



UNITED STATES PATENT AND TRADEMARK OFFICE

PATENT PUBLIC ADVISORY COMMITTEE

ANNUAL REPORT

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PATENT PUBLIC ADVISORY COMMITTEE

ANNUAL REPORT

I. INTRODUCTION

A. BACKGROUND AND OPERATION OF THE PATENT PUBLIC ADVISORY COMMITTEE DURING FY 2003

Created to advise on “policies, goals, performance, budget and user fees of the USPTO with respect to patents,”¹ the Patent Public Advisory Committee (P-PAC) is now entering its fourth year. By statutory mandate, the P-PAC is composed of nine voting members who represent the diverse community of users of the United States Patent and Trademark Office (USPTO),² including individual inventors, universities, small entrepreneurial businesses, large U. S. corporations, and private practitioners. P-PAC also has three non-voting members³ who represent the three labor organizations recognized by the USPTO and which serve the community of USPTO employees.

Formation of the P-PAC in the year 2000 included the appointment of voting members, with three of the members having one, two and three-year terms to stagger the future appointment process. At the outset, the P-PAC recognizes those members whose terms expired in July 2003. They provided a great public service, and their input has been an important part of the activities undertaken by the P-PAC during most of this last year. We extend our thanks and recognize the important contributions of the following members whose terms have ended:

- Margaret Boulware, who served as Chair of the P-PAC since its inception, and whose guidance during this formative stage has been critical and far-reaching;
- James I. Ferguson, who served as a member of the Quality Subcommittee and whose insightful feedback as an independent inventor has been invaluable; and
- Ronald E. Myrick, who led the E-Government Subcommittee and whose perspectives as a large corporate user have provided much useful feedback on many of the initiatives set out in the USPTO’s *21st Century Strategic Plan*.

In July of this year, the P-PAC also welcomed three new members who replaced those whose terms had expired. Appointed by Secretary of Commerce Donald Evans to three-year terms were:

¹ American Inventors Protection Act of 1999 (AIPA); 35 U.S.C. § 5(d).

² AIPA, 35 U.S.C. § 5(b)(2).

³ AIPA, 35 U.S.C. § 5(b)(3).

- Rick D. Nydegger, the new Chair of the P-PAC, and President of the American Intellectual Property Law Association, and a shareholder and director at Workman Nydegger in Salt Lake City, Utah;
- Andrew J. Dillon, a patent attorney and partner at Bracewell & Patterson in Austin, Texas; and
- Howard J. Klein, also a patent attorney and partner at Klein, O’Neill & Singh in Irvine, California.

In-person meetings of the P-PAC were held during this last year at the office of the Commissioner for Patents, in Arlington, Virginia. Members not attending in person were provided with the option of attending by conference call. Meetings⁴ of the P-PAC during Fiscal Year (FY) 2003 were held as follows:

November 13, 2002	Executive Session ⁵ and Public Meeting
March 25, 2003	Executive Session
August 21, 2003	New Member Orientation
August 22, 2003	Executive Session
October 28, 2003	Executive Session and Public Meeting

In addition to review of budgetary and fiscal operation of the USPTO, and review of progress under the USPTO’s *21st Century Strategic Plan*, both discussed elsewhere herein, the P-PAC reviewed the following rulemakings during FY 2003: 1) Changes to Implement Electronic Maintenance of Official Patent Application Records (proposed and final rule); 2) Changes to Implement the 2002 Inter-Partes Re-Examination and other Technical Amendments to the Patent Statute (proposed and final rule); 3) Correspondence with the USPTO (final rule); 4) January 2004 Revision of PCT Application Procedure (proposed and final rule); 5) Elimination of Continued Prosecution Application Practice as to Utility and Plant Applications (final rule); and 6) Changes to Support Implementation of the USPTO *21st Century Strategic Plan* (proposed rule).

⁴ Transcripts and agendas of the public meetings may be found at <http://www.uspto.gov/web/offices/com/advisorynotices/index/html>.

⁵ Matters discussed during the Executive Sessions will not be included in this report due to the restrictions on confidential information. USPTO budget and other confidential review are conducted in these meetings. To the extent information becomes public, it will be included in future Annual Reports.

B. SCOPE AND FOCUS OF THE ANNUAL REPORT

Earlier this year, the USPTO announced an aggressive and far-reaching five-year strategic plan. In the opening lines of the Executive Summary of this new *21st Century Strategic Plan* (referred to hereafter as the “*Strategic Plan*”), the Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office, James E. Rogan, made this observation:

Today, the United States Patent and Trademark Office is under siege. Patent application filings have increased dramatically throughout the world. There are an estimated seven million pending applications in the world’s examination pipeline, and the annual workload growth rate in the previous decade was in the range of 20 – 30 percent. Technology has become increasingly complex, and demands from customers for higher quality products and services have escalated. Our applicants are concerned that the USPTO does not have access to all of the fees they pay to have their patent and trademark applications examined, thereby jeopardizing the benefits intellectual property rights bring to our national economy. In the United States, these demands have created a workload crisis. The Congress, the owners of intellectual property, the patent bar, and public-at-large have all told us that we must address these challenges aggressively and promptly.

We agree. We believe that the USPTO must transform itself into *a quality-focused, highly productive, responsive organization supporting a market-driven intellectual property system.* (Emphasis in the original.)

As members representing the diverse community of USPTO users who see intellectual property as vital to a growing, vibrant economy, and to maintaining competitiveness in an increasingly competitive global economy, the P-PAC shares the vision of transforming the USPTO into “a quality-focused, highly productive, responsive organization supporting a market-driven intellectual property system.”

The *Strategic Plan* has charted the course for achieving that vision.

This Annual Report first reviews and comments on the policies and goals as reflected in the *Strategic Plan*. User fees and the USPTO budget are then reviewed, followed by an evaluation of the USPTO’s performance during FY 2003 as measured against the *Strategic Plan*. The Annual Report then concludes with recommendations. Particular attention is given in the Annual Report on focusing on the extent to which, as members of the P-PAC, we believe the USPTO has succeeded under the first year of the *Strategic Plan* in moving forward with its implementation. To the extent the USPTO has not fully realized the goals set out for implementing the *Strategic Plan* during FY 2003, the Annual Report will discuss what the P-PAC sees as reasons for such lack of progress.

II. POLICIES AND GOALS DURING FY 2003: THE 21ST CENTURY STRATEGIC PLAN

During the appropriations process for FY 2002, the USPTO was instructed by the Senate⁶ and the House⁷ to develop a five-year strategic plan and a requirements-based budget structure that would serve to effectively improve the quality of granted patents, reduce patent pendency, and achieve electronic filing and patent processing.

In response, following a rigorous review of its internal operations and comments received from many of the major user groups, including the ABA Intellectual Property Law Section (ABA IPL Section), the American Intellectual Property Law Association (AIPLA), the Intellectual Property Owners Association (IPO), the International Trademark Association (INTA), the Biotechnology Industry Organization (BIO) and others, the USPTO released its *Strategic Plan* on February 3, 2003.

The USPTO must ensure that the United States has an intellectual property system that is strong and vibrant. In terms of policy, this means that the USPTO is entrusted with responsibility to develop and maintain an intellectual property system that will 1) contribute to a strong U.S. and global economy and 2) foster the entrepreneurial spirit and encourage investment in innovation so as to meet the underlying Constitutional objective of promoting “progress of . . . [the] useful arts.”⁸

Accomplishment of that overall mission is directly supported, in turn, by achieving the strategic objectives set before the USPTO by Congress, namely, enhancing patent quality, reducing patent pendency, and developing and implementing an effective electronic system for use by the USPTO and the public for all aspects of the patent process.⁹

With the completion and adoption of its *Strategic Plan*, FY 2003 marked a change of significant proportion for the USPTO in terms of how it plans to achieve the objectives which support and

⁶ See Senate Report 107-42 (“The Committee is pleased that the Secretary of Commerce has made a commitment to improve PTO operations and initiate an internal review to determine what the agency needs to do its job. Consistent with that approach, the Committee directs the Secretary of Commerce to develop a 5-Year Strategic Plan for the PTO. . . .”).

⁷ See the 21st Century Department of Justice Appropriations Authorization Act, H.R. 2215 § 13104, 107th Congress (“The Director shall . . . develop a strategic plan that sets forth the goals and methods by which the United States Patent and Trademark Office will, during the 5-year period beginning on January 1, 2003: (A) enhance patent and trademark quality; (B) reduce patent and trademark pendency; and (C) develop and implement an effective electronic system for use by the Patent and Trademark Office and the public for all aspects of the patent and trademark processes . . .”).

⁸ Article 1, Section 8.

⁹ See footnote 7 *supra*.

lead to fulfillment of that mission.¹⁰ Specifically, the USPTO's *Strategic Plan* sets out comprehensive, aggressive goals as to how the USPTO plans to achieve its mission and the objectives set for it by Congress. The goals include:

- Enhancing the quality of patent and trademark examining operations through consolidation of quality assurance activities in FY 2003;
- Achieving 27 months overall patent pendency¹¹ by the end of FY 2008, while at the same time reducing total patent examiner hires through FY 2008 by 2,400 as compared to the number of new hires originally envisioned in its 2003 Business Plan;¹²
- Accelerating processing time by implementing e-Government in Patents by October 1, 2004;
- Competitively outsourcing classification and search functions, and concentrating Office expertise as much as possible on core government functions, in particular examination; and
- Expanding bilateral and multilateral discussions to strengthen intellectual property rights globally and to reduce duplication of effort among offices.

¹⁰ As the USPTO was nearing completion of the *21st Century Strategic Plan*, the Senate Committee on Appropriations observed: "While the PTO has briefed the Committee on the outlines of a 5-year strategic plan for the agency that is generally responsive to direction from Congress, the plan calls for some of the most sweeping changes to the patent review process in 200 years." Senate Report 107-218. Highlights of some of the most innovative features of the *Strategic Plan* include a new multi-track examination system, which provides up to five different options for applicants, rather than the traditional "one size fits all" examination procedure currently used for decades; a new accelerated examination option designed to limit overall pendency to not more than 12 months for limited numbers of applications; outsourcing of searches including PCT searches, more aggressive work sharing and use of search results derived from foreign IP offices, and use of private "certified search services" that meet quality standards of the USPTO; and more flexible options for search and examination, including the fees associated with those functions, all of which is designed to save core examiner time. Additionally, a new post-grant review procedure is proposed to permit greater public involvement in challenging granted patents with less expense and more timely outcomes.

¹¹ Pendency is a measurement of USPTO's traditional examination processing time, i.e., from filing (under 35 U.S.C. § 111(a)) to ultimate disposal.

¹² The 2003 Business Plan was submitted to the Congress in February 2002 as part of the USPTO's FY 2003 submission, and was strongly criticized by the Congress as an attempt by the USPTO to simply "hire its way out of" the current crisis stemming from growing pendency due to backlog, as opposed to finding ways to become more efficient. See, e.g., Senate Report 107-42 ("PTO management has not been sufficiently innovative. Although patent filings have increased dramatically over the past decade, PTO management chose to remain wedded to an archaic patent process and attempted to hire its way out of its workload problems."). This ultimately led to a Congressional mandate (see footnotes 6 and 7 above) to develop a five-year strategic plan that would focus more on improved productivity through improved retention, better hiring practices, and improved training, among other things, as opposed to simply increasing the number of new examiner hires each year.

Following completion of the *21st Century Strategic Plan*, Congress remarked that “This plan calls for some of the most sweeping changes to the patent review process in 200 years, and the Committee [e.g., the House Committee on Appropriations] supports these recommendations.”¹³ The *Strategic Plan* also received the support of many of the major user groups that provided comments to the USPTO during its development.¹⁴

¹³ House Report 108-221.

¹⁴ In a joint letter dated November 22, 2002, to the President’s Director, Office of Management and Budget, AIPLA, IPO and INTA stated: “We are pleased that we can now report, in light of proposed refinements to the Plan recently shared with us by Under Secretary Rogan, that we whole-heartedly endorse the Plan.” ABA IPL Section submitted a separate letter to the same effect.

III. USER FEES AND BUDGET REVIEW

A. THE USPTO FEE MODERNIZATION ACT OF 2003

Any plan, no matter how well conceived, is of little value without adequate funding to implement it. Accordingly, in addition to the *Strategic Plan*, the USPTO also devised and proposed last year a comprehensive new fee schedule. If enabled through legislation, the new fee schedule would provide adequate funding through user fees to permit the *Strategic Plan's* implementation over the projected five-year period, provided however, that the USPTO is permitted to retain those user fees and use them in carrying out its *Strategic Plan*. On July 9, 2003, the House Judiciary Committee approved on a voice vote the proposed new fee schedule (the "United States Patent and Trademark Fee Modernization Act of 2003").¹⁵ House floor action is expected later this year.

The Fee Modernization Act is premised on the concept that applicants who choose to file applications with larger numbers of claims and longer, more complex specifications should pay the higher costs of processing and examining those applications, and thus incorporates a "flexible fee schedule." The Fee Modernization Act also includes some new fees that correspond to some of the new flexible examination features to be implemented under the *Strategic Plan*, and provides for refundable search and examination fees depending on what an applicant may choose to do. Highlights of the Fee Modernization Act include:

- A combined filing, search and examination fee that will be due upon filing a utility patent application, and that will initially total \$1,000;¹⁶
- Claim fees will be \$200 for each independent claim in excess of three, and \$50 for each claim in excess of 20; and
- Applications in excess of 100 pages will be charged \$250 per 50 excess pages.

The following chart illustrates by way of comparison how the new fees under the Fee Modernization Act would compare to existing fees, for "typical" applications (e.g., those with three independent claims or less, 20 total claims or less, and 22 pages of specification or less), and for "moderately complex" applications (e.g., those with seven independent claims or less, 40 total claims or less, and 150 pages of specification or less).¹⁷ Also worth noting is that the proposed new fees have been thoughtfully designed so that half or more of the fee increases will not fall due

¹⁵ H.R. 1561/S. 1760.

¹⁶ The Director will be authorized under the Act to refund portions of the search or examination fees upon express abandonment of an application. These filing, search and examination fees will be initially set by statute, but the Director will be authorized to modify the search fee "to recover an amount not to exceed the estimated average cost to the Office of searching applications for patent either by acquiring a search report from a qualified search authority, or by causing a search to be performed by Office personnel."

¹⁷ Statistically, "typical" and "moderately complex" applications together account for by far the majority of applications filed. Data available at the time the Fee Modernization Act was being developed indicate that 94% of applications filed have 40 or fewer claims, and 99% of applications filed average 44 pages of specification.

until after a patent has been issued, thus avoiding barriers to filing in the first instance, and permitting patent owners to avoid such increases unless and until issuance occurs and thereafter during payment of maintenance fees. In this way, only those patents that are 1) issued and 2) deemed by their owners to be commercially useful will be subject to the full fee increases.

	TYPICAL APPLICATION			MODERATELY COMPLEX APPLICATION		
	FY2003 Current Fee	FY2004 PTO Fee Bill 2-4-03	Increase Over Current Fees	FY2003 Current Fees	FY2004 PTO Fee Bill 2-4-03	Increase Over Current Fees
Life Cycle Large Entity Fees:						
Utility Patent Filing/Search/Examination Fee	\$750	\$1,000	\$250	\$750	\$1,000	\$250
Other Fees (Excess Claims, Specification Size)						
Claims Fees						
Independent Claims	\$0	\$0		\$336	\$800	\$464
Total Claims	\$0	\$0		\$360	\$1,000	\$640
Specification Size Fee	\$0	\$0		\$0	\$250	\$250
ibtotal Increase-At Time of Filing			\$250			\$1,604
Pre-Grant Publication Fee	\$300	\$300		\$300	\$300	
Utility Patent Issue Fee	\$1,300	\$1,400	\$100	\$1,300	\$1,400	\$100
Subtotal Increase Through Issuance			\$350			\$1,704
Patent Maintenance Fee (First Stage)	\$890	\$900	\$10	\$890	\$900	\$10
Patent Maintenance Fee (Second Stage)	\$2,050	\$2,300	\$250	\$2,050	\$2,300	\$250
Patent Maintenance Fee (Third Stage)	\$3,150	\$3,800	\$650	\$3,150	\$3,800	\$650
Total Life Cycle Costs	\$8,140	\$9,400		\$8,836	\$11,450	
Total Life Cycle Increases Over Current Fees			\$1,260			\$2,614

Note: Typical = 20 total claims, 3 independent claims, 22 pages

Moderately complex = 40 total claims, 7 independent claims, 101 pages

February 5, 2003

Like the *Strategic Plan*, the proposed new fees are widely supported as necessary to permit implementation of the USPTO's *Strategic Plan*, although such support is clearly conditioned on the understanding that the new fees are coupled with an appropriate solution to diversion.¹⁸

¹⁸ In a joint letter dated Nov. 22, 2002 to the President's Director, Office of Management and Budget, AIPLA, IPO and INTA stated, "The USPTO will need additional resources to implement its Plan. In this regard, we have discussed patent and trademark fee increases with the USPTO that, with projected workload increases, would generate \$1.5 billion in FY 2004. With the proposed refinements, including testing and evaluation before deployment where appropriate, we are fully prepared to support a statutory fee increase of this magnitude to implement the Plan. Our support is based upon the assumption that the Bush Administration will effectively address the issue of diversion. Our members will insist that we strongly oppose any proposed fee increase that does not include an appropriate solution to diversion." The ABA IPL Section submitted a separate letter to the same effect.

B. FY 2003 BUDGET AND CURRENT EXPECTATIONS FOR FY 2004

For the first four months of FY 2003, the USPTO remained under the restrictions of a continuing resolution before an appropriations bill was passed, thus limiting the USPTO budget to levels of spending set for the previous year. The FY 2003 appropriation of \$1.182 billion provided \$183,000,000, or 13.5% less than the expected Presidential request of \$1.365 billion.

Turning briefly to FY 2004, as of the writing of this Annual Report, once again, the USPTO is operating under a continuing resolution that limits it to the already much reduced funding levels appropriated in FY 2003. On September 4, 2003, the Senate Appropriations Committee approved S. 1585, Departments of Commerce, Justice and State (CJS) Appropriations Bill for FY 2004. The bill would fund USPTO at approximately \$1.217 billion. The House version, H.R. 2799, passed by the full House on July 23, 2003, would fund USPTO at approximately \$1.239 billion. Thus, compared to the President's budget request for the USPTO of \$1.404 billion, these proposed appropriations would once again significantly reduce USPTO funding levels, anywhere from \$187,000,000 (13.3%) based on the Senate's mark, to \$165,000,000 (11.8%) based on the House mark. These funding levels, if adopted, will severely challenge the USPTO to meet its basic operating requirements, let alone move ahead with implementing the *Strategic Plan*.¹⁹

The P-PAC sees this appropriation pattern as a deeply disturbing trend. The amounts being appropriated for the USPTO budget are dramatically below the President's budget request for each year. This trend is exacerbated by the fact that patent application filings continue to increase. Indeed, in FY 1990 patent filings were 163,571, as compared to filings of 355,418 in FY 2003. This represents an increase of over 217%, or 15.5% per year on average.²⁰

Moreover, the effects of the trend are further worsened because they are cumulative. For example, the reduction in the amounts appropriated (as compared to the President's budget request) for the USPTO in FY 2003 resulted in reducing the number of new examiners hired to meet the increasing workload from 750 to 308.²¹

The President's FY 2004 budget request would fund the USPTO at \$1.203 billion without passage of the Fee Modernization Act, as compared to \$1.404 billion with passage of the Fee Modernization Act. Passage of the Fee Modernization Act would thus result in \$201 million in additional collected patent and trademark fees that Congress could appropriate for use by the

¹⁹ That is especially true since \$44,000,000 in the USPTO's FY 2004 budget is required by contract to cover the costs of the space consolidation project of the USPTO to its new campus in Alexandria, scheduled to take place in 2004.

²⁰ Even during the recent economic downturn (e.g., through the years 2000 – 2003) there has been an increase in patent filings from approximately 290,000 to 350,000, or 120% (on average, 30% per year).

²¹ Under expected levels of appropriation for FY 2004, it will be difficult for the USPTO to hire enough new examiners to keep pace with attrition in the examining corps. In other words, FY 2003 and FY 2004 represent, in real terms, *lost* years. The *Strategic Plan* calls for 750 new examiners to be hired in FY 2004. Thus, taking into account the 440 new examiners not hired in FY 2003, to make up for these two years alone, the USPTO would have to hire in FY 2005 1,190 new examiners *in addition* to the 750 new hires which are expected under the *Strategic Plan* for FY 2005, or a total of 1,940 new hires. This simply is not possible even if it could be afforded, because of the limitations in training and assimilating of that many new hires. Hence, the reason why these years represent *lost* years.

USPTO, and that are critically needed for implementing the *Strategic Plan*, particularly in view of the setbacks already experienced in FY 2003 appropriations, and which are looming for FY 2004.

The foregoing demonstrates two critical conclusions in the view of the P-PAC. First, that adequate funding of the USPTO to permit continued implementation of the *Strategic Plan* continues to be critical, and second, that passage of the Fee Modernization Act is critical to provide adequate fee collections that can be appropriated by Congress in order to meet the required funding levels for implementing the *Strategic Plan*.

The P-PAC is thus strongly supportive of 1) passage of the Fee Modernization Act, coupled, however, with 2) adequate appropriations to meet the USPTO's funding needs to fully implement its *Strategic Plan*. Implicit, however, in this statement of support is the P-PAC's strong support for current language in the Fee Modernization Act that would end diversion of user fees. The P-PAC believes that the current crisis facing the USPTO will not be satisfactorily resolved unless and until an appropriate solution to diversion is found that will truly permit the USPTO to realize the strategic goals and objectives as envisioned under its *Strategic Plan*.

IV. PERFORMANCE AS MEASURED AGAINST THE *STRATEGIC PLAN*

A. QUALITY

The USPTO came very close to meeting its FY 2003 target in quality (4.4% actual vs. 4.0% target error rate²² for allowed applications). This is true even though more errors are being identified as a result of the enhanced reviews of patent examiner work products under the *Strategic Plan*. It should also be noted that this error rate is an *average* taken across all technology centers. P-PAC is pleased to report that in a number of technologies, and particularly those in which the USPTO of late has been criticized due to perceived quality problems, such as software and computer related technologies, the percent of allowed applications with a material defect was in fact substantially below the FY 2003 target of 4.0%. Technology Centers 2100, 2600 and 2800 had FY 2003 error rates of 2.0%, 2.5% and 2.6%, respectively. This is a positive reflection that, particularly in some of the most challenging technologies, the USPTO's efforts to improve quality are succeeding. These efforts are, as noted below, being expanded to other technology centers.

The P-PAC is pleased to report that the USPTO has made improving patent quality its highest priority under the *Strategic Plan*. The P-PAC believes the USPTO is working hard to improve patent quality, and these efforts are reflected in the considerable number of initiatives begun or completed under the *Strategic Plan* during FY 2003. Included among the quality initiatives that were implemented or under development during 2003 under the *Strategic Plan* are the following:

- Improved pre-employment screening for new examiner hires by
 - certifying that new hires have better communication skills through improved oral interview processes and writing samples; and
 - completing an assessment of interim screening processes.
- Improved certification of patent examiner and supervisor knowledge, skills and abilities (KSA) by
 - developing the KSAs for patent examiners and supervisors;
 - incorporating the KSAs into patent examiner training programs to ensure that the examiners and supervisors have the requisites needed to be successful in their positions;
 - establishing Training Art Units for new examiners in high volume technology centers;
 - increasing the number of work reviews, and developing a legal competency exam prior to promotion of patent examiners to GS-13 level; and
 - initiating several continuing legal education (CLE) courses for examiners.
- Improved re-certification of Primary Examiners by
 - increasing the number of work product reviews; and
 - developing CLE courses for Primary Examiners.
- Improved process for selecting and training Supervisory Patent Examiners to improve their effectiveness.

²² The USPTO defines this as any claim which would have been invalidated by a court reviewing the patent.

- Improved competitive compensation program for Supervisory Patent Examiners.
- Improved procedures for enhancing the reviewable record for patents (e.g., the file history) by revising interview summary forms to require greater detail and recording of what transpired during the interview, and revising MPEP guidelines to reflect such changed requirements.
- Expanded program for the in-process reviews of applications during prosecution by increasing supervisory review of applications to ensure proper rejections were made.
- Expanded program for the “second pair of eyes” program to include targeted areas in every technology center, since it was successfully piloted in the business method examining units.
- Improved transactional customer satisfaction surveys.
- Expanded end-process reviews of allowed applications.

Of particular note in respect to the above is the more extensive in-process work product reviews for both junior and senior examiners initiated by the Office last year. The focus of these reviews for patent applications in FY 2003 was threefold:

- 1) Identify improper rejections or rejections that were not made and should have been,
- 2) Assess adequacy of the field of search, and
- 3) Ensure proper application of examination practice and procedures.

The USPTO reports that the information from these reviews has already begun to help identify the necessary training to enhance overall product quality and improve the consistency of examination, and that these reviews are being used to assist management in determining the root causes of problems and suggesting ways to achieve continuous quality improvement.²³ The USPTO also expects that this in turn will begin to help provide more focused training and educational materials as further tools for improving quality.

Overall, P-PAC is pleased with the quality initiatives undertaken by the USPTO in FY 2003, and commends the Office for commencing the new initiatives regarding the hiring and selection of new employees; the certification of knowledge, skills and abilities for junior examiners; the recertification of primary examiners; the improved selection of supervisors; and the expansion of both in-process and end-process reviews of patent applications undergoing prosecution. These actions reveal a critical look at the effectiveness of past practices and represent a serious effort to make changes intended to drive further improvement of patent quality for the future.

²³ It should be noted that P-PAC has not yet evaluated the complete basis for the USPTO’s assessment, but clearly those art units such as the software and business method art units where increased reviews have been used have seen a significant reduction in the USPTO’s error rate.

B. E-GOVERNMENT

The P-PAC is pleased to report that the USPTO made significant strides towards achieving some of the e-government goals of the *Strategic Plan* through the implementation of the Image File Wrapper (IFW) system. IFW is an electronic image version of the paper patent application file wrapper, and is created by scanning all papers in the application file wrapper using software initially developed by the European Patent Office (EPO). IFW provides users with instant and concurrent access to a patent application, eliminates examiner interruption for paper entry, and eliminates lost or damaged papers as opposed to paper patent applications. IFW will result in a patent application system that is not only paperless, but also faster and easier to use, and will better serve internal users, applicants and the public.

IFW has already been deployed in the Office of Initial Patent Examination, and in 120 patent examining art units with over 1,500 examiners now using IFW during the examination process. Beginning June 30, 2003, the Office began the process of converting all newly filed patent applications into the IFW system. Presently, there are over 325,000 applications in IFW serving as the official files. Full deployment of IFW is expected in October of 2004, depending on the level of appropriations for FY 2004 by Congress.

With the Office's imminent relocation to its new headquarters, the implementation of a paperless system is vital to ensure processes remain at an efficient and effective level. Using IFW will also ease the Office's burden of having the Office split between the two locations by enabling all employees to have concurrent access to any patent application.

The P-PAC also looks forward to the USPTO's release of the On-line File Inspection Module of IFW for private and public on-line viewing of the contents of applications via the Patent Application Information Retrieval (PAIR) system, which should greatly facilitate the ability of users and the public to access the available information on-line.

The report on the electronic filing system (EFS) initiative is not as positive as IFW. During FY 2003 there was only 1,188 individual EFS filers, and a total of only 4,436 utility applications filed using EFS, which represents only about 1.3% of all new utility applications filed. P-PAC believes that clearly there is need for further work to make EFS more user friendly, as well as a need for more effort to educate and motivate the user community to use EFS. In that regard, the P-PAC is eager to see the development of enhanced versions of software for on-line application filing currently under development with the various USPTO contractors on this project.

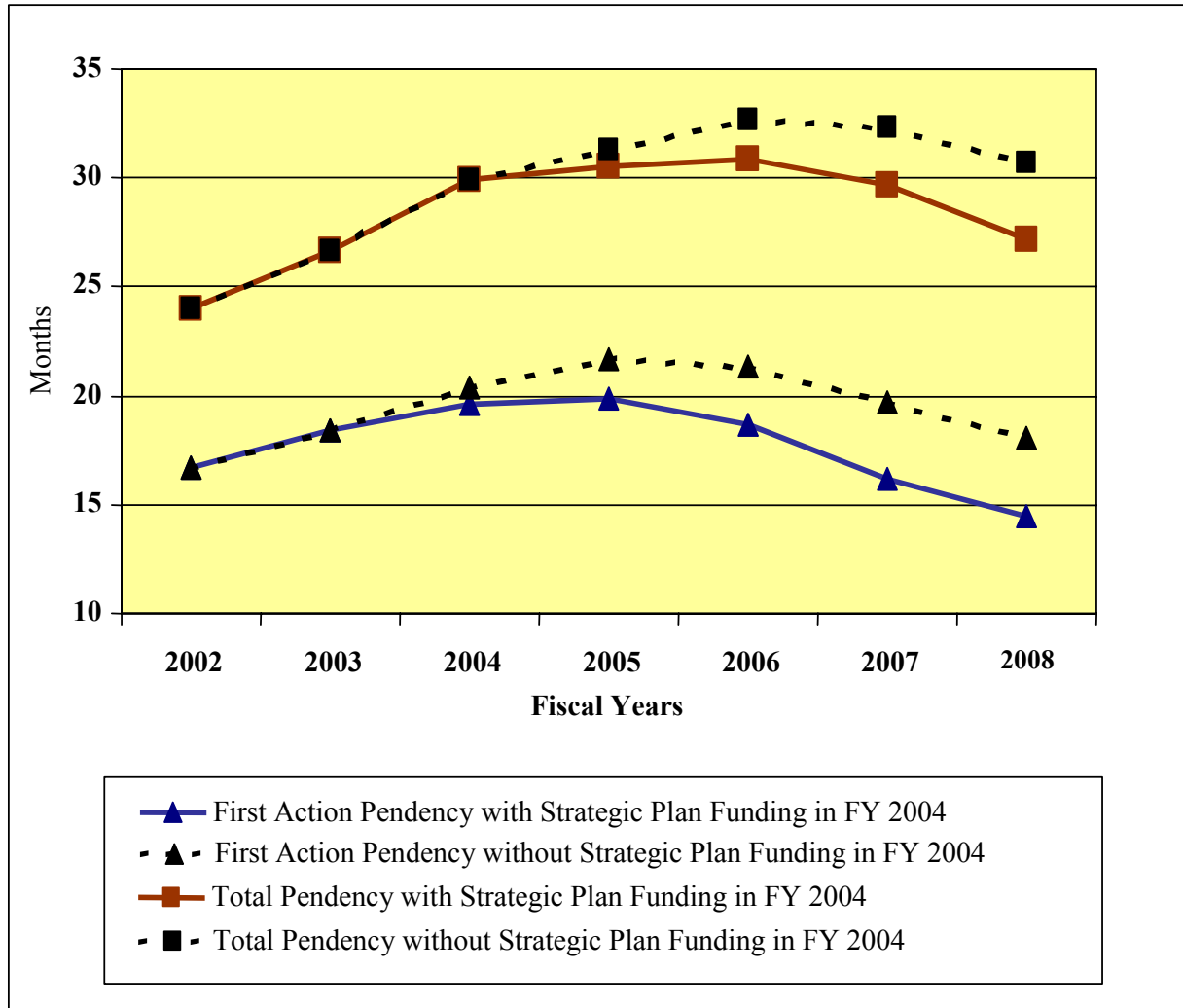
C. PENDENCY

The overall average patent pendency (filing to issue) for FY 2003 was 26.7 months, one month under the projected 27.7 months. First action pendency was projected to be on average 18.4 months for FY 2003 and ended slightly below target at 18.3 months.

While FY 2003 targets for overall patent pendency were met, it must be remembered that these are adjusted targets that were developed once the USPTO received its actual appropriation for FY 2003 from Congress (e.g., *reduced* by \$183 million or 13.5% as compared to what was

requested in the President’s budget) and taking into account the four months of continuing resolution under which the USPTO operated while waiting for an appropriations bill to be passed.

Stated another way, perhaps a more accurate way of reporting patent pendency is to compare FY 2004 – FY 2008 projected pendency with and without *Strategic Plan* funding in FY 2004.



This chart demonstrates once again the cumulative effect of “lost” years on patent pendency in future years, and once again underscores the critical need to reverse current trends in appropriations, which are tending to undercut the *Strategic Plan*.

In making this statement, the P-PAC recognizes that a policy keyed to simply hiring new examiners as “the” solution to reducing pendency is not appropriate. Indeed, Congress has made it clear that it will not countenance such an approach.²⁴ However, the *Strategic Plan* addresses reducing pendency by not only hiring new examiners, but also by outsourcing prior art searching, improving work sharing among various international patent offices, and various other initiatives intended to conserve core examiner time and utilize USPTO resources more efficiently. These are still in the early stages of development and piloting, and may well be stifled in the absence of adequate funding.

Pendency continues to be a major strategic objective of concern. Increased pendency will inevitably add to uncertainty for competitors who would otherwise seek to avoid infringing activity, and stifle investment opportunity for others.²⁵

²⁴ See footnote 12 *supra*. However, this statement should also be tempered by the reality that in 2000, the Examining corps was 2,904 (down slightly from 2,987 in 1999) and at the end of 2003 the corps was 3,579. This translates into a net increase of 620 examiners during that time, or 5.2% per year on average, as compared to an increase of 30% per year on average in application filings (see footnote 20 *supra*) during the same time period, e.g., 2000 - 2003.

²⁵ Compare, e.g., the report issued by the FTC on Oct. 28, 2003, “To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy” (hereinafter the “FTC Report”). In one of its conclusions, the FTC Report states that questionable patents are a significant competitive concern and can harm innovation (p. 5, Executive Summary), and goes on to “strongly [recommend] that the PTO receive funds sufficient to enable it to insure quality patent review.” Recommendation 4 “Provide Adequate Funding for the PTO,” p. 13, Executive Summary. The Executive Summary and full FTC Report may be found at <http://www.ftc.gov/reports/index.htm>.

V. CONCLUSIONS AND RECOMMENDATIONS

As stated at the beginning of this Annual Report, the USPTO must ensure that the United States has an intellectual property system that is strong and vibrant. This in turn means that the USPTO is entrusted with responsibility to develop and maintain an intellectual property system that will contribute to a strong U.S. and global economy, and will foster the entrepreneurial spirit and encourage investment in innovation so as to meet the underlying Constitutional objective of promoting “progress of . . . [the] useful arts.” The USPTO is seeking to fulfill that mission by striving to achieve the strategic objectives set before the Office by Congress, namely, enhancing patent quality, reducing pendency, and fully implementing e-government.

The P-PAC commends the United States Patent and Trademark Office. Its staff is continuing to work hard to not fall farther behind, and to meet targets set by USPTO management with respect to quality, e-government and pendency. However, inevitably, inadequate appropriations that fail to permit full implementation of the *Strategic Plan* will continue to accelerate the backlog and problems in patent pendency, and will to varying degrees, frustrate the other objectives set by the *Strategic Plan*.

We reiterate the statement made by the P-PAC in last year’s Annual Report (p. 7), which remains as true today as it was when made last year:

The USPTO is intended to operate as a Performance-Based Organization (PBO). However, without more autonomy, the USPTO cannot function as a PBO. . . .

. . . Certain foundation conditions must be present for a functioning PBO. First, there must be a clear mission and bottom line objectives. To drive the mission of the USPTO, there must be managerial discretion and flexibility, including personnel flexibility that would allow the leaders [of the Office] to strategically allocate resources, including personnel and financial resources, to the critical objectives. In order to pursue a clear mission, the USPTO must have stability in its resource base to link strategy and actual budgeted allocations and expenditures. The P-PAC has not seen in its several years of existence the level of control over basic resources to meet USPTO goals. . . . The USPTO, which is expected to produce a high quality product in a consistent and timely manner, simply cannot function under the current circumstances that exist today when it does not even have a budget during its current operational fiscal year.

The USPTO has established a *Strategic Plan* as mandated by Congress. That *Strategic Plan* has been “whole-heartedly” endorsed²⁶ by many of the major user groups of the Office, and has been acknowledged as deserving of the proposed funding levels that would be provided under the Fee Modernization Act and the President’s budget, provided the USPTO is permitted to benefit from

²⁶ See footnote 14 *supra* and accompanying text.

the fee revenue generated.²⁷ The P-PAC agrees. This continues to remain the single largest challenge going forward.

The Office has set as its priorities for FY 2003, and also going into FY 2004, as first, improving patent quality; second, achieving e-government; and third, reducing patent pendency. P-PAC agrees with and supports that prioritization. It is directly reflected in the matters reported herein for each of those objectives.

There is still much that needs to be done. There are major parts of the *Strategic Plan* that need to be implemented in order to continue moving forward. Provided that adequate appropriations will permit further implementation, in addition to following through on those parts of the *Strategic Plan* that are already under way, following are some of the more important provisions of the *Strategic Plan* that are still largely not implemented and that P-PAC recommends receive greater attention:

- Outsourcing of prior art searches. The *Strategic Plan* looks to this initiative as a major means of providing the more flexible multi-examination tracks envisioned. It is also a major means of focusing examiner time on making determinations of patentability. This initiative, while increasing efficiency, is also expected to improve patent quality, and also reduce pendency while at the same time reducing the need for new hires.
 - The Office intends to implement a pilot program for competitively outsourcing the search and/or opinion process for a limited number of Patent Cooperation Treaty (PCT) patent applications. This program would permit the Office to use qualified private search contractors to carry out searches in PCT applications. The P-PAC is aware that outsourcing the prior art search function is a hotly debated issue. Consequently, the P-PAC is committed to closely working with the Office to monitor contractor quality, and to endeavoring to carefully analyze the results of the pilot, and reporting our conclusions to the Congress as required by statute.²⁸
 - P-PAC supports the Trilateral initiative among the EPO, Japan Patent Office (JPO) and the USPTO to exchange search results as a way to gain efficiencies and improve work sharing in the examination process. In 2003, the Trilateral Offices implemented a pilot to exchange search results for evaluation to determine the extent an Office can exploit the search results of another Office. The ability of the Trilateral Offices to exchange and exploit each other's search results provides a means for reducing the need for each Office to accomplish an independent search in corresponding applications filed under the Paris Convention. Preliminary data reported by the USPTO show that, to at least some extent, the search that is done by another Office would be beneficial in the United States examination of the related patent application. A similar work exchange pilot is also under way with IP Australia. The Trilateral Offices also recognize that an

²⁷ See footnote 18 *supra* and accompanying text.

²⁸ H.R. 2561

examiner exchange would provide a direct means to discuss and understand how and why each Office accomplishes a prior art search and records the search history the way it does, and would further assist in developing a more common search approach among the various Offices. The USPTO intends to host an examiner exchange in the spring of FY 2004 with the JPO and EPO.

- Further development of EFS. P-PAC believes the enhanced versions of software for on-line application filing currently under development with the various USPTO contractors needs to be completed and evaluated as early as possible, and greater education and incentives to use EFS need to be developed to increase use of EFS.
- New hires. At least to the extent called for in the *Strategic Plan*, the USPTO needs to work hard to catch up on the new hires required in order to further address and reverse the growing problems in patent pendency.

The P-PAC looks forward to continuing its work with the USPTO to assist it in achieving its mission and fulfilling the strategic objectives set by Congress, as contemplated in its *Strategic Plan*.