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**CONFLICTING OBJECTIVES: THE PATENT OFFICE'S QUALITY  
REVIEW INITIATIVE AND THE EXAMINER COUNT SYSTEM**

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*During fiscal years 2004 and 2005, the United States Patent and Trademark Office implemented an enhanced quality review initiative as an additional level of oversight over the patent examination process. As a result of this initiative, in fiscal year 2006, the patent allowance rate was reduced to 54%, down from a patent allowance rate of 72% in fiscal year 2000. However, this enhanced quality review initiative conflicts with the current examiner production goals or examination quotas. Likely unintended consequences of this conflict include an increasing backlog of unexamined patent applications, concerns over examiner attrition, and an increasing number of continuing applications and patent appeals. This article proposes reforming the examiner production goals to align them with the enhanced quality review initiative.*

**I. INTRODUCTION**

The quality of issued U.S. patents has recently attracted greater attention<sup>2</sup> due to the detrimental impact that patents of questionable quality have on innovation, e.g., discouraging market entry,

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<sup>2</sup> See generally THOMAS H. STANTON ET AL., NAT'L ACAD. OF PUBLIC ADMIN., U.S. PATENT AND TRADEMARK OFFICE: TRANSFORMING TO MEET THE CHALLENGES OF THE 21ST CENTURY 62–63 (2005) (describing one example of a “questionable” patent for “one-click” purchasing, which covered an online purchasing system that stores a customer’s credit card and address such that the returning customer can input billing information for a subsequent purchase with a single mouse click).

inducing unnecessary licenses, imposing litigation costs and increasing uncertainty of patent scope.<sup>3</sup> An increase in patent quality would likely reduce the number of patent disputes,<sup>4</sup> thus decreasing the risk of litigation.<sup>5</sup> In response, the United States Patent and Trademark Office (“USPTO” or “Patent Office”) has instituted an enhanced quality review initiative in fiscal years 2004 and 2005, providing an additional level of review during the patent examination process.<sup>6</sup>

The effects of the enhanced quality review initiative were apparent in fiscal year 2006, when the Patent Office announced the lowest patent allowance error rate in over twenty years of 3.5% and a corresponding 54% patent allowance rate, the lowest on record.<sup>7</sup> Since fiscal year 2006, the patent allowance rate has

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<sup>3</sup> FED. TRADE COMM’N, TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW POLICY, ch. 5 (I), at 2–3 (2003), *available at* <http://www.ftc.gov/os/2003/10/innovationrpt.pdf>.

<sup>4</sup> John L. King, *Patent Examination Procedures and Patent Quality*, in PATENTS IN THE KNOWLEDGE-BASED ECONOMY 54, 55 (Wesley M. Cohen & Stephen A. Merrill, eds., 2003).

<sup>5</sup> *Id.* at 69.

<sup>6</sup> See *Patent Quality Enhancement in the Information-Based Economy: Hearing Before the H. Subcomm. on Courts, the Internet, and Intellectual Prop. of the H. Comm. on the Judiciary*, 109th Cong. 5 (April 5, 2006) (statement of the Hon. Jon W. Dudas) [hereinafter *Patent Quality Enhancement Hearing*] (describing reviews conducted in each individual technology center and by the Office of Patent Quality Review); U.S. PATENT & TRADEMARK OFFICE, PERFORMANCE AND ACCOUNTABILITY REPORT FOR FISCAL YEAR 2004 at 17 (2004), *available at* <http://www.uspto.gov/web/offices/com/annual/2004/2004annualreport.pdf> [hereinafter 2004 USPTO ANN. REP.] (describing the quality review function of the Office of Patent Quality Review and the enhanced “second pair of eyes” reviews); U.S. PATENT & TRADEMARK OFFICE, PERFORMANCE AND ACCOUNTABILITY REPORT FOR FISCAL YEAR 2005 at 21 (2005), *available at* <http://www.uspto.gov/web/offices/com/annual/2005/2005annualreport.pdf> [hereinafter 2005 USPTO ANN. REP.] (indicating that the enhanced “second pair of eyes” review was not implemented until the second half of fiscal year 2005).

<sup>7</sup> Press Release, United States Patent and Trademark Office, Fiscal Year 2006: A Record Breaking Year for the USPTO (Dec. 22, 2006), *available at* <http://www.uspto.gov/web/offices/com/speeches/06-73.htm> (announcing a 3.5% error rate and a 54% patent allowance rate in 2006).

continued to decrease.<sup>8</sup> Despite this success, several challenges continue to plague the USPTO, namely the backlog of unexamined patent applications,<sup>9</sup> concerns over examiner attrition,<sup>10</sup> and the increasing volume of continuing applications<sup>11</sup> and *ex parte* appeals to the Board of Patent Appeals and Interferences (“Board”).<sup>12</sup> However, an analysis of the examiner production goals (i.e., examiner quotas or the “count system”)<sup>13</sup> suggests that

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<sup>8</sup> Press Release, United States Patent and Trademark Office, USPTO 2007 Fiscal Year-End Results Demonstrate Trend of Improved Patent and Trademark Quality (Nov. 15, 2007), *available at* <http://www.uspto.gov/web/offices/com/speeches/07-46.htm> [hereinafter USPTO 2007 Year-End Results Press Release] (announcing a 51% patent allowance rate in 2007, down from a record high 72% in 2000); *USPTO Oversight Hearing: Hearing Before the House Subcomm. on Courts, the Internet, and Intellectual Prop. of the H. Comm. on the Judiciary*, 110th Cong. 2 (Feb. 27, 2008) (statement of the Hon. Jon W. Dudas), *available at* <http://judiciary.house.gov/hearings/pdf/Dudas080227.pdf> (announcing a current 44% patent allowance rate).

<sup>9</sup> Stephen Barr, *Backlog, Quotas Overwhelm Patent Examiners*, WASH. POST, Oct. 8, 2007, at D1.

<sup>10</sup> From 2002 to 2006, for about every two examiners hired by the USPTO, one has left the agency. Moreover, for those examiners that have left, 70% were with the USPTO for less than 5 years. U.S. GOV'T ACCOUNTABILITY OFFICE, REPORT NO. GAO-07-1102, U.S. PATENT AND TRADEMARK OFFICE: HIRING EFFORTS ARE NOT SUFFICIENT TO REDUCE THE PATENT APPLICATION BACKLOG 5 (2007). About two-thirds of examiners surveyed by the Government Accountability Office indicated that they would consider leaving the Patent Office due to production goals. *Id.* at 16. In this same survey, 70% of patent examiners reported working unpaid overtime to meet their production goals. *Id.* at 18.

<sup>11</sup> Changes to Practice for Continuing Applications, Requests for Continued Examination Practice, and Applications Containing Patentably Indistinct Claims, 71 Fed. Reg. 48, 48–50 (proposed Jan. 3, 2006) (to be codified as 37 C.F.R. pt. 1).

<sup>12</sup> Rules of Practice Before the Board of Patent Appeals and Interferences in *Ex Parte* Appeals, 72 Fed. Reg. 41472, 41472 (proposed Jul. 30, 2007) (to be codified as 37 C.F.R. pt. 41).

<sup>13</sup> U.S. PATENT & TRADEMARK OFFICE, MANUAL OF PATENT EXAMINATION PROCEDURE, § 1705 (II)–(III) (8th ed. rev. 2008) [hereinafter MPEP]; OFFICE OF INSPECTOR GEN., U.S. DEP'T OF COMMERCE, REPORT NO. IPE-15722, USPTO SHOULD REASSESS HOW EXAMINER GOALS, PERFORMANCE APPRAISAL PLANS, AND THE AWARD SYSTEM STIMULATE AND REWARD EXAMINER PRODUCTION 7 (2004), *available at* <http://www.oig.doc.gov/oig/reports/2004/USPTO-IPE->

coexistence of such production goals with the recent enhanced quality review initiative is the underlying cause of many of the challenges confronting the USPTO.

Part II of this article provides an overview of the examiner count system and its application to the patent examination process. Part III provides an overview of the enhanced quality review initiative that was implemented in fiscal years 2004 and 2005. Part IV explores probable unintended consequences of the enhanced quality review initiative, specifically the initiative's effect on examiner attrition, an increase in the volume of continuations, and an increase in the volume of appeals to the Board. Part V argues that the examiner count system should be reformed to align the interests of the enhanced quality review initiative with the examiner count system by removing examiner bias from the examination process.

## II. APPLICATION OF THE EXAMINER COUNT SYSTEM TO THE PATENT EXAMINATION PROCESS

Patent examination has been characterized as a “labor-intensive process.”<sup>14</sup> A patent is obtained in a process referred to as “prosecution” or a written exchange between a patent examiner and an applicant<sup>15</sup> over the scope of the “claims,” which define the legal boundaries of the invention.<sup>16</sup> Upon receiving a patent application, the USPTO classifies the application by technology area<sup>17</sup> and assigns it to one of eight Technology Centers.<sup>18</sup> Each

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15722-09-04.pdf [hereinafter EXAMINER GOAL REPORT]; STANTON, *supra* note 2, at 102–03.

<sup>14</sup> EXAMINER GOAL REPORT, *supra* note 13, at 2.

<sup>15</sup> Stephen A. Merrill & George C. Elliot, *Appendix A: A Patent Primer*, in A PATENT SYSTEM FOR THE 21ST CENTURY 143, 145 (Stephen A. Merrill et al. eds., 2004).

<sup>16</sup> See *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 373 (1996) (discussing patent claims).

<sup>17</sup> STANTON, *supra* note 2, at 33.

<sup>18</sup> *Id.* at 4.

Technology Center is further divided into Art Units or groups of examiners that specialize in a specific technological area.<sup>19</sup>

An examiner's productivity is measured by the number of "counts," credits for work performed accounted on a biweekly basis.<sup>20</sup> During the examination of a patent application, the examiner has the opportunity to be credited with two counts.<sup>21</sup> One count is credited when the examiner issues a first Office Action,<sup>22</sup> i.e., a written patentability opinion,<sup>23</sup> and a second count is credited when the examiner "disposes" of an application.<sup>24</sup> An application is "disposed" when the examiner allows the patent application and grants the patent,<sup>25</sup> the applicant abandons the application, the applicant files a request for continued examination ("RCE"), or if the examiner authors an answer in an administrative appeal by the applicant.<sup>26</sup>

Patent examiners are allotted a fixed quota of time to dispose of a patent application, ranging from eight to twenty-five hours.<sup>27</sup> The average projected or allotted time for an examiner to complete the examination process is about twenty<sup>28</sup> to twenty-two<sup>29</sup> hours. The amount of examination time allotted to individual examiners depends on several factors, including seniority level and the examiner's technological area.<sup>30</sup> The current production goals, as

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<sup>19</sup> *Id.* at 4 n.7; EXAMINER GOAL REPORT, *supra* note 13, at 1.

<sup>20</sup> STANTON, *supra* note 2, at 99.

<sup>21</sup> *Id.*; EXAMINER GOAL REPORT, *supra* note 13, at 7.

<sup>22</sup> MPEP, *supra* note 13, at § 1705 (II); STANTON, *supra* note 2, at 102–03.

<sup>23</sup> Merrill & Elliot, *supra* note 15, at 146.

<sup>24</sup> MPEP, *supra* note 13, at § 1705 (III); STANTON, *supra* note 2, at 102–03.

<sup>25</sup> MPEP, *supra* note 13, at § 1705 (III); STANTON, *supra* note 2, at 102–03.

<sup>26</sup> MPEP, *supra* note 13, at § 1705 (III); STANTON, *supra* note 2, at 102–03.

<sup>27</sup> FED. TRADE COMM'N, *supra* note 3, ch. 5 (II)(A), at 5.

<sup>28</sup> Merrill & Elliot, *supra* note 15, at 147 (citing *Congressional Hearings Focus on Patent Quality*, POPA NEWS (Patent Office Professionals' Ass'n, Arlington, VA), June–July 2001, at 4, available at [http://popa.org/pdf/newsletters/2001\\_06\\_07.pdf](http://popa.org/pdf/newsletters/2001_06_07.pdf)).

<sup>29</sup> EXAMINER GOAL REPORT, *supra* note 13, at 18.

<sup>30</sup> *Id.* at 7 n.6; STANTON, *supra* note 2, at 99.

expressed by time allotment for examination, have not been adjusted since 1976.<sup>31</sup>

A. *First Office Action Count*

Once an examiner has been assigned a patent application, the examiner reviews the application in order to gain a thorough understanding of the invention.<sup>32</sup> The application includes a specification containing a written description of the invention and concludes with the claims.<sup>33</sup> After reviewing the specification, the examiner then performs a “prior art” search of patents, patent application publications and non-patent literature, such as scientific or technical journals.<sup>34</sup> The Patent Office database includes U.S. published applications since 2001, U.S. patents since 1970, optically scanned U.S. patents from 1920 to 1970 and English language abstracts of foreign patent documents published since 1978.<sup>35</sup>

After the search is performed, the examiner makes a determination as to whether the claims are patentable over the prior art.<sup>36</sup> The claims can be rejected if they do not possess utility,<sup>37</sup> fail to meet the “written description” requirement,<sup>38</sup> lack novelty,<sup>39</sup> or are obvious.<sup>40</sup> The examiner issues these patentability findings in a written communication to the applicant, called a first Office Action.<sup>41</sup> The examiner is credited with one count for the

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<sup>31</sup> EXAMINER GOAL REPORT, *supra* note 13, at 7.

<sup>32</sup> MPEP, *supra* note 13, at § 704.01.

<sup>33</sup> 35 U.S.C. § 112, para. 1–2 (2006).

<sup>34</sup> Merrill & Elliot, *supra* note 15, at 145; EXAMINER GOAL REPORT, *supra* note 13, at 3 fig.3.

<sup>35</sup> MPEP, *supra* note 13, at § 902.03(e).

<sup>36</sup> Merrill & Elliot, *supra* note 15, at 145; EXAMINER GOAL REPORT, *supra* note 13, at 3 fig.3.

<sup>37</sup> See 35 U.S.C. § 101.

<sup>38</sup> *Id.* § 112.

<sup>39</sup> *Id.* § 102.

<sup>40</sup> *Id.* § 103.

<sup>41</sup> See 37 C.F.R. § 1.104 (2006); MPEP, *supra* note 13, at § 706; Merrill & Elliot, *supra* note 15, at 146.

completion of the first Office Action.<sup>42</sup> The average amount of time an examiner spends on completing a first Office Action is approximately eighteen hours.<sup>43</sup>

#### B. *Subsequent Office Actions*

After receiving the first Office Action, the applicant can submit a written reply, either arguing that the examiner's patentability determination is incorrect or amending the claims to distinguish them over the prior art cited by the examiner.<sup>44</sup>

If the applicant amends the claims, the examiner reviews such claim amendments, conducts a second search, and prepares a second Office Action,<sup>45</sup> all within a two-month time frame.<sup>46</sup> If the examiner is not persuaded to withdraw claim rejections and applies the same grounds of rejection as used in the first Office Action or cites additional prior art necessitated by the claim amendments, the Office Action can be designated as "final."<sup>47</sup> When the Office Action is designated as final, the applicant's ability to amend the claims is limited.<sup>48</sup> The examiner receives no counts for authoring any subsequent Office Action, whether the Office Action is final or non-final.<sup>49</sup>

#### C. *Disposal Count*

The examiner is credited with a disposal count by allowing a patent application.<sup>50</sup> Likewise, the examiner is credited with a disposal count if the applicant abandons the application, files an

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<sup>42</sup> MPEP, *supra* note 13, at § 1705(II); STANTON, *supra* note 2, at 102–03.

<sup>43</sup> EXAMINER GOAL REPORT, *supra* note 13, at 18.

<sup>44</sup> 37 CFR § 1.111; MPEP, *supra* note 13, at § 714.02; Merrill & Elliot, *supra* note 15, at 147.

<sup>45</sup> EXAMINER GOAL REPORT, *supra* note 13, at 3 fig.3; Merrill & Elliot, *supra* note 15, at 147.

<sup>46</sup> MPEP, *supra* note 13, at § 203.08 (II).

<sup>47</sup> 37 C.F.R. § 1.113; MPEP, *supra* note 13, at § 706.07(a); Merrill & Elliot, *supra* note 15, at 147.

<sup>48</sup> 37 C.F.R. § 1.113 (c); MPEP, *supra* note 13, at § 714.13 (II); Merrill & Elliot, *supra* note 15, at 147.

<sup>49</sup> STANTON, *supra* note 2, at 103.

<sup>50</sup> *Id.*; MPEP, *supra* note 13, at § 1705 (III).



RCE, or if the examiner participates in an administrative appeal by the applicant.<sup>51</sup>

1. *Allowance of the Application*

If the examiner makes a determination that all claims are allowable over the prior art, then the examiner issues a notice of allowance, indicating to the applicant that a patent will issue upon payment of an issue fee.<sup>52</sup> In allowing an application, the examiner is credited with a “disposal” count.<sup>53</sup> If the examiner determines that all claims are allowable when issuing a first Office Action, i.e., a first action allowance, the examiner is credited with two counts, one count for authoring the first Office Action and one count for disposal of the application.<sup>54</sup>

2. *Examiner’s Answer*

If the applicant is dissatisfied with the examiner’s decision to twice reject the claims of a patent application, then the applicant may appeal the adverse decision to the Board for review<sup>55</sup> by submitting an appeal brief.<sup>56</sup> In response, the examiner furnishes an examiner’s answer.<sup>57</sup> The examiner is credited with a disposal count for authoring an examiner’s answer.<sup>58</sup> Because the applicant has up to six months to respond to an Office Action,<sup>59</sup> the disposal count for authoring an examiner’s answer may not be credited for up to six months after a final Office Action is issued.<sup>60</sup>

3. *Abandonment or Request for Continued Examination*

If the applicant fails to file a response to an Office Action within a prescribed time period, the patent application becomes

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<sup>51</sup> MPEP, *supra* note 13, at § 1705 (III); STANTON, *supra* note 2, at 103.

<sup>52</sup> 35 U.S.C. § 151; MPEP, *supra* note 13, at § 1302.03.

<sup>53</sup> MPEP, *supra* note 13, at § 1705 (II); STANTON, *supra* note 2, at 103.

<sup>54</sup> STANTON, *supra* note 2, at 102.

<sup>55</sup> 35 U.S.C. § 134; 37 C.F.R. § 41.31; *see also* MPEP, *supra* note 13, at § 1204 (I).

<sup>56</sup> 37 C.F.R. § 41.37; *see also* MPEP, *supra* note 13, at § 1205.

<sup>57</sup> 37 C.F.R. § 41.39; MPEP, *supra* note 13, at § 1207.02.

<sup>58</sup> MPEP, *supra* note 13, at § 1705 (III); STANTON, *supra* note 2, at 102–03.

<sup>59</sup> 35 U.S.C. § 133.

<sup>60</sup> STANTON, *supra* note 2, at 103.

“abandoned.”<sup>61</sup> Upon abandonment, the examiner, without having to author an additional Office Action, is credited with a disposal count.<sup>62</sup>

Similarly, another method by which the examiner can obtain a count without authoring an Office Action is through the submission by the applicant of a request for continued examination (RCE).<sup>63</sup> The filing of a RCE withdraws the finality of the previous Office Action<sup>64</sup> and restarts the examination process.<sup>65</sup> The application then receives the same priority as the originally filed patent application.<sup>66</sup> Since the application is treated as a new application,<sup>67</sup> the examiner is given the opportunity to earn an additional two counts.<sup>68</sup> However, because the applicant has up to six months to respond to an Office Action, the disposal count for an abandonment or RCE may not be credited for up to six months.<sup>69</sup>

### III. QUALITY REVIEW INITIATIVES

The USPTO defines “patent quality” as the examination of applications that “has been conducted to conform with current law and [Patent] Office procedure.”<sup>70</sup> During fiscal years 2004 and 2005, the USPTO announced an initiative to enhance its patent

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<sup>61</sup> 35 U.S.C. § 133; 37 C.F.R. § 1.135; *see also* MPEP, *supra* note 13, at § 203.05.

<sup>62</sup> MPEP, *supra* note 13, at § 1705 (III); STANTON, *supra* note 2, at 102–03.

<sup>63</sup> MPEP, *supra* note 13, at § 1705 (III); 35 U.S.C. § 132(b); 37 C.F.R. § 1.114; *see also* MPEP, *supra* note 13, at § 706.07(h). An RCE is one variety of continuing an application or “a second application for the same invention claimed in a prior . . . application . . . filed before the original prior application becomes abandoned or patented.” 35 U.S.C. § 120; *see also* MPEP, *supra* note 13, at § 201.07.

<sup>64</sup> 37 C.F.R. § 1.114(d).

<sup>65</sup> Merrill & Elliot, *supra* note 15, at 147.

<sup>66</sup> STANTON, *supra* note 2, at 50.

<sup>67</sup> Merrill & Elliot, *supra* note 15, at 147.

<sup>68</sup> STANTON, *supra* note 2, at 99.

<sup>69</sup> *Id.* at 103; *see also* 35 U.S.C. § 122.

<sup>70</sup> *Patent Quality Enhancement Hearing*, *supra* note 6, at 2.

quality review activities.<sup>71</sup> Currently, the USPTO administers two concurrent quality review programs,<sup>72</sup> one performed by the Office of Patent Quality Assurance<sup>73</sup> and a “second pair of eyes” review conducted in each Technology Center.<sup>74</sup>

*A. Office of Patent Quality Assurance*

The Office of Patent Quality Assurance (“OPQA”), formerly the Quality Review Branch, was established in 1974 in response to public concern over the quality of issued patents.<sup>75</sup> The Quality Review Branch’s functions were to “monitor and evaluate the quality of the patent examination process by reviewing a sample of approved patents,” to relay recurring problems to the examination corps, and to improve training.<sup>76</sup> After the resources for quality review function were reduced in the 1990s,<sup>77</sup> the USPTO committed to establishing a “strong, independent” Office of Patent Quality Review.<sup>78</sup>

The USPTO utilizes the reviews performed by OPQA to compile official error rate statistics.<sup>79</sup> Such reviews are conducted on randomly selected applications for each examiner in which a notice of allowance has been sent to the applicant.<sup>80</sup> Patent applications in which there has been a decision by the Board or a court are excluded from review.<sup>81</sup> Quality review specialists

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<sup>71</sup> 2004 USPTO ANN. REP., *supra* note 6, at 17 (describing the quality review function of the Office of Patent Quality Review and the enhanced “second pair of eyes” reviews); 2005 USPTO ANN. REP., *supra* note 6, at 21 (indicating that the enhanced “second pair of eyes” review was not implemented until the second half of fiscal year 2005).

<sup>72</sup> *Patent Quality Enhancement Hearing*, *supra* note 6, at 3.

<sup>73</sup> STANTON, *supra* note 2, at 67; MPEP, *supra* note 13, at § 1308.03.

<sup>74</sup> STANTON, *supra* note 2, at 67.

<sup>75</sup> OFF. OF INSPECTOR GEN., U.S. DEP’T OF COM., REPORT NO. PTD-9977-7-0001, PATENT QUALITY CONTROLS ARE INADEQUATE 2 (1997), *available at* <http://www.oig.doc.gov/oig/reports/1997/USPTO-PTD-9977-7-09-1997.pdf>.

<sup>76</sup> *Id.*

<sup>77</sup> *Id.* at 3–5; Merrill & Elliot, *supra* note 15, at 50.

<sup>78</sup> Merrill & Elliot, *supra* note 15, at 50.

<sup>79</sup> STANTON, *supra* note 2, at 67.

<sup>80</sup> *Id.*; MPEP, *supra* note 13, at § 1308.03.

<sup>81</sup> MPEP, *supra* note 13, at § 1308.03.

perform an independent search of the prior art<sup>82</sup> and determine if the examiner properly applied the statutory requirements for patentability.<sup>83</sup> If a quality review specialist has determined that one or more claims are unpatentable, prosecution of the application is “reopened” and a new Office Action is issued.<sup>84</sup>

Quality review specialists also perform reviews after a first Office Action has been issued but prior to a notice of allowance.<sup>85</sup> During these reviews, quality reviewers use detailed checklists to determine whether examiners are correctly applying statutory criteria.<sup>86</sup> If quality review specialists identify recurring issues, they can arrange for additional examiner training within a Technology Center.<sup>87</sup>

Over the past thirty years, OPQA has evaluated a 4% random sample of allowed applications and has determined a historical error rate of 5-7%.<sup>88</sup> However, with recent changes in quality standards, an examiner error rate of 4.5% can negatively impact an employee’s evaluation.<sup>89</sup> Further, examiners with an error rate of 7% or greater can face termination.<sup>90</sup> Although the examiner can appeal allegations of an error,<sup>91</sup> such errors are affirmed 70%<sup>92</sup> to 80%<sup>93</sup> of the time.

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<sup>82</sup> MPEP, *supra* note 13, at § 1308.03.

<sup>83</sup> STANTON, *supra* note 2, at 67.

<sup>84</sup> MPEP, *supra* note 13, at § 1308.03.

<sup>85</sup> STANTON, *supra* note 2, at 67.

<sup>86</sup> *Id.*

<sup>87</sup> *Id.*; MPEP, *supra* note 13, at § 1308.03.

<sup>88</sup> USPTO “Quality” Initiatives Means Slower Production or Unfair Enforcement, PAT. OFF. PROF. ASS’N NEWS, Sept.–Oct. 2003, at 2 [hereinafter *Quality Initiatives*]; OFF. OF INSPECTOR GEN., U.S. DEP’T OF COM., REPORT NO. PTD-9977-7-0001, *supra* note 75, at 4.

<sup>89</sup> *Quality Initiatives*, *supra* note 88, at 2.

<sup>90</sup> *Id.*; *Do As I Say, Not As I Do*, PAT. OFF. PROF. ASS’N NEWS, Apr.–May 2005, at 4.

<sup>91</sup> *Quality Initiatives*, *supra* note 88, at 3.

<sup>92</sup> *Do As I Say, Not As I Do*, *supra* note 90, at 4.

<sup>93</sup> *Quality Initiatives*, *supra* note 88, at 3.

B. “*Second Pair of Eyes*” Review

In March 2000, the USPTO adopted a “second pair of eyes” program for business method patents, in which a senior examiner and an examination panel perform an additional review on an application that has been allowed.<sup>94</sup> This program was instituted due to growing public controversy over the hundreds of business method patents issued since 1998,<sup>95</sup> when the Court of Appeals for the Federal Circuit held that methods of doing business were patentable subject matter.<sup>96</sup> Because one of the challenges associated with examining business method patent applications is identifying relevant prior art,<sup>97</sup> the review is conducted “for proper claim interpretation and to ensure that the closest prior art has been discovered and correctly applied.”<sup>98</sup>

In fiscal years 2001 and 2002, OPQA reopened prosecution for only one single business method application that had been previously subjected to the “second pair of eyes” review.<sup>99</sup> Based on its “successful use with business method patent applications,”<sup>100</sup> the USPTO recommended expanding the program to certain advanced technical fields, such as semiconductors, telecommunication, and biotechnology.<sup>101</sup>

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<sup>94</sup> U.S. PATENT & TRADEMARK OFFICE, PATENT QUALITY IMPROVEMENT: EXPANSION OF THE SECOND-PAIR-OF-EYES REVIEW, <http://www.uspto.gov/web/offices/com/strat21/action/q3p17a.htm> (last visited Aug. 14, 2008) [hereinafter SECOND-PAIR-OF-EYES REVIEW]; FED. TRADE COMM’N, *supra* note 3, ch. 1 (III)(A)(2)(c)(ii), at 30.

<sup>95</sup> FED. TRADE COMM’N, *supra* note 3, ch. 1 (III)(A)(2)(c)(ii), at 30.

<sup>96</sup> *State St. Bank & Trust Co. v. Signature Fin. Group, Inc.*, 149 F.3d 1368, 1375-77 (Fed. Cir. 1998), *cert. denied*, 525 U.S. 1093 (1999).

<sup>97</sup> FED. TRADE COMM’N, *supra* note 3, ch. 1 (III)(A)(2)(c)(ii), at 30.

<sup>98</sup> U. S. PATENT & TRADEMARK OFFICE, THE 21ST CENTURY STRATEGIC PLAN 9 n.3 (2003), [http://www.uspto.gov/web/offices/com/strat21/stratplan\\_03feb2003.pdf](http://www.uspto.gov/web/offices/com/strat21/stratplan_03feb2003.pdf) (last visited Aug. 14, 2008) [hereinafter THE 21ST CENTURY STRATEGIC PLAN].

<sup>99</sup> SECOND-PAIR-OF-EYES REVIEW, *supra* note 94.

<sup>100</sup> *Id.*

<sup>101</sup> THE 21ST CENTURY STRATEGIC PLAN 9, *supra* note 98.

*C. Recent Patent Office Quality Statistics*

The effect of the improved “second pair of eyes” reviews and enhanced review function of OPQA, instituted in fiscal years 2004 and 2005,<sup>102</sup> was apparent in fiscal year 2006.<sup>103</sup> In fiscal year 2006, a patent allowance error rate of 3.5% was achieved, which was the lowest error rate in 20 years, and a patent allowance rate of 54% was attained.<sup>104</sup> In fiscal year 2007, a patent allowance error rate of 3.5% was achieved, equivalent to the previous year, along with a patent allowance rate of 51%.<sup>105</sup> During the first quarter of fiscal year 2008, the patent allowance rate was further reduced to 44%,<sup>106</sup> down from a record high 72% in fiscal year 2000.<sup>107</sup>

**IV. LIKELY UNINTENDED CONSEQUENCES OF THE  
ENHANCED QUALITY REVIEW INITIATIVE**

A positive result of the enhanced quality review initiative was to reduce the patent allowance error rate to 3.5% in fiscal years 2006 and 2007,<sup>108</sup> down from a 6.6% error rate in fiscal year 2000.<sup>109</sup> Coinciding with this reduction in error rate was a drop in patent grant rate, ranging from 44%<sup>110</sup> to 54%, which was down from 72% in fiscal year 2000.<sup>111</sup> Thus, one likely consequence of the enhanced quality review initiative is to effectively discourage allowances, one mechanism in which an examiner can dispose of a patent application. Several likely unintended consequences associated with this sharp decrease in patent grant rate include an

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<sup>102</sup> 2004 USPTO ANN. REP., *supra* note 6, at 17; 2005 USPTO ANN. REP., *supra* note 6, at 21.

<sup>103</sup> United States Patent and Trademark Office, Fiscal Year 2006: A Record Breaking Year for the USPTO, *supra* note 7.

<sup>104</sup> *Id.*

<sup>105</sup> See USPTO 2007 Year-End Results Press Release, *supra* note 8.

<sup>106</sup> USPTO Oversight Hearing, *supra* note 8, at 2.

<sup>107</sup> USPTO 2007 Year-End Results Press Release, *supra* note 8.

<sup>108</sup> *Id.*; Press Release, United States Patent and Trademark Office, Fiscal Year 2006: A Record Breaking Year for the USPTO, *supra* note 6.

<sup>109</sup> EXAMINER GOAL REPORT, *supra* note 13, at 14 fig.11.

<sup>110</sup> USPTO Oversight Hearing, *supra* note 8, at 2.

<sup>111</sup> USPTO 2007 Year-End Results Press Release, *supra* note 8.

increase in examiner attrition,<sup>112</sup> a growing volume of RCE filings,<sup>113</sup> and an increased volume of *ex parte* appeals filed at the Board.<sup>114</sup>

*A. Impact on Examiner Productivity and Examiner Attrition*

A recent report shows that one underlying cause for examiner attrition is the difficulty in meeting production requirements without working unpaid overtime.<sup>115</sup> This trend of working unpaid overtime is likely related to the enhanced quality review initiative, which has resulted in a substantial drop in patent allowance rate.<sup>116</sup> One major shortcoming of the examiner count system is that it only credits examiners for authoring a first Office Action and the “disposal” of an application,<sup>117</sup> rather than crediting work performed in the bi-week in which it is performed.<sup>118</sup> Instead of being about to allow an application and receiving a disposal count, an examiner may be required to issue multiple subsequent non-final Office Actions or a final Office Action, work in which no counts are credited.<sup>119</sup> This situation creates an additional time burden for the examiner, which is likely to require unpaid overtime. Even if an Office Action is designated as final, the work

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<sup>112</sup> U.S. GOV'T ACCOUNTABILITY OFFICE, REPORT NO. GAO-07-1102, *supra* note 10, at 5.

<sup>113</sup> Changes to Practice for Continuing Applications, Requests for Continued Examination Practice, and Applications Containing Patentably Indistinct Claims, 71 Fed. Reg. 48, 48–50 (proposed Jan. 3, 2006) (to be codified as 37 C.F.R. pt. 1).

<sup>114</sup> Rules of Practice Before the Board of Patent Appeals and Interferences in *Ex Parte* Appeals, 72 Fed. Reg. 41472, 41472 (proposed Jul. 30, 2007) (to be codified as 37 C.F.R. pt. 41).

<sup>115</sup> U.S. GOV'T ACCOUNTABILITY OFFICE, REPORT NO. GAO-07-1102, *supra* note 10, at 5.

<sup>116</sup> Since fiscal year 2006, the patent allowance rate has dropped from a high of 72% in fiscal year 2000 to the 44–54% range. *See supra* notes 7–8.

<sup>117</sup> MPEP, *supra* note 13, at § 1705 (III); STANTON, *supra* note 2, at 102–03.

<sup>118</sup> After issuing a final Office Action, an applicant has up to six months to reply before the application is abandoned. 35 U.S.C. § 133. Thus, a disposal count in the form of an abandonment, RCE, or examiner's answer may not be credited for up to six months after the final Office Action (in which no count is credited) has been issued. STANTON, *supra* note 2, at 103.

<sup>119</sup> STANTON, *supra* note 2, at 103.

performed may not be credited for up to six months when a disposal occurs in the form of abandonment, RCE, or appeal.<sup>120</sup> As a result, the bi-week in which the examiner is credited with a count for an abandonment, RCE, or appeal is unpredictable. Accordingly, the examiner is likely to work unpaid overtime to generate immediate counts by authoring additional first Office Actions.

### B. *Impact on Patent Pendency*

Under the restraints of the enhanced quality review initiative, the examiner must first designate an Office Action as final, in order to indirectly receive credit for a disposal count, which limits the applicant's reply to either appealing the adverse decision to the Board or filing an RCE.<sup>121</sup> However, both options serve to extend patent pendency. Coinciding with the implementation of the enhanced quality review initiative in fiscal years 2004 and 2005,<sup>122</sup> the volume of continuing applications in the form of RCE filings<sup>123</sup> and *ex parte* patent appeals to the Board has dramatically increased.<sup>124</sup>

In January 2006, the USPTO expressed concern over the large number of continuation applications being filed, including RCE filings.<sup>125</sup> According to the Patent Office, the large number of continuations diverts resources from the examination of new

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<sup>120</sup> *See id.*

<sup>121</sup> 37 C.F.R. § 1.113; *see also* MPEP, *supra* note 13, at § 706.07(a); Merrill & Elliot, *supra* note 15, at 147.

<sup>122</sup> 2005 USPTO ANN. REP., *supra* note 6, at 20–21; 2004 USPTO ANN. REP., *supra* note 6, at 17.

<sup>123</sup> Changes to Practice for Continuing Applications, Requests for Continued Examination Practice, and Applications Containing Patentably Indistinct Claims, 71 Fed. Reg. 48, 48–50 (proposed Jan. 3, 2006) (to be codified as 37 C.F.R. pt. 41).

<sup>124</sup> Proposed Rules of Practice Before the Board of Patent Appeals and Interferences in *Ex Parte* Appeals, 72 Fed. Reg. 41472, 41472 (proposed Jul. 30, 2007) (to be codified as 37 C.F.R. pt. 41).

<sup>125</sup> Changes to Practice for Continuing Applications, Requests for Continued Examination Practice, and Applications Containing Patentably Indistinct Claims, 71 Fed. Reg. at 48–50.



applications.<sup>126</sup> However, the recent enhanced quality review initiative, coupled with the current examiner count system, is likely to exacerbate this problem rather than alleviate it. Because appealing to the Board may be cost-prohibitive,<sup>127</sup> filing an RCE may be viewed as the applicant's only alternative when faced with a final Office Action. Procedurally, the effect of filing an RCE is to restart the examination process<sup>128</sup> and to credit the examiner with a disposal count.<sup>129</sup> Thus, one probable unintended effect of the enhanced quality review initiative is to severely limit an applicant's reply to filing an RCE.

In July 2007, the USPTO expressed concern over the large increase in *ex parte* appeals filed at the Board.<sup>130</sup> In fiscal year 2007, the Board received about 4,600 appeals, exceeding the number of appeals filed in fiscal year 2006 by 1,000.<sup>131</sup> The Patent Office has projected that in fiscal year 2008, the number of *ex parte* appeals will rise to over 6,000,<sup>132</sup> which is a substantial

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<sup>126</sup> *Id.* at 48. In 2006, the USPTO proposed rules to limit the number of continuations, including RCEs, an applicant can file. *Id.* at 48–49. The implementation of these rules were preliminarily enjoined on Oct. 31, 2007. *Tafas v. Dudas*, 511 F. Supp.2d 652 (E.D. Va. 2007) (mem.). The rules were held to be an unlawful agency action under the Administrative Procedure Act, because they were substantive in nature. *Tafas v. Dudas*, 541 F.Supp.2d 805 (E.D. Va. 2008) (mem.), *appeal docketed*, No. 2008-1352 (Fed. Cir. July 18, 2008).

<sup>127</sup> The cost of preparing an appeal brief can range from \$5,000 to \$20,000, depending upon the complexity of the invention. Press Release, United States Patent and Trademark Office, Improved Patent Appeal Process Will Save Patent Applicants \$30 Million Annually (July 13, 2005), *available at* <http://www.uspto.gov/web/offices/com/speeches/05-31.htm>.

<sup>128</sup> *Merrill & Elliot*, *supra* note 15, at 147.

<sup>129</sup> MPEP, *supra* note 13, at § 1705 (III); *see also* STANTON, *supra* note 2, at 102–03.

<sup>130</sup> Proposed Rules of Practice Before the Board of Patent Appeals and Interferences in *Ex Parte* Appeals, 72 Fed. Reg. 41472, 41472 (proposed July 30, 2007) (to be codified as 37 C.F.R. pt. 41).

<sup>131</sup> Rules of Practice Before the Board of Patent Appeals and Interferences in *Ex Parte* Appeals, 73 Fed. Reg. 32938, 32938 (proposed June 10, 2008) (to be codified as 37 C.F.R. pt. 41).

<sup>132</sup> *Id.*

increase from 2,555 *ex parte* appeals filed in fiscal year 2004.<sup>133</sup> Another likely unintended effect of the enhanced quality review initiative is to substantially increase the number of appeals filed.

#### V. REFORMING THE EXAMINER COUNT SYSTEM TO REFLECT CURRENT PATENT OFFICE POLICY

The current examiner count system, characterized as “caus[ing] more errors due to emphasis on speed”<sup>134</sup> and “highly biased toward early allowances,”<sup>135</sup> conflicts with the objectives of the enhanced quality review initiative, which apparently discourages allowances. This conflict is the probable underlying cause of current challenges confronting the Patent Office, including the backlog of unexamined patent applications,<sup>136</sup> examiner attrition,<sup>137</sup> the high volume of continuing applications<sup>138</sup> and the high volume of appeals to the Board.<sup>139</sup> Ideally, an examiner should be unbiased regarding patentability decisions, rather than being influenced by external factors.<sup>140</sup> For example, an examiner should not deny granting a patent for the purpose of avoiding an error from OPQA. Likewise, an examiner should not issue a patent only for the purpose of satisfying production requirements. However, the current examiner count system exerts such external influences by emphasizing disposals<sup>141</sup> and the assignment of errors by OPQA,

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<sup>133</sup> EXAMINER GOAL REPORT, *supra* note 13, at 14 fig.11; STANTON, *supra* note 2, at 64 tbl.3-1.

<sup>134</sup> STANTON, *supra* note 2, at 100.

<sup>135</sup> *Id.* at 102.

<sup>136</sup> *See* Barr, *supra* note 9, at D1.

<sup>137</sup> U.S. GOV'T ACCOUNTABILITY OFF., REPORT NO. GAO-07-1102, *supra* note 10, at 5.

<sup>138</sup> Changes to Practice for Continuing Applications, Requests for Continued Examination Practice, and Applications Containing Patentably Indistinct Claims, 71 Fed. Reg. 48, 48–50 (proposed Jan. 3, 2006) (to be codified as 37 C.F.R. pt. 41).

<sup>139</sup> Rules of Practice Before the Board of Patent Appeals and Interferences in *Ex Parte* Appeals, 72 Fed. Reg. 41472, 41472 (proposed July 30, 2007) (to be codified as 37 C.F.R. pt. 41).

<sup>140</sup> STANTON, *supra* note 2, at 103.

<sup>141</sup> *Id.* at 102–03.

which in turn can affect examiner evaluations<sup>142</sup>—or even result in termination<sup>143</sup>. Thus, the USPTO should explore reforming the current examiner count system to align the examiner productivity goals with the objectives of the enhanced quality review initiative and to remove examiner bias from the examination process.

Under the current count system, the examiner can be credited with two counts by allowing an application when issuing a first Office Action, i.e., a first-action allowance.<sup>144</sup> Likewise, if the examiner issues a first Office Action and subsequently allows the application in a second Office Action, one count is credited for each Office Action.<sup>145</sup> In other words, by allowing an application in a first or second Office Action, the examiner is credited one or more counts per Office Action. Thus, there is little incentive for the examiner to issue subsequent Office Actions in which no counts are credited, when a disposal count can be obtained by allowing an application.<sup>146</sup>

Under the current enhanced quality review initiative with its bias against allowances,<sup>147</sup> the examiner is likely to resort to RCE practice, a highly efficient mechanism for accumulating counts. As described previously, if an Office Action is designated as final, one option is for the applicant to file an RCE,<sup>148</sup> which credits the examiner with a disposal count.<sup>149</sup> Because the examination process is restarted,<sup>150</sup> the examiner is credited with an additional count for issuing another “first” Office Action on the RCE

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<sup>142</sup> *Quality Initiatives*, *supra* note 88 at 2.

<sup>143</sup> *Do As I Say, Not As I Do*, *supra* note 90, at 4.

<sup>144</sup> STANTON, *supra* note 2, at 102.

<sup>145</sup> MPEP, *supra* note 13, at § 1705 (III); STANTON, *supra* note 2, at 102–03.

<sup>146</sup> See Robert P. Merges, *As Many as Six Impossible Patents Before Breakfast: Property Rights for Business Concepts and Patent System Reform*, 14 BERKELEY TECH. L.J. 577, 608 (1999) (discussing studies by economists demonstrating that employees tend to devote most of their time to activities which provide direct rewards).

<sup>147</sup> Since fiscal year 2006, the patent allowance rate has dropped from a high of 72% in fiscal year 2000 to the 44–54% range. See *supra* notes 7–8.

<sup>148</sup> 37 C.F.R. § 1.114(a); MPEP, *supra* note 13, at § 706.07(h).

<sup>149</sup> MPEP, *supra* note 13, at § 1706 (III); STANTON, *supra* note 2, at 102–03.

<sup>150</sup> Merrill & Elliot, *supra* note 15, at 147.

application. Thus, when the applicant files an RCE, an examiner is credited with a total of two counts: an RCE disposal count and a first Office Action count. Due to the examiner's familiarity with the application, less time is likely spent reviewing the specification, understanding the invention, and searching the prior art in preparing the next Office Action.<sup>151</sup> Moreover, if the examiner issues a first-action allowance of the RCE application, a total of three counts are credited: an RCE disposal count, a first Office Action count, and a disposal count for allowing the application. Because the applicant is permitted to file multiple RCEs per original patent application,<sup>152</sup> the examiner has the opportunity to be credited with two counts per RCE filing, without the initial time burden associated with becoming familiar with a new patent application and performing a new prior art search. Thus, the count system apparently promotes RCE practice, which prolongs the examination process and undermines the Patent Office's policy of "compact prosecution," which articulates that "[i]t is essential that patent applicants obtain a *prompt yet complete examination* of their applications."<sup>153</sup>

The Patent Office should consider several reforms to minimize external influences from the examination process. First, the count system should be reformed to more fairly credit work in the bi-week that it is performed. One proposal worthy of consideration is crediting one count for a first Office Action, one-half count for a final Office Action, and one-half count for any disposal, i.e., allowance, abandonment or RCE.<sup>154</sup> Under this reformed count system, the examiner is provided with incentive to author a first

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<sup>151</sup> Initially, the average time an examiner spends in preparing a first Office Action is about 18 hours. EXAMINER GOAL REPORT, *supra* note 13, at 18. However, the average projected time the examiner spends examining the application ranges from about 21 to 22 hours. *Id.*

<sup>152</sup> Changes to Practice for Continuing Applications, Requests for Continued Examination Practice, and Applications Containing Patentably Indistinct Claims, 71 Fed. Reg. 48, 51 (proposed Jan. 3, 2006) (to be codified as 37 C.F.R. pt. 41) (characterizing continued examination practice as "unrestricted").

<sup>153</sup> MPEP, *supra* note 13, at § 2106 (II) (emphasis added).

<sup>154</sup> STANTON, *supra* note 2, at 103.

Office Action *and* a final Office Action,<sup>155</sup> consistent with the “prompt yet complete examination” principles of compact prosecution.<sup>156</sup> Moreover, this reform is also likely to reduce examiner attrition because it likely reduces the need to work unpaid overtime by more fairly credits counts for work performed. Second, the role of OPQR should be limited to identifying recurring errors by applying the current quality standards rather than the punitive practice of assigning errors to examiners, which negatively impact annual performance reviews or even result in termination.<sup>157</sup> These reforms will likely provide examiners with the proper incentive for a quality examination,<sup>158</sup> consistent with the goals of the enhanced quality review initiative.<sup>159</sup> Furthermore, these reforms return patentability decisions to the examining corps, permitting examiners to independently make patentability decisions on the merits, and to focus on their core mission of examining and issuing patents.

## VI. CONCLUSION

The Patent Office’s enhanced quality review initiative, which includes reviews by the Office of Patent Quality Assurance and the “second pair of eyes” review, has recently achieved a record low error rate of 3.5% and reduced the patent allowance rate to the range of 44–54%, down from a high of 72% in 2000. An analysis of the examiner count system, which emphasizes the disposal of patent applications, indicates such a quota system fundamentally conflicts with the Patent Office’s enhanced quality review initiative. Furthermore, unintended consequences of the enhanced quality review initiative are likely to include an increase in examiner attrition, a greater volume of RCE filings and a larger quantity of *ex parte* appeals to the Board of Patent Appeals and

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<sup>155</sup> See Merges, *supra* note 146, at 608.

<sup>156</sup> MPEP, *supra* note 13, at § 2106 (II).

<sup>157</sup> USPTO “Quality” Initiatives Means Slower Production or Unfair Enforcement, *supra* note 88, at 2; *Do As I Say, Not As I Do*, *supra* note 90, at 4.

<sup>158</sup> See Merges, *supra* note 146, at 608.

<sup>159</sup> See PATENTS IN THE KNOWLEDGE-BASED ECONOMY, *supra* note 4, at 55 (noting that careful patent examination reduces patent disputes).

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Conflicting Objectives

Interferences. The Patent Office should consider fundamental reforms to the examiner count system to proportionately allocate counts for work performed and to eliminate the practice of assigning errors to examiners.