



**UNITED STATES
PATENT AND
TRADEMARK OFFICE**

PATENT PUBLIC ADVISORY COMMITTEE

ANNUAL REPORT

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Patent Public Advisory Committee

ANNUAL REPORT

Introduction and Background

For over 200 years, the primary purpose of the United States Patent and Trademark Office (“USPTO”) has been to administer the patent and trademark laws of this Nation. For patents, these laws have their foundation in Article 1, Section 8, of the United States Constitution providing that the Federal Government promote the progress of the useful arts by securing for limited times to inventors the exclusive right to their respective discoveries. Under this system of protection, American business has flourished. New products have been invented and marketed, creating employment opportunities for millions of Americans.

Through the issuance of patents, the USPTO encourages technological advancement by providing incentives to invent, invest in and disclose new technology worldwide. By disseminating patent information, the USPTO promotes an understanding of intellectual property protection and facilitates the development and sharing of new technologies.

The Patent Public Advisory Committee (“P-PAC”) was created to advise on “policies, goals, performance, budget and user fees of the USPTO with respect to patents.”¹ The P-PAC is composed of nine voting members appointed by the Secretary of Commerce to advise the USPTO and represent interests of the diverse users of the USPTO² and three non-voting members representing each labor organization recognized by the USPTO.³ To reflect the rapidly changing intellectual property community, the P-PAC includes members from small entrepreneurial businesses, small inventors and universities to large U.S.-based corporations in a wide range of technical fields, including biotechnology, Internet technology and consumer products. The P-PAC is required to prepare an annual report for distribution to the President, Secretary of Commerce and Committees in the Judiciary of the Senate and House of Representatives.

In addition to the AIPA, recent legislation provides additional responsibilities regarding the strategic directions of the USPTO:

(a) DEVELOPMENT OF PLAN.

(1) IN GENERAL. The Director shall, in close consultation with the Patent Public Advisory Committee and the Trademark Public Advisory

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).

Committee, 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, including, in addition to the elements set forth in section 13103⁴, searching, examining, communicating, publishing, and making publicly available, patents and trademark registrations.

(2) CONTENTS AND CONSULTATION. The strategic plan shall include milestones and objective and meaningful criteria for evaluating the progress and successful achievement of the plan. The Director shall consult with the Public Advisory Committees with respect to the development of each aspect of the strategic plan.⁵

The P-PAC looks forward to working with the USPTO on the 21st Century Strategic Plan (“Strategic Plan”) introduced by Director James E. Rogan, in addition to developing an implementation plan for the Strategic Plan.

Since its inception in 2000, the P-PAC has stated its unanimously held appreciation of the critical importance of high quality U.S. patents – to sustain economic growth in the United States and to promote human progress everywhere. Patents drive technological innovation and, in turn, such innovation has driven the remarkable increase in U.S. productivity and the resulting real growth of the economy. Across ever-broader sectors of the global market, more and more companies are discovering that patents are among their most valuable assets.

The appreciation of the importance of patents to our national well being is dramatically reflected in the substantial increase in the number of patent applications filed in the USPTO. Ten years ago, in Fiscal Year 1990, the USPTO received 163,571 patent applications, which number has grown to 333,688 in Fiscal Year 2002. Even during challenging economic times, the number of patent applications continues to increase.

⁴ § 13103 provides for the development of a user friendly electronic system for filing and processing patent and trademark applications. 21st Century Department of Justice Appropriations Act, H.R. 2215 § 13103, 107th Congress, 2002.

⁵ 21st Century Department of Justice Appropriations Authorization Act, H.R. 2215 § 13104, 107th Congress, 2002.

PATENT PUBLIC ADVISORY COMMITTEE OPERATIONS

The formation of the P-PAC in the year 2000 included the appointment of voting members, with three of the members having 1, 2 and 3-year terms to stagger the future appointment process. The P-PAC recognizes members who served two-year terms expiring in July 2002 and were critical in initiating the activities of this Committee.

- Katherine E. White coordinated the Quality Subcommittee and recommended a number of the initiatives that are in the Strategic Plan. Ms. White is a White House Fellow and currently on leave from her duties as an Assistant Professor of Law at Wayne State University.
- Vernon A. Norviel is an inaugural member of the e-Government Subcommittee and actively encouraged the USPTO to aggressively develop Internet e-filing strategies. Mr. Norviel is currently with a start-up biotech company in Northern California and represented an important constituency on the P-PAC.

Two new members were appointed to the P-PAC by the Secretary of Commerce, Donald Evans:

- William L. LaFuze, a patent attorney with Vinson & Elkins in Houston, Texas;
- Albert L. Jacobs, Jr., a patent attorney with Greenberg, Traurig LLP in New York, New York.

Professor Patricia Ingraham, an inaugural member of the P-PAC, was reappointed for a three-year term. Dr. Ingraham is a distinguished and internationally recognized expert on public administration and a professor at the Alan K. Campbell Public Affairs Institute at Syracuse University.

Andy Gibbs, an inaugural member of the P-PAC, was re-appointed for a three-year term.

Gerald Mossinghoff, an inaugural member of the P-PAC, was re-appointed for a three-year term.

The P-PAC organized three subcommittees this year on issues of strategic concern for the USPTO:

- E-Government Subcommittee coordinated by Ronald E. Myrick with Vernon A. Norviel, Andy Gibbs and Julie Watson; William L. LaFuze replaced Vernon A. Norviel on this subcommittee.
- Quality Subcommittee coordinated by Katherine E. White with James L. Ferguson, Stephen P. Fox and Melvin T. White; Mr. Fox replaced Ms. White as coordinator, and Mr. Jacobs is a new member.
- Pendency Subcommittee coordinated by Margaret A. Boulware with Gerald

Mossinghoff, Patricia Ingraham and Ronald J. Stern.

The Subcommittees were formed to facilitate the advisory function of the P-PAC and meet with members of the USPTO.

The P-PAC meets in Arlington, Virginia. Meetings⁶ of the P-PAC for Fiscal Year 2002 and an additional meeting in Fiscal Year 2003 were held as follows:

October 17, 2001:	Executive Session Public Meeting
March 13, 2002:	Executive Session Public Meeting
May 23, 2002:	Executive Session
June 27, 2002:	Executive Session Public Meeting
October 10, 2002:	Executive Session

The advisory activities of the Executive Sessions will not be included in this report due to 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.

On May 23, 2002, an initial overview of the proposed Strategic Plan was presented to the P-PAC. The Strategic Plan was released to the public on June 3, 2002. The P-PAC subsequently commented on the Strategic Plan at its June 27, 2002, meeting.

Budget

In the 2000 and 2001 Annual Reports, this Committee reported that there is a crisis in funding that will adversely and seriously impact operations of the USPTO and the quality of the issued patents. Since 1992, \$617 million in USPTO fee collections have been either diverted or not provided to the Office in the year they were earned. This includes \$233.5 million of the fees that were collected but not appropriated back to the USPTO under the Omnibus Budget Reconciliation Act, approximately \$82 million that has been rescinded or sequestered, and \$301 million that was collected in Fiscal Year 2001 but not made available to process the work for which the fees were paid.

The P-PAC continues to support removing the USPTO from the appropriations process and having a permanent fix to funding such that all fees collected by the USPTO are retained by the

⁶ Transcripts and agendas of the meetings may be found at <http://www.uspto.gov/web/offices/com/advisorynotices/index/html>.

USPTO for its exclusive use. The USPTO is intended to operate as a Performance-Based Organization (“PBO”). However, without more autonomy, the USPTO cannot function as a PBO. At the time of preparing this report, the U.S. Government was operating pursuant to a continuing resolution. Funding of the USPTO remains at the Fiscal Year 2002 level of \$1.126 billion. No hiring or new program implementation is possible without a budget for Fiscal Year 2003.

The President’s request for Fiscal Year 2003 was \$1.365 billion, which included a \$162 million diversion of fees to other programs. The Senate mark is \$1.146 billion for Fiscal Year 2003, which is a reduction of \$219 million below the President’s request and only a 1.6% increase over the current fiscal year. Even in difficult economic times, the USPTO had an increase in patent application filings of 2.3% in Fiscal Year 2002. The 1.6% by the Senate does not keep up with normal inflation adjustments or match the increased filing rate and provides no funding for the full year costs of Fiscal Year 2002 examiner hires and for programs critical to improved patent quality and decreased pendency.

Policies and Goals

The P-PAC will review the policies and goals together since they are interrelated. The USPTO has the exclusive statutory authority to issue patents and administer other patent functions. Overlaid on the mandated functions are the priorities on how to administer the functions, and particularly the interaction with the USPTO user community. The policies and goals developed by the USPTO not only affect its internal operations but also its users and the technology community.

The policies and goals of the USPTO should be driven by the objective of having a functioning 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 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 vagaries of Federal Government budgeting as applied to the goals and mission of the USPTO, which should operate as a business, are clearly not in sync. 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.

Notwithstanding the budget challenges of the USPTO, Director Rogan and his staff have proposed the Strategic Plan for the USPTO that addresses issues of concern to the P-PAC, namely, quality of patents, pendency of patents and automation of the USPTO.

Quality

The P-PAC has urged that the quality of issued patents should not be sacrificed for any reason. We commend the direction of the Strategic Plan in increasing the quality of patents issued by the USPTO. In particular, the P-PAC has recommended in the past to redirect more quality review resources to review of patent applications in process. The Quality Subcommittee has recommended more supervision and review of patent applications at the time of the issuance of the first office action rather than focusing on the end of the examination. We believe this will identify errors that may crop up in examination, particularly in new technologies, and provide a more efficient feedback loop to the examiners. Although review of the end product after allowance of a patent application is important, we believe at least equal importance should be given to quality review at the earliest point in examination as possible to determine root causes of error and initiate corrective action earlier in the process.

One of the proposals in the Strategic Plan is the outsourcing of searches of prior art for pending patent applications. Commissioner Nicholas Godici, at the time he was Acting Director, recommended outsourcing of PCT Chapter I search reports to entities other than the USPTO. The P-PAC recommends the initiation of a meaningful pilot program, such as outsourcing PCT Chapter I searches, in order to evaluate whether the searches will stand up to the quality standards of searching done at the USPTO and whether outsourcing the search will reduce pendency in a meaningful way. Prior to implementing a revision of USPTO operations to separate search and examination, a pilot program must be performed to assure quality results, confidentiality and efficiency.

In addition, the P-PAC encourages the program under way by the USPTO to review work sharing with other national offices, particularly in sharing search results. The review should focus on the equivalency of the overall content of the art collected in parallel searches of inventions. With the explosion of searchable references, the equivalency of searches should be examined. A determination of whether to use searches from other competent national searching authorities should not rest on a simple one-for-one comparison of references identified by separate searches, but rather the teaching from the compilation of references found in separate searches.

Other initiatives of the Strategic Plan on personnel quality are supported by the P-PAC, including enhancing the workforce capabilities through certifying competencies, focusing on language skills and identifying qualified individuals for supervisory positions within the USPTO.

Pendency

The P-PAC is alarmed by the potential increased rate in pendency. If the USPTO is funded at the Senate mark, we are advised that there will be no reduction in patent pendency in Fiscal Year 2003. There is a freeze on the hiring of patent examiners and, although the retention rate of examiners has not increased, there is about a 7% attrition rate. If funding levels at the current Senate mark are maintained, the USPTO anticipates that average patent pendency measured from the time of filing would increase to almost 42 months in 2008. The current pendency averages about 24 months. An average pendency of almost four years is totally unacceptable. The following is a table of the potential increased pendency for the next five years:

Year	2003	2004	2005	2006	2007	2008
Pendency	27.7	30.1	31.1	33.8	37.4	41.9

The Strategic Plan attempts to address pendency issues by recommending that applicants may file patent applications and, at the applicant's option, delay processing of the application by deferring examination for up to 18 months prior to the applicant requesting examination. The USPTO proposes to measure patent pendency from the date the applicant requests examination. The P-PAC believes that the USPTO should maintain the current measurement of pendency from the date of filing to the date of issuance or abandonment.

The P-PAC has requested additional information on the deferred examination process identified in the Strategic Plan. One of the underlying assumptions is that there will be a decrease in workload by virtue of a 10% application dropout rate prior to request for examination. This would mean 10% fewer applications for examiners to review, which would decrease the backlog. The P-PAC has requested information on the assumption of how the 10% dropout rate was determined, including review of the dropout rate of U.S. provisional filings as well as other U.S. data. One alternative is a separate filing fee and request for examination with a fee without delay in the processing of the application. The P-PAC recommends a pilot on any drastic change in the patent examination system to determine if decreased pendency and improved quality will likely be achieved.

The outsourcing of searches discussed above is also a proposed component in pendency reduction in the Strategic Plan. The P-PAC advises that, in the event patent application searches are outsourced to third parties, the applicants should not select the search providers. The USPTO should be the entity contacting the outside search organization rather than an applicant commissioning a search for use in patent examination by the USPTO. In certifying the third parties, the technical competency in specific areas should be reviewed. Also, there has been no data provided to the P-PAC that outsourcing searches will improve efficiency of examination.

The P-PAC emphasizes that an adequate examining corps is necessary to issue quality patents. Although outsourcing certain functions may reduce workload, there is no substitute for adequately educated and trained patent examiners. The work of examining applications is not merely processing, but thoughtful review and evaluation of technology.

e-Government

The P-PAC's e-Government Subcommittee has been working with the USPTO since the year 2000. The P-PAC recommended a 2004 timeline for electronic file wrappers, but those plans were put on hold because the Fiscal Year 2002 budget eliminated funding for automation on the patent side. The P-PAC strongly supports the advancement of the e-Government initiative, particularly the goal of electronic file wrappers by 2004 as provided in the Strategic Plan. However, the P-PAC has some concerns about achieving the goal of electronic file wrappers by 2004 due to the unpredictability of funding for this specific program. Implementation of an automated patent office requires the development of a program spanning more than one budget year with consistent staffing. During its short term, the P-PAC has recognized the challenges that the USPTO faces in developing and implementing a program to automate the patent operations. The sheer volume of

data involved in patent application processing, which must be protected through a high level of confidentiality, cannot be equated to the automated operation on the trademark side of the office. The patent operation will leverage to the extent possible the experience of the automation of the trademark operation; however, the P-PAC recognizes the significant challenges in automating the patent operations.

The P-PAC believes that automating the patent operations is critical to both the quality and pendency initiatives. A more efficient handling of file histories will speed up processing, which will facilitate decreased pendency. Also, the P-PAC believes that having an efficient system available to the examiners will enable them to focus on the critical examination issues in a more efficient manner.

Rules

The P-PAC has been asked to provide comments on the following rule package during Fiscal Year 2002: Revision of Patent Fees for Fiscal Year 2003 (RIN 0651-AB51).

Performance

The P-PAC formed Quality and e-Government Subcommittees that assist in advising the USPTO on performance in the quality of issued patents and automating the USPTO. A number of the initiatives undertaken by the Subcommittees have been discussed in the Policies and Goals section of this report.

The USPTO set a 3% error rate target for Fiscal Year 2006, which is the lowest error rate in 25 years. This error rate is measured after the examination of the patent to determine if any mistakes were made during prosecution that would render the patent invalid. If an error is found, the file is reopened and the errors are corrected. The Quality Subcommittee is working with the USPTO to endeavor to develop metric data to measure quality of issued patents. This challenge brings to mind a quote by former patent examiner Albert Einstein, "Not everything that can be counted counts, and not everything that counts can be counted." The Quality Subcommittee is continuing to work with the USPTO staff on not only measuring quality, but also improving quality. One specific program that has proven useful in the business methods patent area is a second pair of eyes review during the processing of patent applications. The P-PAC encourages the USPTO's implementation of a second pair of eyes review in technology areas, particularly emerging technologies, with examination challenges in addition to business method patents.

In addition, the P-PAC encourages the Strategic Plan initiative to develop incentives to retain experienced examiners. Retention initiatives for patent examiners should be established.

The e-Government Subcommittee continues to meet with senior staff at the USPTO, particularly those responsible for information technology planning. The e-Government Subcommittee recommended electronic file wrappers by 2004 in a digital format. It is our understanding that current USPTO plans call for image-based electronic files by 2004 with a subsequent migration to totally text searchable digital files by 2008. As expressed above, the e-Government

Subcommittee has concerns about reaching these goals due to budget and planning constraints beyond the control of the information technology planning team at the USPTO. Without automation, the performance of the USPTO will be seriously hampered by the inability to efficiently process information in paper files.

User Fees

The Strategic Plan included legislation with significant fee revisions. The change in the fee structure would provide a new application processing system in the U.S. At the time of preparing this report, a revised fee structure is being developed and will be released shortly to the P-PAC. The P-PAC was advised that the new fee structure would be revenue neutral for Fiscal Year 2002, taking into account a \$162 million diversion for other programs. The proposed fee structure increases fees for complex technologies requiring a more complex claim structure in an exponential rather than linear manner. Members of the P-PAC expressed serious concern that start-ups and other companies would be precluded from meaningful patent protection because filing fees for applications currently at the \$5,000 or less level would rise to \$50,000 or more. The P-PAC requested a justification based on workload for exponentially increasing fees of complex applications. Although the P-PAC supports a fee increase related to increased workload for the USPTO, an astronomical fee increase without a means for retaining the increased fee income is not supported. Additional fees can be siphoned off to other Government programs, leaving patent applicants in a position of providing subsidies for totally unrelated Government activities.⁷

The Strategic Plan identifies micro entities for special fee treatment. Currently there is a small entity fee scale for companies with less than 500 employees. The micro entity would apply to smaller applicants. One of the P-PAC members recommends carefully reviewing means tests for small entities and suggests a gross annual salary of \$150,000 for qualification. The actual fee for the micro entity should be less than the small entity fee, which is a 50% reduction of the large entity fees based on the current fee structure.

Conclusion

The P-PAC looks forward to working closely with the USPTO on the Strategic Plan. The budgeting issues continue to challenge programs to improve quality and decrease pendency. The USPTO goal for an electronic file wrapper by 2004 has been urged by the P-PAC. The P-PAC will continue to work with the USPTO to establish goals for performance in the 21st century.

⁷ Other self-funded Government agencies suffer from fee diversion, and that diversion has national impact. It is estimated that the Securities and Exchange Commission (“SEC”) will collect \$1.33 billion in Fiscal Year 2003. The President’s 2003 Budget is \$466.9 million. The lack of full funding on the SEC’s ability to oversee public companies is being reviewed. Implications of Alternative Fee Structures, General Accounting Office, July 16, 2002.