pertaining to claiming small entity status: paying patent fees as a small entity, notification of loss of small entity status, and correction of payments of patent fees paid erroneously in the small entity amount.

Requiring that an applicant claim small entity status in compliance with 37 CFR 1.27 in order to claim micro entity status under 37 CFR 1.29(d)(1) will not have a significant economic impact on a substantial number of small entities. The Office uses the Small Business Administration business size standard for the purpose of paying reduced patent fees in 13 CFR 121.802 as the size standard when conducting an analysis or making a certification under the Regulatory Flexibility Act for patent-related regulations. See *Business Size Standard for Purposes of United States Patent and Trademark Office Regulatory*

Flexibility Analysis for Patent-Related Regulations, 71 FR 67109, 67109 (Nov. 20, 2006). A small entity for purposes of the Regulatory Flexibility Act analysis is a small entity for purposes of paying reduced patent fees. Therefore, requiring in 37 CFR 1.29(d)(1) that an entity claim small entity status in compliance with 37 CFR 1.27 in order to claim micro entity status will preclude only an applicant or patentee who is a large entity (*i.e.*, not a small entity) from claiming micro entity status.

The Office estimates that a minority percentage of small entity applications will be filed by paying micro entity fees under this final rule. Based upon the data in the Office's Patent Application Locating and Monitoring (PALM) system, of the approximately 2,498,000 nonprovisional patent applications (utility, plant, design, and reissue) and requests for continued examination filed in total over the last five fiscal years, small entity fees were paid in approximately 669,000 (26.8 percent). Thus, an average of approximately 500,000 nonprovisional patent applications and requests for continued examination have been filed each year for the last five fiscal years, with small entity fees being paid in approximately 134,000 of the nonprovisional patent applications and requests for continued examination filed each year.

As indicated above, this rule provides a procedure for small entities to attain a 75 percent reduction in fees as a micro entity, as provided by statute. The procedures for micro entity status track the existing procedures for small entity status. While the rule impacts the entire universe of small entity applications and patents, the rule is necessary for implementing a further reduction in fees, which is entirely beneficial, and no other provision has an economic impact on the affected small entities.

B. Executive Order 12866 (Regulatory Planning and Review): This rulemaking has been determined to be not significant for purposes of Executive Order 12866 (Sept. 30, 1993).

C. Executive Order 13563 (Improving Regulation and Regulatory Review): The Office has complied with Executive Order 13563. Specifically, the Office has, to the extent feasible and applicable: (1) Made a reasoned determination that the benefits justify the costs of the rule; (2) tailored the rule to impose the least burden on society consistent with obtaining the regulatory objectives; (3) selected a regulatory approach that maximizes net benefits; (4) specified performance objectives; (5) identified and assessed available alternatives; (6) involved the public in

an open exchange of information and perspectives among experts in relevant disciplines, affected stakeholders in the private sector, and the public as a whole, and provided on-line access to the rulemaking docket; (7) attempted to promote coordination, simplification, and harmonization across government agencies and identified goals designed to promote innovation; (8) considered approaches that reduce burdens and maintain flexibility and freedom of choice for the public; and (9) ensured the objectivity of scientific and technological information and processes.

One comment argued that the rulemaking fails to comply with Executive Order 13563 on the grounds that: (1) The Office did not conduct a burden/benefit analysis which includes realistic professional services fees for patent practitioners, the time involved in understanding and complying with the rule, and the sanctions imposed by the rule; (2) proposed 37 CFR 1.29 fails to consider the value to society of university inventions, for which 35 U.S.C. 123(d) seeks to provide specific benefits, and which imposes no limits on how a university might seek to exploit its rights; and (3) proposed 37 CFR 1.29 imposes significant burdens for the affected applicants, and is thus not tailored to impose the least burden on society consistent with obtaining the regulatory objectives.

The Office considered costs and benefits to applicants claiming micro entity status (including universities), as well as to all other applicants and the Office in this rulemaking. Executive Order 13563 reaffirms Executive Order 12866. This rulemaking was deemed by OMB as not economically significant as that term is defined in Executive Order 12866 (Sept. 30, 1993). Therefore, the regulatory analysis provided in section 6(a)(3)(C) of Executive Order 12866 and OMB Circular A-4 is inapplicable to this rulemaking. The Office, however, did conduct the regulatory analysis provided in section 6(a)(3)(C) and OMB Circular A-4 for the related rulemaking to set and adjust patent fees under section 10 of the Leahy-Smith America Invents Act. 37 CFR 1.29 does impose the least burden on society consistent with obtaining the regulatory objectives by permitting an applicant to self-certify entitlement to micro entity status, and does not require any further information or certification from the applicant provided that the applicant remains entitled to micro entity status. In addition, having micro entity procedures which track the pre-existing small entity procedures to the extent practicable is less burdensome than

fashioning new micro entity procedures. Finally, while having no requirements would arguably impose the least burden on an entity seeking the benefit of micro (or small) entity status, it would not impose the least burden on society overall and would not obtain the regulatory objectives of creating the beneficial option of micro entity status with a seventy-five percent fee reduction as provided by statute.

Revising the regulations as suggested by the comment would expand the scope of micro entity status beyond what the statute allows. It also would not meet the regulatory objectives of ensuring that a for-profit, large entity applicant not become a "micro entity" (and thus obtaining a seventy-five percent discount) merely by licensing or assigning some interest (nominal or otherwise) to an institution of higher education. The Office received comments (including in response to the section 10 rulemaking) in support of the Office imposing additional requirements under 35 U.S.C. 123(e) to avoid sham licensing agreements for the purpose of improperly claiming micro entity status (as improper micro entity claims would result in higher fees for other applicants). Thus, the narrow requirements imposed by the Office under 35 U.S.C. 123(e) are necessary to avoid abuses of micro entity status, and simply eliminating them in the name of reducing burden would not impose the least burden on society overall and would not obtain the regulatory objectives.

D. Executive Order 13132 (Federalism): This rulemaking does not contain policies with federalism implications sufficient to warrant preparation of a Federalism Assessment under Executive Order 13132 (Aug. 4, 1999).

E. Executive Order 13175 (Tribal Consultation): This rulemaking will not: (1) Have substantial direct effects on one or more Indian tribes; (2) impose substantial direct compliance costs on Indian tribal governments; or (3) preempt tribal law. Therefore, a tribal summary impact statement is not required under Executive Order 13175 (Nov. 6, 2000).

F. Executive Order 13211 (Energy Effects): This rulemaking is not a significant energy action under Executive Order 13211 because this rulemaking is not likely to have a significant adverse effect on the supply, distribution, or use of energy. Therefore, a Statement of Energy Effects is not required under Executive Order 13211 (May 18, 2001).

G. Executive Order 12988 (Civil Justice Reform): This rulemaking meets

applicable standards to minimize litigation, eliminate ambiguity, and reduce burden as set forth in sections 3(a) and 3(b)(2) of Executive Order 12988 (Feb. 5, 1996).

H. Executive Order 13045 (Protection of Children): This rulemaking does not concern an environmental risk to health or safety that may disproportionately affect children under Executive Order 13045 (Apr. 21, 1997).

I. Executive Order 12630 (Taking of Private Property): This rulemaking will not effect a taking of private property or otherwise have taking implications under Executive Order 12630 (Mar. 15, 1988).

J. Congressional Review Act: Under the Congressional Review Act provisions of the Small Business Regulatory Enforcement Fairness Act of 1996 (5 U.S.C. 801 *et seq.*), the United States Patent and Trademark Office will submit a report containing this final rule and other required information to the United States Senate, the United States House of Representatives, and the Comptroller General of the Government Accountability Office. In addition, the United States Patent and Trademark Office will inform the Committee on the Judiciary of the House of Representatives and the Committee on the Judiciary of the Senate of any proposed limits under 35 U.S.C. 123(e) at least three months before any limits proposed to be implemented pursuant to 35 U.S.C. 123(e) take effect.

The changes in this final rule are not expected to result in an annual effect on the economy of 100 million dollars or more, a major increase in costs or prices, or significant adverse effects on competition, employment, investment, productivity, innovation, or the ability of United States-based enterprises to compete with foreign-based enterprises in domestic and export markets. Therefore, this final rule is not a "major rule" as defined in 5 U.S.C. 804(2).

K. Unfunded Mandates Reform Act of 1995: The changes set forth in this rulemaking do not involve a Federal intergovernmental mandate that will result in the expenditure by State, local, and tribal governments, in the aggregate, of 100 million dollars (as adjusted) or more in any one year, or a Federal private sector mandate that will result in the expenditure by the private sector of 100 million dollars (as adjusted) or more in any one year, and will not significantly or uniquely affect small governments. Therefore, no actions are necessary under the provisions of the Unfunded Mandates Reform Act of 1995. See 2 U.S.C. 1501 *et seq.*

L. National Environmental Policy Act: This rulemaking will not have any effect

on the quality of the environment and is thus categorically excluded from review under the National Environmental Policy Act of 1969. See 42 U.S.C. 4321 *et seq.*

M. National Technology Transfer and Advancement Act: The requirements of section 12(d) of the National Technology Transfer and Advancement Act of 1995 (15 U.S.C. 272 note) are not applicable because this rulemaking does not contain provisions which involve the use of technical standards.

N. Paperwork Reduction Act: The Paperwork Reduction Act of 1995 (44 U.S.C. 3501 *et seq.*) requires that the USPTO consider the impact of paperwork and other information collection burdens imposed on the public. This final rule makes changes to the rules of practice that would impose new information collection requirements involving fee deficiency statements which are subject to review by the Office of Management and Budget (OMB) under the Paperwork Reduction Act of 1995 (44 U.S.C. 3501–3549). Accordingly, the Office submitted a proposed information collection to OMB for its review and approval when the notice of proposed rulemaking was published. The Office also published the title, description, and respondent description of the information collection, with an estimate of the annual reporting burdens, in the notice of proposed rulemaking (*See Changes to Implement Micro Entity Status for Paying Patent Fees*, 77 FR 31812–13).

The Office received one comment on the proposed information collection indicating that the estimate of 3,000 respondents per year was a significant underestimate as every inventor employed outside of large entities will likely be confronted with the various certifications, and that there may be tens of thousands of university professors or university students on work-study who qualify under 35 U.S.C. 123(d).

The information collection requirements discussed in the notice of proposed rulemaking, however, narrowly pertain to the information required for fee deficiency payments based upon the previous erroneous payment of patent fees in the micro entity amount (*See Changes to Implement Micro Entity Status for Paying Patent Fees*, 77 FR 31812). Based upon the number of applicants and patentees who make fee deficiency payments under existing 37 CFR 1.28(c) (about 2,250 per year), the Office believes that 3,000 respondents per year is a reasonable and conservative estimate of the number of applicants and patentees who make fee deficiency

payments under 37 CFR 1.28(c) or 1.29(k).

As discussed in the notice of proposed rulemaking, OMB has determined under 5 CFR 1320.3(h) that the certification of micro entity status (*e.g.*, Form PTO/SB/15A (gross income basis) or Form PTO/SB/15B (institution of higher education basis)) does not collect "information" within the meaning of the Paperwork Reduction Act of 1995 (*See Changes to Implement Micro Entity Status for Paying Patent Fees*, 77 FR 31812). The changes adopted in this final rule do not require any further change to the proposed information collection.

Accordingly, the Office has resubmitted the proposed information collection to OMB. The proposed information collection is available at the OMB's Information Collection Review Web site (www.reginfo.gov/public/do/PRAMain).

Notwithstanding any other provision of law, no person is required to respond to, nor shall a person be subject to a penalty for failure to comply with, a collection of information subject to the requirements of the Paperwork Reduction Act, unless that collection of information displays a currently valid OMB control number.

List of Subjects in 37 CFR Part 1

Administrative practice and procedure, Courts, Freedom of information, Inventions and patents, Reporting and recordkeeping requirements, Small businesses.

For the reasons set forth in the preamble, 37 CFR part 1 is amended as follows:

PART 1—RULES OF PRACTICE IN PATENT CASES

■ 1. The authority citation for 37 CFR part 1 continues to read as follows:

Authority: 35 U.S.C. 2(b)(2).

■ 2. Section 1.29 is added to read as follows:

§ 1.29 Micro entity status.

(a) To establish micro entity status under this paragraph, the applicant must certify that:

(1) The applicant qualifies as a small entity as defined in § 1.27;

(2) Neither the applicant nor the inventor nor a joint inventor has been named as the inventor or a joint 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) Neither the applicant nor the inventor nor a joint inventor, 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; and

(4) Neither the applicant nor the inventor nor a joint inventor has assigned, granted, or conveyed, nor is 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, exceeding three times the median household income for that preceding calendar year, as most recently reported by the Bureau of the Census.

(b) An applicant, inventor, or joint inventor is not considered to be named on a previously filed application for purposes of paragraph (a)(2) of this section if the applicant, inventor, or joint inventor has assigned, or is under an obligation by contract or law to assign, all ownership rights in the application as the result of the applicant's, inventor's, or joint inventor's previous employment.

(c) If an applicant's, inventor's, joint inventor's, or entity's gross income in the preceding calendar year is not in United States dollars, the average currency exchange rate, as reported by the Internal Revenue Service, during that calendar year shall be used to determine whether the applicant's, inventor's, joint inventor's, or entity's gross income exceeds the threshold specified in paragraph (a)(3) or (4) of this section.

(d) To establish micro entity status under this paragraph, the applicant must certify that:

(1) The applicant qualifies as a small entity as defined in § 1.27; and

(2)(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.

(e) Micro entity status is established in an application by filing a micro entity certification in writing complying with the requirements of either paragraph (a) or paragraph (d) of this section and signed in compliance with § 1.33(b). Status as a micro entity must be specifically established in each related, continuing and reissue application in which status is appropriate and desired. Status as a micro entity in one application or patent does not affect the status of any other application or patent, regardless of the relationship of the applications or patents. The refiling of an application under § 1.53 as a continuation, divisional, or continuation-in-part application (including a continued prosecution application under § 1.53(d)), or the filing of a reissue application, requires a new certification of entitlement to micro entity status for the continuing or reissue application.

(f) A fee may be paid in the micro entity amount only if it is submitted with, or subsequent to, the submission of a certification of entitlement to micro entity status.

(g) A certification of entitlement to micro entity status need only be filed once in an application or patent. Micro entity status, once established, remains in effect until changed pursuant to paragraph (i) of this section. However, a fee may be paid in the micro entity amount only if status as a micro entity as defined in paragraph (a) or (d) of this section is appropriate on the date the fee is being paid. Where an assignment of rights or an obligation to assign rights to other parties who are micro entities occurs subsequent to the filing of a certification of entitlement to micro entity status, a second certification of entitlement to micro entity status is not required.

(h) Prior to submitting a certification of entitlement to micro entity status in an application, including a related, continuing, or reissue application, a determination of such entitlement should be made pursuant to the requirements of this section. It should be determined that each applicant qualifies for micro entity status under paragraph (a) or (d) of this section, and that any other party holding rights in the invention qualifies for small entity status under § 1.27. The Office will generally not question certification of entitlement to micro entity status that is made in accordance with the requirements of this section.

(i) Notification of a loss of entitlement to micro entity status must be filed in the application or patent prior to

paying, or at the time of paying, any fee after the date on which status as a micro entity as defined in paragraph (a) or (d) of this section is no longer appropriate. The notification that micro entity status is no longer appropriate must be signed by a party identified in § 1.33(b). Payment of a fee in other than the micro entity amount is not sufficient notification that micro entity status is no longer appropriate. A notification that micro entity status is no longer appropriate will not be treated as a notification that small entity status is also no longer appropriate unless it also contains a notification of loss of entitlement to small entity status under § 1.27(f)(2). Once a notification of a loss of entitlement to micro entity status is filed in the application or patent, a new certification of entitlement to micro entity status is required to again obtain micro entity status.

(j) Any attempt to fraudulently establish status as a micro entity, or pay fees as a micro entity, shall be considered as a fraud practiced or attempted on the Office. Improperly, and with intent to deceive, establishing status as a micro entity, or paying fees as a micro entity, shall be considered as a fraud practiced or attempted on the Office.

(k) If status as a micro entity is established in good faith in an application or patent, and fees as a micro entity are paid in good faith in the application or patent, and it is later discovered that such micro entity status either was established in error, or that the Office was not notified of a loss of entitlement to micro entity status as required by paragraph (i) of this section through error, the error will be excused upon compliance with the separate submission and itemization requirements of paragraph (k)(1) of this section and the deficiency payment requirement of paragraph (k)(2) of this section.

(1) Any paper submitted under this paragraph must be limited to the deficiency payment (all fees paid in error) required for a single application or patent. Where more than one application or patent is involved, separate submissions of deficiency payments are required for each application or patent (see § 1.4(b)). The paper must contain an itemization of the total deficiency payment for the single application or patent and include the following information:

(i) Each particular type of fee that was erroneously paid as a micro entity, (*e.g.*, basic statutory filing fee, two-month extension of time fee) along with the current fee amount for a small or non-small entity, as applicable;

(ii) The micro entity fee actually paid, and the date on which it was paid;

(iii) The deficiency owed amount (for each fee erroneously paid); and

(iv) The total deficiency payment owed, which is the sum or total of the individual deficiency owed amounts as set forth in paragraph (k)(2) of this section.

(2) The deficiency owed, resulting from the previous erroneous payment of micro entity fees, must be paid. The deficiency owed for each previous fee erroneously paid as a micro entity is the difference between the current fee amount for a small entity or non-small entity, as applicable, on the date the deficiency is paid in full and the amount of the previous erroneous micro entity fee payment. The total deficiency payment owed is the sum of the individual deficiency owed amounts for each fee amount previously and erroneously paid as a micro entity.

(3) If the requirements of paragraphs (k)(1) and (2) of this section are not complied with, such failure will either be treated at the option of the Office as an authorization for the Office to process the deficiency payment and charge the processing fee set forth in § 1.17(i), or result in a requirement for compliance within a one-month time period that is not extendable under § 1.136(a) to avoid the return of the fee deficiency payment.

(4) Any deficiency payment (based on a previous erroneous payment of a micro entity fee) submitted under this paragraph will be treated as a notification of a loss of entitlement to micro entity status under paragraph (i) of this section, but payment of a deficiency based upon the difference between the current fee amount for a small entity and the amount of the previous erroneous micro entity fee payment will not be treated as an assertion of small entity status under § 1.27(c). Once a deficiency payment is submitted under this paragraph, a written assertion of small entity status under § 1.27(c)(1) is required to obtain small entity status.

Dated: December 14, 2012.

David J. Kappos,

Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office.

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