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Phone: +1 212 537 6331 | Fax: +1 212 537 6371 | customerservice@portfoliomedia.com

New USPTO Director Wastes No Time Making Mark

Law360, New York (November 13, 2009) -- On Aug. 7, 2009, the Senate confirmed David Kappos as the Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office (USPTO or the "Office").

In just over two months since his confirmation, Kappos has wasted no time making his mark on the Office in ways generally applauded by the patent community.

Kappos not only killed the Office's highly-controversial proposed claims and continuation rules, but also led efforts to revamp the examiner's quota or "count system" to discourage protracted examination of patent applications in an effort to address patent quality and the growing pendency of patent applications, as well as examiner morale and attrition.

End of the Controversial Continuation Rules Package

During the administration of previous Director Jon Dudas, the USPTO in 2007 published a final rule setting forth a package of sweeping changes to patent practice in a purported effort to address patent quality and the growing backlog of pending applications.[1]

The patent community generally disfavored the changes as being overly restrictive, contrary to the Patent Act and extending beyond the rule-making authority of the Office. GlaxoSmithKline (GSK) and Dr. Triantafyllos Tafas filed lawsuits (that were consolidated) to prevent the Office from implementing the final rule. A federal district court permanently enjoined the Office from implementing the changes,[2] but on appeal, the Federal Circuit issued a panel decision reversing-in-part the district court ruling.[3]

The Federal Circuit vacated its panel decision and granted a rehearing en banc,[4] which the court then agreed to temporarily stay following the confirmation of Kappos.[5]

On October 14, 2009, after much speculation as to whether Kappos would intervene and change the Office's course with respect to the changes, the Office published a new final rule withdrawing the changes.[6]

In a press release announcing their withdrawal of the changes, Kappos stated, "These regulations have been highly unpopular from the outset and were not well received by the applicant community. In taking the actions we are announcing today, we hope to engage the applicant community more effectively on improvements that will help make the USPTO more efficient, responsive, and transparent to the public."[7]

In the press release, the Office also announced that it and GSK planned to file a joint motion to dismiss and vacate the prior district court decision. Notably, however, the press release made no mention of GSK's co-plaintiff, Tafas, joining the Office and GSK in the motion.

In press subsequent to the Office's decision to withdraw the changes, counsel for Tafas suggested they may object to any motion to vacate the district court's decision over concerns that the changes could resurface at some point in the future.[8]

Indeed, on October 20, 2009, Tafas did file a motion challenging vacatur of the district court's decision.[9]

This conclusion has been long awaited and desired by many in the patent community, and represents a significant move by Kappos. It is now up to Kappos and the USPTO to "develop rules that are responsive to its applicants' needs and help bring their products and services to market." [10]

A New Way of Counting at the USPTO

In an effort to increase patent quality and decrease the growing pendency of patent applications, as well as improve the working conditions of examiners, on September 30, 2009, Kappos announced a proposal to overhaul the examiner "count system" under which application examination time is allocated, and by which examiner performance is partially determined.[11]

On October 20, 2009, POPA announced that its membership approved the changes, which would mean that the changes would become effective in fiscal year 2010.[12]

Developed by a task force of senior USPTO managers and leaders of the patent examiners' union, Patent Office Professional Association (POPA), the changes represent what have been called the most significant changes to the count system in more than 30 years.[13] As noted by Kappos, the proposed changes are intended to "benefit examiners, the agency and the IP community as a whole." [14]

In general, the count system is used to record examiner activity over bi-weekly, quarterly and yearly time periods, and to gauge an examiner's performance. Each

examiner is allocated a specified number of examining hours to earn each “count,” which is an indicator of completion of a particular examination activity.

Under the current system, an examiner generally receives counts for issuing first Office actions, and for disposals of applications, such as by allowance, appeal or abandonment. If the applicant files an RCE, the examiner is afforded further counts for a first Office action and disposal on the RCE. The process and available counts may then repeat for any subsequent RCEs.

In order to quantify an examiner’s performance, the number of hours of examining time conducted by the examiner is divided by the total number of counts an examiner receives for a given time period. Each examiner has a goal of a specified number of examining hours per count that may be adjusted depending on the examiner’s art unit and level within the Office.

The examiner’s performance under the count system is determined by dividing the adjusted goal by the examiner’s actual examining hours per count for a given time period. Each examiner must meet a certain level of percentage performance for a given time period and this percent is also used to determine an examiner’s bonus.

In recent years, the current count system has been criticized for causing a number of problems at the USPTO. For instance, in a press release regarding the count system, Congressman John Conyers Jr. remarked that under the current count system, patent examiner performance is measured in large part by how many patent applications an examiner can review within a specified period of time.[15]

As noted by Conyers, the current count system has also been criticized for not taking into account the challenges of modern technology that have tremendously changed the nature of examiners’ work.[16] In particular, examiners tend to believe that they need more time to examine patent applications because the technologies described in patent applications are becoming more complex.

The current count system also has been cited by the Government Accountability Office as a factor in the retention of examiners and a contributor to the USPTO’s patent pendency problems.[17]

Additionally, the current count system encourages examiners to maintain rejections in order to cause the applicant to file an RCE, even when the rejection is not warranted because of the possibility of receiving additional counts for examining the RCE.

RCEs are particularly desirable to examiners because the examiners do not have to learn any additional technology or conduct substantial new searching in order to complete the examination. This incentive-based system may skew examination such that rejections tend to occur regardless of the patentability of the claimed subject matter.

Even Kappos has acknowledged that the current count system promotes “dysfunctional behavior” among the Examining Corps.[18]

Relative to the current count system, the changes announced by Kappos, and just recently approved, are designed to reduce pendency of applications, improve work quality (particularly in the early stages of examination), encourage identification of allowable subject matter in the early stages of examination, reduce credit for RCEs and increase examiner morale and reduce attrition.

To accomplish these goals, the changes include (a) allocating examiners more time to examine the application and issue a first Office action on the merits (FAOM or “first Office action”) and reducing credit for issuing subsequent Office actions after the filing of an RCE; (b) crediting examiners with time to conduct examiner-initiated interviews; and (c) minimizing the impact of examiners’ mistakes in allowing patent applications.[19]

First Office Actions and RCEs

Under the approved changes, the count system will allow more time for examiners to examine a patent application. In particular, the examiner is provided with more time for a first Office action. According to a presentation provided by the Joint Labor-Management Task Force (hereinafter “Task Force”), the changes focus on up-front quality work by increasing production credit for the first Office action and spotting and addressing issues early in the examination process, so as to encourage examiners to identify allowable subject matter earlier in the examination process.[20]

As shown in the below tables, under the current count system, an examiner receives one count for a first Office action and one count for disposal of an application.[21] Under the changed count system, the examiner will receive 1.25 counts for a first Office action, .25 counts for a final rejection and .5 counts for a disposal.

Relative to continued examination by way of RCEs, an examiner currently receives two counts for the first RCE and any subsequent RCEs. Under the changed count system, an examiner will receive up to 1.75 counts for a first RCE and up to 1.5 counts for second and subsequent RCEs.

Due to the diminishing returns provided by the second and subsequent RCEs, an examiner will have less of an incentive under the changed count system to drag out prosecution through RCEs and conversely will have more of an incentive to work with the applicant to identify patentable subject matter in earlier stages of prosecution.

Examiner-Initiated Interviews

It is generally presumed that interviews benefit the examiner in gaining a greater understanding of the technology to which an application is directed, and benefit the applicant in gaining a greater understanding of how the examiner is interpreting the applicant’s claims.

The changes to the count system will encourage examiner-initiated interviews by granting examiners an hour of non-examining time to prepare for and conduct substantive examiner-initiated interviews with an applicant.[22]

Non-examining time effectively increases the time allotted for each expected count, and hence it is desirable to examiners. Presently, examiners only receive non-examining time for interviews when they are applicant-initiated.

Allowing examiners an hour to conduct examiner-initiated interviews will give the examiners an incentive to contact the applicant to initiate interviews. This change corresponds with Kappos' emphasis on encouraging examiners to adopt a teamwork approach when dealing with patent applicants.[23]

In a recent email to the Examining Corps, Kappos stressed that examiners should work with patent applicants to expeditiously identify patentable subject matter.[24] This is in contrast to the present environment, where examiners and applicants tend to view their relationship as adversarial in nature.

Examiner Mistakes

In an effort to change the culture regarding examiner reluctance to allow applications, an examiner under the changed count system will not receive an oral warning based on a single clear error in a patentability determination, nor will an examiner be deemed to have failed an improvement period for a single error.[25]

In addition to benefiting examiners, this proposal would seem to also benefit applicants as an examiner's fear of being reprimanded for issuance of a patent for an invention of questionable patentability is believed to be a cause of the more recent decrease in the patent allowance rate.[26]

Presently, examiners (particularly those who are junior) tend to disfavor allowances even when a rejection is not warranted, so as to avoid additional scrutiny of their work.

While the changes to the examiner count system will give examiners more time overall to examine applications, the changes also provide incentives to encourage examiners to initially perform a high-quality examination and shifts resources to promote front-end quality.

This should ultimately encourage examiners to more quickly dispose of applications, thereby decreasing the pendency of applications. The USPTO's press release announcing the proposed changes indicates that the Task Force expects the improvements in overall efficiency caused by the changed count system will likely offset the increased time provided for examination.[27]

Further, the changes should make the examiners' job less stressful by both allowing for more examination time and reducing pressure to reject applications.

Retention of examiners is a serious issue that this proposal should help address, as the inability of the Office to retain examiners knowledgeable in both the technologies which they examine and the patent rules has clearly played a part in reduced examination quality and efficiency.

As reflected by the withdrawal of the controversial claims and continuation rules and efforts to reform the examiner's count system, since Kappos' appointment to the USPTO in August 2009, he has made some important decisions having an immediate impact on the patent community.

While the prior administration of the Office intended the continuation rules package to address the large and growing backlog of unexamined patent applications, many in the patent community believe it would have done so by imposing overly burdensome and restrictive requirements on patent applicants.

Kappos recognizes the need to reduce the backlog of patent applications, but also recognizes the benefits of doing so in a manner that benefits both the USPTO and the IP community as a whole.

Kappos' efforts represent significant steps in the right direction to alleviate some of the ills of the Office that have become more critical in recent years.

--By Andrew T. Spence (pictured), Cory C. Davis and Christopher H. Orders, Alston & Bird LLP

Andy Spence is a partner at Alston & Bird in the firm's Charlotte, N.C., office. Cory Davis is an associate in the firm's Atlanta office, and Chris Orders is an associate in the Charlotte office.

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[1] "Changes to Practice for Continued Examination Filings, Patent Applications Containing Patentably Indistinct Claims, and Examination of Claims in Patent Applications," 72 Fed. Reg. 46,716 (Aug. 21, 2007) (to be codified at 37 C.F.R. pt. 1).

[2] *Tafas v. Dudas*, 541 F. Supp. 2d 805 (E.D. Va. 2008).

[3] *Tafas v. Doll*, 559 F.3d 1345 (Fed. Cir. 2009); and see the Alston & Bird Intellectual Property Advisory titled "The Federal Circuit Concludes that the USPTO's Claims and Continuation Rules Are Procedural Changes, Not Substantive Ones, but Rule Limiting on Continuing Applications Is Contrary to the Patent Act," [www.alston.com/ip_advisory_tafas_doll] (Mar. 24, 2009).

[4] *Tafas v. Doll*, No. 2008-1352 (Fed. Cir. Jul. 6, 2009) .

[5] *Tafas v. Doll*, No. 2008-1352 (Fed. Cir. Jul. 28, 2009) .

[6] “Changes to Practice for Continued Examination Filings, Patent Applications Containing Patentably Indistinct Claims, and Examination of Claims in Patent Applications,” 74 Fed. Reg. 52,686 (Oct. 14, 2009).

[7] United States Patent and Trademark Office, “USPTO Rescinds Controversial Patent Regulations Package Proposed by Previous Administration,” Press Release 09-21 (Oct. 8, 2009) .

[8] Erin Coe, “USPTO Drops Controversial Rules Package,” Law360 (Oct. 8, 2009) .

[9] Appellee Triantafyllos Tafas’ Reply to Motion for Dismissal of Appeal and Request for Remand, *Tafas v. Kappos*, No. 2008-1352 (Fed. Cir. Oct. 19, 2009), available at ; and see Gene Quinn, “Tafas Objects to Vacatur in Claims and Continuations Appeal,” IPWatchdog (Oct. 19, 2009) .

[10] United States Patent and Trademark Office, *supra* note 7.

[11] United States Patent and Trademark Office, “USPTO Joint Labor-Management Task Force Proposes Significant Changes to Examiner Count System,” Press Release 09-19 (Sep. 30, 2009) .

[12] Robert D. Budens, “POPA Membership Approves Count System Task Force Proposal” (Oct. 20, 2009) . .

[13] *Id.*

[14] *Id.*

[15] United States House of Representatives Committee on the Judiciary, “Conyers Applauds New Patent Examiner Count System” (Oct. 1, 2009) .

[16] *Id.*

[17] *Id.*

[18] Donald Zuhn, “Senate Judiciary Committee Hears from Director Nominee,” Patent Docs (Jul. 29, 2009) .

[19] See Patent Office Professional Association, Joint Labor and Management Count System Task Force Proposal: Update to the Examining Corps (Oct. 2009) .

[20] See *id.* at 5.

[21] *Id.*

[22] See *id.* at 16.

[23] Bart Fisher et al., “Meet the new director of the USPTO,” *Lexology* (Sept. 21, 2009)

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[24] *Id.*

[25] See *id.* at 21. While an examiner would not receive an oral warning for a single clear error in patentability determination, it should be noted that under the proposed count system, an examiner may receive an oral warning for multiple clear errors in patentability determination over a period of two or more consecutive quarters during a fiscal year.

[26] Robert Sayre, “Changes coming to USPTO--Part V: new examiner count system,” *Modern Legal Times* (Oct. 2, 2009) .

[27] United States Patent and Trademark Office, *supra* note 11.