

## Commerce Department Pronounces “Count Reform” DOA\*

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“Count reform” to end the patent backlog by ending massive churning of patent application papers as RCE’s has been pronounced a failure: This is implicitly acknowledged through a Commerce Department White Paper<sup>1</sup> that highlights the patent backlog as a major problem for the Patent Office; the Commerce Department *sub silentio* rejects further count reform as a solution.

In a nutshell, the United States has a globally unique system where patent application processing can be simply *continued* through a multiple applications procedure until grant. Nearly 200,000 applications per year undergo such churning each year. This represents 43 % of the total reported 460,000 filings for FY2009. (This already high figure does not even take into account the fact that most original applications *as originally filed* claim at least one priority based upon a preliminary domestic or foreign priority application.)

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\* This analysis represents the personal opinion of the writer, and does not necessarily reflect the views of any colleague, organization or client thereof.

This version: April 24, 2010.

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<sup>1</sup> “Commerce Department White Paper” as used herein refers to a detailed study of the United States Department of Commerce that is more formally styled as Arti K. Rai, Stuart Graham & Mark Doms, *Patent Reform: Unleashing Innovation, Promoting Economic Growth, and Producing High-Paying Jobs (A White Paper from the U.S. Department of Commerce)*, April 13, 2010 (metadata authorship attributed to Dana Colarulli). An introduction to the study is provided by Professor Dennis Crouch, *Department of Commerce Reports that PTO Fee-Setting-Authority and Improved Post-Grant Patent Challenge Lead to Economic Growth*, Patently O blog, April 20, 2010.

### The Count System

The “count system” is at the root of the churning problem and is once again at the center of attention as a major problem of the United States patent system: Patent examiner productivity that is key to promotions, bonuses – and, indeed, to continued employment – is measured by the “counts” of work disposed of where a principal bean that is counted is the disposal of an application. This is a uniquely American problem.<sup>2</sup>

If, say, an Examiner must dispose of 100 applications per year but is only capable of reaching, say, 80 per year, the examiner may be either fired or held back from a promotion. But, if the Examiner is able to dispose of, say, 140 applications per year, the examiner may not only gain a promotion but may well receive a cash bonus award amounting to thousands of dollars.

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<sup>2</sup>Neither Japan, China, Korea nor any country within the European Patent Convention – nor any other major country in Asia, Europe or anywhere else – has a system like the American “RCE” or continuing application. To be sure, all countries do provide for a *divisional* application. (Art. 4G(1) of the 1967 Stockholm Revision of the Paris Convention *requires* that a country provide that “[i]f [ ] examination reveals that an application ... contains more than one invention, the applicant may divide the application into a certain number of divisional applications...” Earlier provisions for the right to file a divisional application may be traced back to the 1925 Hague Revision.)

As a loophole, if an Examiner can encourage a patent applicant to *refile* a patent application or prolong prosecution through a “request for continued examination” – the RCE – then a *double* count is awarded under the system in operation until 2009. So, the 80-per-year examiner could reach the 100 quota if 25 % of the original applications were given an RCE treatment. Or, if an examiner just meeting his 100 application quota could encourage a 40 % rate of RCE’s this would push the “count” to 140 and result in possible promotions and thousands of dollars in cash bonuses.

### **The First Major Announced Success of the Kappos Administration**

The patent backlog problem was to have been overcome through the first highly publicized success of the Kappos Administration in 2009, a successful agreement between management and the examiners’ union to greatly reduce examiner production credits based upon RCE and continuing application filings.

Count reform was to have eliminated the incentives for examiners to force RCE filings, which would have eliminated a major source of massive and wasteful churning of patent applications, a root cause for an enormous backlog of 750,000 patent applications in the cue waiting for examination.

### **Candid Acknowledgment of Failure of Count Reform**

The Patent Office has itself acknowledged that it considers count reform a failure through its projection that there will only be a two (2) percent reduction in RCE applications on a year by year basis, which hardly makes a dent in the problem.<sup>3</sup> Although count reform has been in operation since 2009, even today the Patent Office projects only a modest decrease in RCE filings in the coming years.<sup>4</sup>

With nearly 200,000 applications out of the 460,000 applications filed for FY2009 being *refiled* applications – most being RCE’s – the failure of count reform represents the single biggest obstacle to fixing the backlog.<sup>5</sup> Yet, the Commerce Department White Paper never mentions RCE’s, refilings, count reform or anything hinting at the real root cause for the problem of the massive backlog.

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<sup>3</sup>See Wegner, *20 Month Overall Pendency vs. Patent Worksharing, Count Reform has Failed*, slides 58-61 (March 15, 2010), available at <http://www.grayonclaims.com/hal>.

<sup>4</sup>*Id.* The projections analyzed in that presentation were last reviewed on April 24, 2010, and still showed the same two (2) percent per year reduction in RCE filings.

<sup>5</sup> The complete statistics are set forth as an appendix, *Churning: 200,000 Applications Per Year are Refiled*.

### **Commerce: Abandon Count Reform, Hire Thousands of New Examiners**

Instead of *abolishing* credits for RCE’s that would solve the problem of Examiner-created RCE’s, the Commerce Department White Paper says that the answer is to simply hire more examiners: Thus, a centerpiece for the Commerce Department seeking massive funding increases to create patent-based American jobs is keyed to the premise that the huge backlog of pending applications *must* be reduced, which is the subject of a White Paper Analysis.<sup>6</sup>

But, simply hiring *thousands* of examiners, without more, will only lead to chaos and paradoxically an increase in the backlog, if the past is prologue to predict what will happen under the Commerce Department solution.<sup>7</sup>

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<sup>6</sup> “White Paper Analysis” refers to this writer’s paper styled as S.515 “*Manager’s Amendment*” to Create American Jobs: *The Commerce Department, Shooting Blanks* (April 23, 2010), *republished sub nom Correlating Job Creation to Patent Backlog*, IP Frontline (April 23, 2010), available at <http://www.ipfrontline.com/>.

<sup>7</sup> Indeed, thousands of new examiners were hired under the Dudas Administration, yet the backlog grew remarkably. *Id.*, p. 3.

### **Whither True Count Reform?**

Realistically, true count reform requires that a new examiner productivity system be implemented in lieu of count reform.

Count reform has been tried.

Count reform has failed.

Examiners must be fairly treated and rewarded, but the answer is not a system that encourages the uniquely American problem of churning applications.

**Appendix: Churning: 200,000 Applications Per Year are Refiled**

During FY2009, there were 460,000 patent application filings of which nearly 200,000 – or 43 % –were simply *refiled* as either an RCE or other form of continuing application under 35 USC § 120.

*In addition* to churning of applications through RCE’s and § 120 continuing applications, more than 100,000 applications claimed priority under 35 USC § 119 based upon a foreign Paris Convention priority or a provisional application priority. This is a percentage of 23 % of all filings if the denominator includes the churning, but if the denominator is based upon applications *without* the churning factor, the percentage is 40 %.\*

<b>Total Applications Filed (FY2009)</b>	<b>460,924</b>	
Applications <i>without</i> RCE or § 120 continuing app’ns	263,412	
Applications <i>with</i> Continuing/RCE		
Continuations	31,186	
Divisionals	16,752	
CIPs	11,115	
[Total § 120 Filings	59,053	13 %
RCE’s	138,459	30 %
<b>Churning: Refiled Applications</b>	<b>197,512</b>	<b>43 %</b>
Filings Based upon an Initial Priority Application		
Foreign Priority Application	52,299	
Provisional Application	51,399	

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\* This figure appears to be lower than expected. First, approximately half of all filings are based upon a foreign priority application and a conservative estimate would be that *at least* 90 % of foreign filings claim at least one foreign priority under the Paris Convention. If this conservative estimate is used based upon 50 % of all filings being of foreign origin, this would lead to a conclusion that at least 45 % of all original applications in the United States – excluding RCE and § 120 priority churning – claim foreign priority. But, this figure is *higher* than the 40 % total for both foreign and domestic (provisional) priority applications under 35 USC § 119.

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Total Filings based upon a Provisional or Foreign App.	105,698	23 %
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