UNITED STATES PATENT AND TRADEMARK OFFICE

PATENT

PUBLIC ADVISORY COMMITTEE

ANNUAL REPORT

NOVEMBER 30, 2005

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PATENT PUBLIC ADVISORY COMMITTEE

ANNUAL REPORT

I. INTRODUCTION

A. BACKGROUND AND OPERATION OF THE PATENT PUBLIC ADVISORY COMMITTEE DURING FISCAL YEAR 2005

Created to advise on "policies, goals, performance, budget and user fees of the USPTO with respect to patents,"[1] the Patent Public Advisory Committee (PPAC) is now entering its sixth year. By statutory mandate, the PPAC 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. PPAC also has three non-voting members[3] who represent the three labor organizations recognized by the USPTO and which serve the community of USPTO employees. Voting members have staggered three-year terms, with three voting members being up for replacement or re-appointment each year.

At the outset, the PPAC recognizes those members whose terms expired in July 2005. They provided a great public service, and their input has been an important part of the activities undertaken by the PPAC during this last year. We extend our thanks and recognize the important contributions of the following members whose terms ended in this past year:

- William L. LaFuze
- Albert L. Jacobs, Jr.

Since the last Annual Report, PPAC has added the following new members, appointed by the Secretary of the Department of Commerce in December of 2004, and in August of this year:

- M. Andrea Ryan, General Patent Counsel for TransForm Pharmaceutical, Inc. of Lexington, Massachusetts
- Carl E. Gulbrandsen, General Patent Counsel of Wisconsin Alumni Research Foundation of Madison, Wisconsin

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[1] American Inventors Protection Act of l999 (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).

- Dean L. Kamen, an inductee of the National Inventors Hall of Fame, and founder and President of DEKA Research and Development of Manchester, New Hampshire

- Lisa K. Norton, a partner at DLA Piper Rudnick Gray Cary of Reston, Virginia

- Maximilian A. Grant, a partner at Latham & Watkins, Washington, D.C.

Additionally, Gerald Mossinghoff, a former Commissioner of the Patent and Trademark Office, and currently a partner at Oblon, Spivak, McClelland, Maier & Neustadt of Alexandria, Virginia, was re-appointed last August for another three-year term.

PPAC welcomes these new and returning members. They bring an exceptional diversity and wealth of experience to PPAC.

In-person meetings of the PPAC were held during this last year at the offices of the Commissioner for Patents, in Alexandria, Virginia. Members not attending in person were provided with the option of attending by conference call. Meetings[4] of the PPAC during 2005 were held as follows:

February 28, 2005	New Member Orientation (Nov. 2004 appointees)
April 19 - 20, 2005	Executive Session[5] and Public Meeting
August 29, 2005	New Member Orientation (August 2005 appointees)
August 30, 2005	Executive Session and Public Meeting
October 25, 2005	Executive Session and Public Meeting

In addition to review of budgetary and fiscal operation of the USPTO, and review of progress in regard to the core objectives of improving patent quality, achieving electronic filing and application processing, and reducing pendency under the USPTO's *21st Century Strategic Plan*, discussed elsewhere herein, the PPAC reviewed and commented on the following rulemakings during FISCAL YEAR 2005:

1) Final Rule: Provisions for Persons Granted Recognition to Prosecute Patent Applications and Other Miscellaneous Matters;

2) Final Rule: Changes to the Practice for Handling Applications Filed Without the Appropriate Fees;

[4] Transcripts and agendas of the public meetings may be found at http://www.uspto.gov/web/offices/com/advisory/

[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.

3) Proposed Rule: Changes to Implement the Patent Search Fee Refund Provisions of the Consolidated Appropriations Act, 2005;

4) Final Rule: Revision of Search and Examination Fees for Patent Cooperation Treaty Applications Entering the National Stage of the United States;

5) Final Rule: Changes to Implement the Cooperative Research and Technology Enhancement Act of 2004;

6) Proposed Rule: Changes to Practice for the Examination of Claims in Patent Applications;

7) Proposed Rule: Changes to Practice of Continuing Applications, Requests for Continued Examination Practice, and Applications Containing Patentably Indistinct Claims;

8) Final Rule: Provisions for Claiming the Benefit of A Provisional Application with A Non-Provisional Specification and Other Miscellaneous Matters;

9) Provisional Rule: Pre-Appeal Brief Conference for Patent Applications under Appeal to the Board of Patent Appeals and Interferences; and

10) Provisional Rule: Changes to Examination Practice for Means- (or Step-) Plus-Function Claim Elements in Patent Applications.

B. SCOPE AND FOCUS OF THE ANNUAL REPORT

This Annual Report first reviews the USPTO's mission and strategic goals, as reflected in the *21st Century Strategic Plan* (hereinafter, the "*Strategic Plan*"). Highlights of the fiscal year 2005 budget are then reviewed, followed by a brief evaluation of the President's fiscal year 2006 budget request for the USPTO. The USPTO's performance during fiscal year 2005 is then reviewed in regard to the core objectives of patent quality, e-government and pendency reduction. Additional accomplishments of note during fiscal year 2005 are briefly highlighted, and the Annual Report then concludes with some final observations.

II. USPTO MISSION AND STRATEGIC GOALS

Simply stated, 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."[6]

[6] Article 1, Section 8.

PPAC is proud to note that notwithstanding major challenges that still lie ahead of it, the USPTO is still more efficient, faster and less expensive than any other major patent office in the world. The USPTO has worked hard and has accomplished much during the almost three years since the *Strategic Plan* was adopted.[7]

Technology has and is becoming increasingly complex. At the same time, the number of pending patent applications in the world's examination pipeline continues to increase significantly. As originally envisioned, the *Strategic Plan* charts a comprehensive course designed to address these challenges. Three long-term themes are at the core of some fifty individual initiatives[8] that make up the *Strategic Plan*:

- ***Agility:*** Creation of a flexible organization and work processes that can handle the growing complexity and volume of work, and the globalization that characterizes the 21st century economy. This theme calls for the USPTO to work both bilaterally and multilaterally with its international partners to create a stronger, better-coordinated and more streamlined framework for protecting intellectual property around the world, and by transforming the USPTO workplace by radically reducing labor-intensive paper processing.

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[7] During the appropriations process for FISCAL YEAR 2002, the USPTO was instructed by the Senate and the House 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. 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. . . ."); and 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 . . . .").

In response, following a rigorous review of its internal operations, and after concerted effort to work with 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 re-released its *Strategic Plan* on Feb. 3, 2003 (having originally released it in June 2002). The *Strategic Plan* can be found on the USPTO website at http://uspto.gov/web/offices/com/strat21/index.thm.

[8] Some of the core initiatives of the *Strategic Plan* include consolidation of quality assurance activities; competitively contracting out 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 reduce duplication of effort among offices.

Following completion of the *21st Century Strategic Plan*, the House Committee on Appropriations remarked that "This plan calls for some of the most sweeping changes to the patent review process in 200 years, and the Committee supports these recommendations. House Report 108-221. The *Strategic Plan* also received the support of many of the major user groups that worked with the USPTO during its development. In a joint letter dated Nov. 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.

- ***Capability:*** Enhancing quality through workforce and process improvements. This theme calls for the USPTO to make patent and trademark quality the highest priority in every component of the *Strategic Plan*, with the result that through timely issuance of high quality patents and trademark registrations, the USPTO will respond to market forces by promoting advances in technology, expanding business opportunities and creating jobs.

- ***Productivity:*** Accelerating processing times through focused examination. This theme calls for the USPTO to control patent and trademark pendency, reduce time to first office action, and recover its investments in people, processes and technology.

Simply stated, realization of these themes through the various initiatives of the USPTO's *Strategic Plan* is measured by three goals: enhancing the quality of granted patents and trademark registrations; reducing pendency and improving the productivity in processing applications for patents and trademarks; and increasing efficiency through expansion of electronic government programs.

Fiscal year 2005 marked the end of almost the third year since the *Strategic Plan* was adopted by the USPTO in February of 2003, and the first year in which the USPTO received full funding through appropriation of all planned fees, as recommended under the President's budget request. As the USPTO continues to critically evaluate achievement of these goals as a result of the initiatives contemplated by the *Strategic Plan* and in light of funding realities,[9] the USPTO has been confronted with the need to reassess and refine its priorities with respect to those aspects of the *Strategic Plan* that warrant implementation, as discussed further below.

III. BUDGET REVIEW

A. FISCAL YEAR 2005 BUDGET REVIEW

For the first three months of fiscal year 2005, 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.[10] The fiscal year 2005 appropriation of $1.554

[9] For the first four months of fiscal year 2004, 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 fiscal year 2004 appropriation of $1.222 billion represented an increase of $40 million, or 3% more than spending levels under the fiscal year 2003 enacted budget. However, the fiscal year 2004 appropriation fell short of the President's budget request of $1.404 billion by $182 million (or 13%). As PPAC predicted last year, these funding levels have severely challenged the operations of the USPTO, making it difficult just to meet basic operating expenditures, let alone providing for any significant implementation under the second full year of the *Strategic Plan*. This is especially true since $44,000,000 in the USPTO's fiscal year 2004 budget was already required by contract to be allocated to pay for the move of the USPTO to its new campus in Alexandria, thus effectively eliminating even the 3% increase (e.g. $40 million) for any use beyond the scheduled move in 2004.

This same pattern occurred with respect to USPTO funding during fiscal year 2003. The USPTO was also under a continuing resolution for the first four months of that fiscal year, and that year's appropriation of $1.182 billion provided $183,000,000, or 13.5% less than the President's request of $1.365 billion.

[10] See note 9 *supra.*

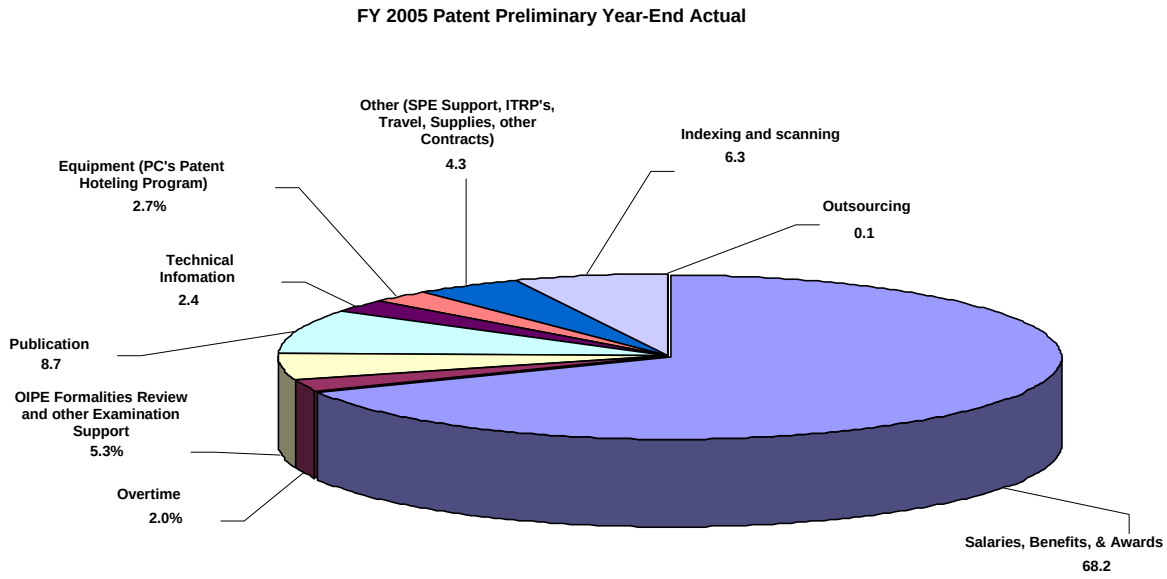
billion represented an increase of $275 million, or 22.5% more than spending levels under the fiscal year 2004 enacted budget.

Total funding available for spending in fiscal year 2005 was $1.571 billion ($1.554 billion appropriated, $2.3 million carryover from fiscal year 2004, and $10 million in recoveries in fiscal year 2005). Estimated fee collections for fiscal year 2005 under the President's budget were $1.563 billion with the fee bill, as compared to actual receipts of $1.511 billion. Planned obligations of the USPTO under the President's budget for fiscal year 2005 were $1.571 billion, as compared to actual obligations of $1.508 billion for the year.

The following charts illustrate actual USPTO expenditures for fiscal year 2005. Chart 1 illustrates spending by business area, and Chart 2 illustrates the breakdown of expenditures for the patents business area of the USPTO's budget.

BUSINESS AREA	FY 05 (Actual $ in 000s)
Appeals Boards	24,748
General Counsel	9,079
Director's Office, External Affairs, CFO	69,659
Patents	824,050
Trademarks	87,550
CIO	274,782
MGE	218,524
Total	$1,508,392

Chapter 1 - Fiscal Year 2005 Expenditures By Business Area - Actual



Chapter 2 - Fiscal Year 2005 Expenditures for Patents - Actual

B. THE PRESIDENT'S BUDGET REQUEST FOR FISCAL YEAR 2006

Turning briefly to fiscal year 2006, PPAC is pleased to note that like last year, this year the President's budget request for $1.703 billion had no planned fee diversion.[11] In that respect the President's budget continues to represent a much needed and welcome change in USPTO budgetary policy.

At the time of this report, the USPTO had reduced its fee projections for fiscal year 2006 as originally contained in the budget submitted to the President by $20 million, to $1.683 billion.

Acknowledging the revision in fee projections, the Conference Committee Report includes a budget of $1.683 billion for the USPTO. H.R. 2862, the "Science, State, Justice, Commerce, and Related Agencies Appropriations Act, 2006" was signed into law by the President on November 22, 2005. The Act includes earmarks of:

- $500,000 for the National Intellectual Property Law Enforcement Coordination Council (NIPLECC),
- $1 million for the International Intellectual Property Institute, and
- $3 million for the National Inventor's Hall of Fame.

[11] The President's budget request included a proposed $44 million transfer to OPM for USPTO retirement benefits, but we do not view this as a diversion of fees for non-PTO uses, but rather, as a legitimate agency cost used for the employees of the USPTO.

Appropriations will, for the second year in a row, provide the USPTO with full access to all user fees paid to it, up to the full $1.683 billion amount budgeted and appropriated.[12]

PPAC strongly endorses the action taken by the Administration and Congress of ending fee diversion and fully funding the USPTO, as represented in the fiscal year 2005 and 2006 President's budgets and the Congress' appropriations. As noted previously by the PPAC and others, past failures to provide the USPTO with full funding from the user fees paid to it has seriously impacted USPTO operations and has been at the root of many problems currently faced by the USPTO.[13]

Provided that the Congress will be willing in future years to permanently adopt the fee increases as contemplated under the Fee Modernization Act (which will expire at the end of FY 2006) and provided that the policy set by the Administration under the fiscal year 2005 and 2006 budgets of ending diversion of user fees for non-USPTO expenditures is continued in future years, the increased funding provided under the Fee Modernization Act will permit the USPTO to continue to aggressively work toward achieving the goals set under the *Strategic Plan* of continuing to improve patent quality, reducing pendency to more acceptable levels, achieving the benefits of electronic filing, management and processing of applications. This will continue to keep the USPTO in the forefront as the world's leader of the global intellectual property system, and will help to insure that the U. S. patent system continues to play a strong role in supporting a vibrant domestic and global economy.

IV. FISCAL YEAR 2005 PERFORMANCE HIGHLIGHTS

A. QUALITY

The USPTO uses two measures to help it determine how well it is achieving the strategic goal of patent quality. These two measures are allowance error rate,[14] and in-process compliance rate.[15]

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[12] In one sense, the USPTO is "fully funded" since it is anticipated that there will be no diversion of fees. However, whether there in fact will be some diversion of user fees during fiscal year 2006 will ultimately depend on whether the actual fees collected by the USPTO exceed the amount appropriated for the USPTO for fiscal year 2006.

[13] See, for example, the reports released within the last two years by the NAS ("A Patent System for the 21st Century," p. 68, noting that "To improve its performance, the USPTO needs additional resources. These funds should enable hiring additional examiners, implementing a robust electronic processing capability, and creating a strong multidisciplinary analytical capability . . . . The current USPTO budget does not suffice to accomplish these objectives . . . .") and the FTC ("To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy," noting that "Presidential patent review committees have long advocated more funding for the PTO to allow it to improve patent quality. As recently as 2002, the Patent Public Advisory Committee stated that the PTO 'faces a crisis in funding that will seriously impact . . . the quality of . . . issued patents.' The FTC strongly recommends that the PTO receive funds sufficient to enable it to ensure quality patent review." Executive Summary, pp. 12 - 13).

[14] Allowance error rate is an end-process review which concentrates on the improper allowance of claims. The USPTO defines this as any claim which should not have been allowed under any of statutory sections 102 (anticipation), 103 (obviousness), 112 (lack of written description, lack of enablement, indefiniteness) or 101 (non-statutory subject matter).

Of the two quality measures reported, the USPTO exceeded one of them (in-process reviews) and fell short of the other (allowance error rate).

The USPTO fell short of its targeted fiscal year 2005 allowance error rate (4.55% actual vs. 4.0% target error rate). However, this is an *average* taken across all technology centers, and the USPTO continues to meet the quality goal in a number of key areas.[16] During 2005, the USPTO put great emphasis on reaching the quality goal of a maximum 4% allowance error rate. An error rate this low had not been achieved in any of the previous four years. As of mid-year, the allowance error rate was at 5.2%. In an effort to bring the allowance rate down the USPTO performed a far-reaching, rigorous review of all allowed applications during the second half of the fiscal year. During this period, each allowed application was reviewed by an additional employee – either a supervisory or primary examiner. While this review was very time-intensive, using at least 27,000 management hours, this effort resulted in a decreased error rate for the second half of the year which was below 4%. However, when combined with the first half of the fiscal year results, the overall allowance error rate for the year was 4.55% as noted.

While clearly this effort had a positive impact on reducing the allowance error rate, on the other hand it also had a negative impact on the overall number of applications allowed during the fiscal year, dropping overall allowance rate from 62.5% in fiscal year 2004 to 58.7% for this fiscal year. As noted in discussions between management and the PPAC, this would suggest fine tuning the rigor with which allowed applications are reviewed, by reviewing perhaps all or a high percentage of allowed cases in art units where the allowance rate exceeds the target, but reducing the number of reviews in those art units where the allowance rate is under the target rate. The advantages and disadvantages of this initiative will be considered further when determining the quality initiatives for fiscal year 2006.

In addition to end-process reviews, the USPTO also conducted a thorough in-process review of a percentage of applications from each examiner. In this area, the USPTO exceeded its compliance rate. The in-process compliance rate goal was 84.0%. This goal was exceeded by 2.2%. Overall, the in-process review compliance rate in FY 2005 was 86.2%. The PPAC sees this as a positive reflection that efforts to improve quality are succeeding, and that these results will also eventually be reflected in improved metrics with respect to the allowance rate error as well.

PPAC commends the USPTO in its continuing effort this past year to make improvement in patent quality its highest priority under the *Strategic Plan*. These efforts are reflected in the

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[15] In-process review, as opposed to end-process review, concentrates on improper rejections under any of statutory sections 102, 103, 112 or 101, for example, rejections based on art that does not meet all of the claimed limitations for purposes of anticipation or obviousness, or the failure to identify adequate motivation to combine references when making a rejection based on obviousness.

[16] By way of example, in those TCs responsible for examining electrical and computer engineering applications, e.g., Tech Centers 2100, and 2600, the FY 2005 error rates were 3.6%, and 2.3% respectively, as compared to the actual overall average error of 4.55% for the entire examining corp. This is a positive reflection that, particularly in some of the most challenging technologies, the USPTO's efforts to improve quality are succeeding.

number of new patent quality initiatives which the USPTO began during this last fiscal year. These include:

- **Search Recordation** – A Revised Procedure for Recording Search and Information

  Printed on the Face of Patent under the Heading "Field of Search" was published in the Official Gazette July 19, 2005. This procedure sets forth the requirement for examiners to record with greater clarity how the prior art search was conducted. Classified searches are recorded differently than are classified searches limited by text queries and electronic text-based searches, thus letting supervisory personnel of the Office and, ultimately, practitioners better understand how the prior art search was conducted. This initiative was strongly supported by PPAC as a positive step in improving patent quality. Clearly, having the best art available at the time of examination will strengthen those patents issued, and thus the ability to more transparently see how the search was conducted should lead to better searches and hence better examination of applications, as well as better uniformity in how searches are conducted.

- **Tri-way Project** - Under the Tri-way proposal, an applicant may file an application in each of the Trilateral Offices. Each application must be ready for examination. One of the Trilateral Offices will be elected as the first Office to perform the search and examination. The application in the first Office will be placed in the special status queue for action and the first Office will provide the search results and the resulting Office action to the other two Offices in the Trilateral Dossier Access System (TDA) within an agreed upon time period. The second and third Offices will complete their respective searches within an agreed upon time period, and then the search results from the second and third Offices will be posted in the TDA to be available to all Trilateral Offices. This will provide the applicant with the best art found by all three of the Trilateral Offices, as well as providing the opportunity for shared search results and exploitation of those results by all three Trilateral Offices during examination, something which to date has proven to be a very elusive goal.

- **Pre-appeal Brief Conference** – A pilot was started on July 12, 2005 to conduct a pre-appeal brief conference at the applicant's request prior to the applicant's filing of an appeal brief. Upon receiving the request, a panel of examiners, including supervisors and primaries, meet to discuss the merits of the rejection of record. One of three results is possible: moving forward to appeal, reopening of prosecution, or allowance. This procedure was seen by PPAC and others as providing a significant savings in costs for applicants where either prosecution is reopened or the rejection is withdrawn and the case is allowed. Since the pilot's beginning in July, about 1000 cases were subject to a request for a pre-appeal brief conference. The Office decided to move forward to appeal in about 40% of the applications, and withdraw the previous rejection (for either allowance or reopened prosecution) in about 60% of the applications.

- **Central Reexam Unit** – In a significant effort to reduce the pendency of some of the most critical applications, e.g., those in reexamination, three special programs examiners and eighteen examiners were selected to become dedicated staff to a new

unit devoted to examining reexamination applications. After July 25, 2005, all reexamination proceedings were assigned to this unit. Each action mailed out is signed by a panel comprising the examiner, an examiner conferee and a special programs examiner. Each member of the central reexam unit received extensive training for both *inter partes* and *ex parte* reexamination applications. For those reexamination applications pending in the technology centers, a massive clean-up effort was undertaken whereby more than 600 applications in reexamination were issued office actions. By the end of this fiscal year, *all* reexamination applications pending over two years had received an office action. PPAC commends the USPTO for the positive change this has made in a highly critical sector of the USPTO's examination operation.

- **Expedited Examination (MPEP §708.02 VIII) for Applications Requesting Special Status** – In yet another effort to reduce pendency for a critical segment of pending applications, e.g., those requesting special status, during the second half of this fiscal year special emphasis was placed on answering petitions for accelerated examination under MPEP §708.02. Training was given to all of the special programs examiners to ensure that decisions are being made accurately and uniformly. Also, if the petition was granted, the Technology Centers monitored the application to ensure expedited examination of the application. This effort significantly reduced the number of pending petitions to not more than one in any technology center, with the exception of TC 2100 which had far more petitions to decide than the other TCs.

- **Search Templates** – In an effort to bring greater uniformity and quality to the prior art search performed by examiners, the Office is piloting a program in which it has created search templates for approximately six hundred technology areas. Each search template defines the search field and resource areas of general subject matter, classes/subclasses, patent documents (both U.S. and foreign) and non-patent literature that an examiner should consider each time a patent application is examined in that classification area. Additionally, the search template will indicate which search tools and methodologies should be considered when performing the search. These are expected to be used by USPTO external customers as well as by examiners.

- **Improved Quality Compensation Program for Supervisory Patent Examiners** – This year the Office instituted a compensation program for supervisory patent examiners in which a supervisor was eligible for an additional end-of-year bonus dependent on quality data outcomes from their technology centers.

In addition to the new initiatives begun in this fiscal year as outlined above, the USPTO has continued with implementation of those quality initiatives that were begun during the first two years of the *Strategic Plan*, including:

- 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.

- Improved certification of patent examiner and supervisor knowledge, skills and abilities (KSA) by
  - 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; and
  - Initiating several continuing legal education (CLE) courses for examiners.

- Certification of examiners prior to GS-13, by
  - Work product reviews
  - Requirement for passing the certification exam
  - Offering Patent Law, Evidence and Practice and Procedure courses

- Re-certification of Primary Examiners by
  - Increasing the number of work product reviews; and
  - Developing required CLE courses for Primary Examiners.

- Implementation of a quality assurance program for technical support personnel, by
  - Adopting and implementing new performance standards.

Lastly, and as discussed in more detail below, both PPAC and the USPTO believe that improving patent quality is a *mutually shared* responsibility of both applicants and the Office.

There are certain applicant behaviors which continue to exacerbate the ability of the Office to perform focused, timely and quality examinations in certain cases. Late filing of prior art in information disclosure statements (IDS) or filing huge numbers of references in an IDS unduly complicate examination and tax examination resources. Similarly, filing applications with inordinately large numbers of claims, or delaying issuance of an application by filing one continuation after another are all practices that in various ways unduly encumber the Office and complicate the examination process. Since each of these practices may also serve legitimate interests, contemplated rule changes affecting these practices will of necessity require thoughtful balancing of the competing interests as discussed more fully below in the section on pendency.

B. E-GOVERNMENT

PPAC is pleased to report that the USPTO continues to make significant strides towards achieving the e-government goals of the *Strategic Plan*.

1. Electronic Management of Applications

a. Stage 1: The Image File Wrapper (IFW) System

As reported in last year's Annual Report, the USPTO made significant progress in deployment of the Image File Wrapper (IFW) system. The IFW system 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 EPO. IFW provides users with instant and concurrent access to their patent applications, eliminates examiner interruption for paper entry, and eliminates lost or damaged papers.

PPAC is pleased to report that this year the USPTO substantially completed deployment of the IFW system into all 284 Group Art Units (GAUs) of the various tech centers in the USPTO and thus availability and use of the IFW system by all 3,664 staffed patent examiners. Examiners in all GAUs and their staff are now able to electronically access almost all applications using the IFW system.

The following objectives were met by the IFW system:

- IFW enabled the USPTO to make the major business transition from a paper based patent application process to an electronic image based application process in much less time than it would have taken to complete the XML text based TEAM project.

- The adoption of IFW enabled the USPTO to accomplish the move to the new Alexandria campus without moving hundreds of thousands of paper applications, and avoided the potential loss of documents and applications.

- IFW also enabled the USPTO to avoid using valuable real estate in the new facility for storage of paper patent applications.

- IFW provided public access to the complete application file wrapper via the Internet, eliminating the time consuming process for retrieving paper files.

- IFW permits multiple users to access the same application concurrently.

- IFW permits independent business processes to be conducted on the same application at the same time.

- IFW is the official legal record, simplifying the ordering and delivery of certified copies of patent applications.

- IFW has enabled the initiation of a dossier exchange program with the EPO that will contribute to work sharing and improved quality of examination.

b. Stage 2: The Patent File Wrapper (PFW) System

The IFW system is an important first step in creating a patent application system that is not only paperless, but also faster and easier to use, and will better serve internal PTO personnel, applicants and the public. With IFW fully deployed, the USPTO is now ready to begin the development and implementation of the second phase of the electronic processing pipeline for applications, the text-based version, or Patent File Wrapper (PFW) system.

The PFW system is a set of tools that facilitates end-to-end electronic text-based processing of patent applications with the objective of improving the access to the data and information contained in patent applications by both examiners and the public by providing the capability of text and field searching. This will ultimately improve efficiency of the business process and enhance customer (e.g. applicant and public) interaction with the USPTO.

The PFW system includes three main components: an Electronic Filing System (EFS) Web project, discussed further below; an upgraded data capture system; and a document content management repository.

The EFS Web project will provide an easy-to-use browser-based interface utilizing forms that will be captured, stored, and transmitted in the familiar, widely used PDF file format. The data capture component will replace the data capture system now in use with an upgraded capture system which will convert paper applications into text, capture color and gray scale images as appropriate, and increase the quality and auto-indexing of the capture process. The repository component will provide a document content management repository to store all electronic patent application images, text, and data. As noted below, the PFW system will use the repository component to provide enhanced functionality such as managing electronic work queues, work process flow, version control at the document level, facilitating annotations of documents, comparing versions of a document, previewing amendments before accepting the changes, claims tree processing, and other functions.

During fiscal year 2005, the USPTO took major steps in the planning, scheduling, and budgeting for the PFW system. In fiscal year 2006, efforts will be directed at development and implementing of the PFW system components.

In addition to some of the functionality already provided by the IFW system, the PFW system will provide examiners with the following additional functionality for electronic processing of applications:

- Text search within the application
- Print & view text document parts
- Claim management – including maintaining an index of claims and a claim tree diagram
- Recording additional file wrapper information (search results, search notes, acknowledgement of priority information, etc.)
- Comparing versions of a document and amendment versions of a document
- Previewing the effect of the amendment before accepting the changes
- Keeping a more detailed audit trail of changes for electronic record management purposes (version control, tracking, who made changes, timestamp, etc.)

- Automating the determination of appropriateness of action that can be taken on an application based on the status

- Creating and delivering pre-exam, exam and post-exam related electronic correspondence to applicants by leveraging the capabilities of other existing electronic systems already in use at the USPTO (the DMS, OACS, PALM, and eFiling Portal systems)

- Leveraging workflow to provide electronic review and approval of outgoing correspondence

- Providing electronic markup of documents

- Leveraging existing IFW images by converting them to PDF images plus hidden text in order to provide full text capabilities for all existing electronic documents

2. Supplemental Complex Repository for Examiners (SCORE)

Also in fiscal year 2005, the USPTO deployed the first version of the Supplemental Complex Repository for Examiners (SCORE). SCORE is a Web based system that stores unpublished non-image application data and files that cannot be scanned into the IFW repository in the tagged image file format (TIFF) because of their file size or type. These files contain sequence listings with millions of pages, tables, or biotechnology information that requires specific file types and has specific viewing requirements. USPTO patent examiners and applicants can use SCORE to access these application files.

3. Patent Employee Remote Access

As mandated by the Appropriations Act, 2005, this year the USPTO hired 978 new patent examiners (959 of which were hired for utility application examination). Approximately another 1000 new hires are anticipated for fiscal year 2006. The number of new personnel added to the examining corps itself presents some major logistical challenges to the USPTO in terms of how to house, train, manage, supervise and retain that many new employees.

PPAC notes that the USPTO is working hard to respond to these challenges with innovative ways to expand its examining capability without adding significant additional cost for new space requirements. This fiscal year the USPTO initiated an Employee Remote Access Program as a means of providing the needed flexibility and responsiveness of the patent organization to meet its mission with respect to increasing workloads, and increasing hiring to meet those workloads, as well as meeting the challenges of changing technology. This program is also expected to reduce the need for increased USPTO office space requirements associated with increased hiring goals.

The Remote Access program provides participants with the ability to work remotely in an electronic environment that is fully supported with complete access to online USPTO systems for patent application examination and processing during normal business hours. The program incorporates the concept of "hoteling," where telecommuting participants reserve time in designated shared "hotel" offices at the Alexandria HQ facility (or potentially viable satellite work stations) to conduct on-campus business activities such as conducting personal interviews with applicants and attorneys, satisfying training requirements, attending meetings, and accessing other on-site resources and personnel.

Overall objectives of the Employee Remote Access Program are expected to include:

- Expanding the geographical flexibility to achieve full remote access to all electronic patent examination tools and informational resources needed to fully perform job duties.

- Increasing the number of employees who can work from remote locations

- Increasing the productive time employees can work from remote locations

- Developing and deploying a reliable and consistent IT remote access solution that provides the same desktop functionality, communication protocols, and integrated user access as presently available within the USPTO office environment without a significant degradation in performance.

- Providing and maintaining secure online access to sensitive data stored at the USPTO for remote access.

- Providing employees with an automated tool to remotely schedule hotel time within the USPTO campus.

- Providing employees with the capability to collaborate remotely with supervisors and other employees on a face-to-face basis. Remote collaboration will be enabled using commercially available meeting support tools such as video conferencing, telephone conference bridging, application sharing, web meeting, and instant messaging applications.

- Recovering office space and the associated cost thereof.

- Increasing the ability of supervisors and managers to effectively and accurately review an examiner's work online.

- Maintaining and expanding training opportunities for examiners.

During fiscal year 2005, an initial pilot was implemented with patent managers. For the initial pilot, participating managers access their desktop computers located in the Alexandria campus via an encrypted virtual private network (VPN) using Windows XP remote desktop protocol

(RDP). Pilot participants are provided with a computer, LCD monitor, router, and a multi-function printer for a home office. During this pilot, participants will be required to respond to written surveys and to participate in focus sessions related to the remote access experience. The feedback from such surveys will be used to make changes to the remote access system to ensure full capabilities are provided as the pilot moves to full production capability. During fiscal year 2006, the pilot will be expanded and a production version will begin to be deployed.

4. Electronic Filing System (EFS)

As noted in last year's Annual Report, near the end of fiscal year 2004 the USPTO conducted an Electronic Filing Forum, with the objective of gaining insight from those attending as to what steps the USPTO needed to consider taking in order to substantially increase the number of patents being filed electronically. A second follow up Forum was conducted on the West coast in May of this year.

A core message conveyed by those attending each Forum was that the current EFS (including both PASAT and ABX) is cumbersome, time consuming, costly, and inherently risky. Attendees uniformly expressed high levels of frustration with the authoring tools, including difficulty of use, inability to download necessary software through firewalls, and disruption to workflow. Forum attendees were nearly unanimous in their desire for a web-based system that can accept PDF documents and better match their workflow processes.

PPAC is pleased to note that the USPTO has responded in what PPAC believes is a responsive and responsible manner to the outcome of the Forum. In that regard, there are both front-end and back-end considerations in system design that must be taken into account in considering what may be the best overall approach and solution to both electronic filing and electronic work flow processes. Front-end system design focuses on increasing user compliance with e-filing by simplifying the EFS system and making it safe. Back-end system design focuses on how electronic documents, once filed, are converted to the most useful format possible that will ultimately support robust use of the electronic data to maximize electronic searching and retrieval by both the USPTO and the public, compatibility with other major patent offices (e.g., trilateral partners) and information searching and retrieval by user and public communities. Challenges exist in melding the front-end and back-end considerations and in maintaining inter-operability between platforms over time.

The PTO has historically pursued a character-based EFS system (e.g., XML-based technologies such as PASAT and ABX) because of its long-term objective to fully integrate front-end filing with the back-end workflow processes of the PTO (e.g. publication, archiving, retrieval). Those back-end workflow processes currently use XML-based systems because the character-based data are much more robust in terms of data management, archiving, searching and retrieval.

After reassessing its historical character-based (i.e. XML type) approach to EFS in view of feedback provided by attendees at each Forum, the USPTO has moved ahead aggressively, as noted above, with the the planning, scheduling, and budgeting of the PFW system, which, as noted, includes the EFS Web project. The EFS Web project will provide an easy-to-use browser-based interface utilizing forms that will be captured, stored, and transmitted in the familiar, widely used PDF file format, and then converted using the other components of the

PFW system to convert the PDF formatted file into character-based, text and field searchable data for use on the back end.

With EFS Web, an applicant chooses the word processing program to use for creating a patent application specification. Then, using a PDF-generation tool, the applicant will create PDF files for the specification, claims, abstract, and any drawings. The applicant may choose any software products that are compatible with their environment that will create PDF files that comply with USPTO-defined PDF format standard, thus greatly improving flexibility and expected increased adoption of electronic filing as a preferred filing option. The USPTO also plans to develop and provide PDF forms that will be available as optional means of electronic filing by implementing two Adobe COTS products: Adobe LiveCycle Reader Extensions and Adobe LiveCycle Forms. Applicants will be able to enter bibliographical data into the PDF forms and submit them without the need for additional software, beyond the Adobe Reader software that is already widely in use and readily available.

After preparing the desired filing documents, an applicant will establish a secure connection with the USPTO and begin the electronic filing process. During the secure session, the applicant will provide some bibliographic data associated with the application and indicate the PDF documents to be included in the submission. When the desired documents have been indicated, they will be securely transmitted to the USPTO. Upon successful transmission, the applicant will receive an acknowledgement receipt. If the submission documents are not valid based on the USPTO PDF profile, the applicant will receive an error message, and the applicant may then make any changes needed and resubmit the application.

Pilot deployment of the EFS Web solution is beginning as this Report goes to publication, with the production release scheduled for March 2006.

Previous use of the USPTO's patent electronic filing system (EFS) presented significant challenges. Up to this point, only about 2.2% of all newly filed applications are electronically filed. PPAC is pleased to see what it firmly believes to be a light at the end of this tunnel, and looks forward to working further with the USPTO in the analysis of the EFS Web pilot.

C. PENDENCY

Average patent pendency (filing to issue) for fiscal year 2005 was 29.1 months,[17] up from last year (27.6 months) but less than the adjusted target[18] for fiscal year 2005 that was projected to be 31.0 months.[19] Average time to first action (from filing to examination) was 21.1 months, also

[17] These numbers are as of October 1, 2005, the most recent data available at the time of this writing.

[18] *Adjusted* targets are developed once the USPTO receives its actual appropriation from Congress as compared to the President's request (for example, for FY 2004, a *reduction* of $182 million or 13% as compared to what was requested in the President's budget was appropriate) as well as by taking into account any the number of months during which the USPTO must operate under a continuing resolution while waiting for an appropriations bill to be passed. This fiscal year, Congress appropriated the full amount requested by the President, but there were three months of operation under a continuing resolution.

up from last year (20.2 months), but which otherwise met the adjusted target for fiscal year 2005 of 21.3 months. As we stated last year, "PPAC commends the men and women of the U. S. Patent and Trademark Office. They are continuing to work hard not to fall farther behind, and to meet targets set by USPTO management with respect to . . . pendency."

While fiscal year 2005 targets for overall patent pendency and first action pendency were either met or exceeded in relation to adjusted targets, the *trend* represented by the increase from year to year continues to be deeply disturbing. In some technology areas, the backlog of applications has reached such a level that, were an application filed today and no changes made, it would be greater than fifty months until first action. Pendency thus continues to be a major strategic objective of concern. In the absence of not only halting but indeed *reversing* this trend, pendency will inevitably add to uncertainty for competitors who would otherwise seek to avoid infringing activity, and will stifle investment opportunity for others.

PPAC has spent considerable time this last fiscal year discussing this challenge, including its causes and possible solutions. The increase in pendency is caused by several factors. Filing rates continue to go up. During fiscal year 2005, approximately 384,000 utility, plant and reissue applications were filed. This represented approximately an 8% growth rate over the fiscal year 2004 filing rate, and a 2.5% increase over the expected growth rate which was assumed in this year's budget. The growth is primarily in high-complexity, high-tech areas. These are the areas in which examiners have the greatest amount of time to complete an examination. As these filings go up, and low-complexity applications become a smaller and smaller percentage of the total applications received, the USPTO experiences a phenomenon called "complexity creep". In other words, as the examining corps is working on a greater percentage of high-technology applications, fewer total applications are examined, as high-complexity cases take longer. The same number of examiners working the same number of hours will progressively complete fewer and fewer applications due to this type of "complexity creep".

Another significant factor is the history of appropriating less than all budgeted user fees paid to the USPTO. PPAC and others have noted for a number of years the growing problems this presents for the USPTO.[20] As we noted in the concluding observations of last year's Report:

> The $180 million reduction in the amounts appropriated (as compared to the President's budget request) for the USPTO during the first two years of its *Strategic Plan* (i.e. for FY 2003 and FY 2004) has resulted in limiting the number of new examiners hired to meet the increasing workload to replacement of attrition only. In other words, FY 2003 and FY 2004 represent, in real terms, *lost* years. The *Strategic Plan* called for 750 new examiners to be hired in each of FY 2003 and FY 2004. Thus, taking into account the almost 900 new examiners not hired in FY 2003 and FY 2004,[21] to make up

[19] It is also worth noting all but two of the TCs (2100 and 2600) were either at or below the adjusted pendency target for fiscal year 2005. Five TCs (1600, 1700, 2800, 3600 and 3700) had average pendencies of between 20 and 30 months. TC 2900 was between 15 and 20 months average pendency.

[20] See footnote 13 *supra.*

[21] Of the total 1500 new hires contemplated for fiscal years 2003 – 2004, approximately 600 of them represented replacement of attrits.

for these two years alone, the USPTO would have to hire in FY 2005 those 900 or so new examiners *in addition* to the 650 new hires which are expected under the *Strategic Plan* for FY 2005, or a total of approximately 1,550 new hires. This simply is not possible even if it were funded by appropriations, because of the limitations in ability to train and assimilate that many new hires. Hence the reason why these years represent *lost* years in terms of reducing pendency as initially set out in the *Strategic Plan*.

Yet another factor is that competitive outsourcing of the prior art search function for domestic applications is an initiative that was devised in the *Strategic Plan* as a way of saving significant examiner time that would be devoted to examining applications for which the prior art search had already been done. As such, this was planned as a way of helping to significantly decrease the backlog of applications. However, during fiscal years 2003 – 2004, as already noted, the USPTO operated under such severe funding strictures that little or no progress on competitive outsourcing had been made by the end of fiscal year 2004. Added to that, in passing of the Omnibus Appropriations Act following the end of last fiscal year, Congress expressed serious reservation as to the efficacy and viability of competitive outsourcing of the domestic prior art search function, with the result that it has been effectively delayed for 3 – 5 years.

Still another factor is the effect of certain applicant behavior on the patent examination process. As noted in the preceding discussion of patent quality, there are certain applicant behaviors which continue to exacerbate the ability of the Office to perform focused, timely and quality examinations in certain cases.[22] Notably, delaying issuance of an application by filing one continuation after another is a practice that has in some ways become all too prevalent, and in various ways unduly encumbers the Office in terms of timely examination. For example, the following chart clearly shows that over the period of 2002 – 2005, continuation applications are taking up an increasing amount of examining resources, reaching levels of some 28% this fiscal year.

[22] This is not to say that to a certain extent, the filing of continuations and requests for continued examination do not have a legitimate purpose, as noted in the preceding discussion of patent quality, at pp. 12 – 13. As noted, this raises what will undoubtedly be a difficult question of striking a proper balance between the competing interests involved.

Technology Centers' Rework* Statistics

	FY2002	FY 2003	FY 2004	FY 2005**
TC Summary	% FAOM Rework	% FAOM Rework	% FAOM Rework	% FAOM Rework
1600	36.4%	39.7%	40.3%	42.7%
1700	25.2%	26.9%	27.1%	27.1%
2100	23.9%	24.0%	24.6%	24.9%
2600	24.8%	24.1%	24.3%	24.7%
2800	19.1%	22.0%	24.9%	24.7%
3600	17.7%	21.2%	23.1%	27.9%
3700	22.2%	25.1%	24.0%	27.9%
Average	**23.2%**	**25.3%**	**26.1%**	**27.8%**

* Rework first actions are those actions that are in a Continuing, CPA or RCE application
** As of May 21, 2005

In the absence of these cases, it is fair to say that the Office would be working into the backlog of new original applications to a much greater extent than it currently is, or at least not significantly adding to the backlog.[23]

In short, increasing pendency is a complex problem that has resulted from a number of factors in the view of PPAC, including continued high demand (e.g., continued increases in the number of filings), increasing complexity of applications which require greater examining resources to dispose of them, shortage of adequate resources to meet the increased demand due to under funding of the Office over a period of more than a decade by appropriating less than the budgeted user fees submitted by the Office in its annual budgets,[24] changes in some key assumptions for reducing pendency as contained in the *Strategic Plan* (for example, competitive outsourcing of the prior art search function for domestic applications, and changing worker profiles[25]), and certain applicant behaviors such as continuation/RCE practice.

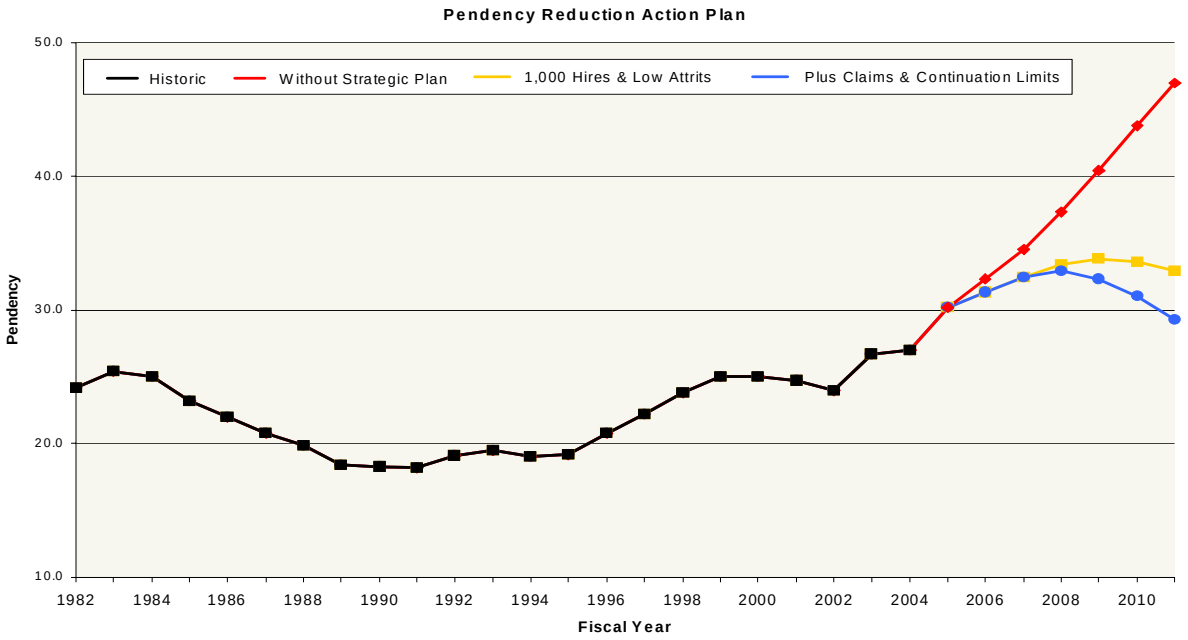
[23] At the beginning of fiscal year 2005 the USPTO had a new case inventory of Utility, Plant and Reissue (UPR) applications of 508,878. At the end of the fiscal year there were 586,580 new UPR applications, for an increase in inventory of 77,722 new applications. Also, during fiscal year 2005 there were 297,287 first actions completed, of which approximately 82,650 were first actions for continuing applications. Thus, one might reasonably conclude that had the 82,650 first actions for continuing applications been spent instead on new applications, it would have more than covered the increase in inventory, representing at least a modest reduction in the backlog of inventory.

[24] The National Academy of Public Administration has estimated that this under funding alone has cost the USPTO 8.8 months of increased pendency.

[25] New hires now tend to value time off more than overtime compensation, ultimately reducing projected levels of overtime hours to be worked per examiner from 125 to 90.

In response to these challenges, PPAC and the USPTO have vigorously debated the merits of a multi-pronged strategy to halt the increasing pendency and to eventually reverse the trend. The following chart graphically illustrates the impact that some of these options which are being pursued and/or considered potentially have on pendency.

Chart 4



The yellow line shows the effect of continued aggressive hiring (1000 examiners per year) coupled with major assumptions of application filings that continue at a rate of 6% as well as increased complexity of applications filed, modest production gains from outsourcing the PCT search function, and assumed decreases in attrition from 10% to 7% through fiscal year 2007 and beyond.[26] This shows that hiring alone is not likely to yield sufficient reduction pendency, especially if any of the major assumptions do not hold, as for example increased filings above 6%,[27] or attrition rates above those assumed. It also presents significant challenges apart from pendency reduction, such as the ability to effectively train and supervise that many new examiners. The USPTO is already working on solutions to this challenge.[28]

[26] The 7% rate occurs for years 2009 and on.

[27] For example, preliminary data on filings already is showing an increase of over 7%.

[28] In January 2006, the Patent organization will pilot an eight-month, university-style training program for new patent examiners. The program will provide participants with a more structured initial training so that they will have a better understanding of the examination process and be better equipped to effectively contribute after assignment to a technology center. The existing Patent Examining Initial Training program will run concurrently until the new university concept is reviewed and fully implemented. Moreover, a retention team has been put in place to study retention issues and develop a plan to reduce the fiscal year 2005 attrition rate of 10.1% to 7% by fiscal year 2009.

The blue line shows the added effect of (in addition to effect resulting from the assumptions for the yellow line) putting into place rule changes that will result in reducing the number of continuations filed and the number of claims presented (e.g., the blue line assumes a 2.5% reduction for fiscal years 2006 – 2007 in the number of claims and a 2.5% reduction for those years in the number of continuations/RCEs filed).

It is anticipated that the combination of all of these efforts – rule changes, outsourcing, hiring and attention to retention issues – have the *potential*[29] of working to reduce projected total pendency from more than 46 months in fiscal year 2010 to approximately 31 months, as shown by the blue line above, *provided that* other major assumptions as noted do not significantly change.

The USPTO is already working to implement as many of these options as it can, short of the noted rule changes that will affect applicant behaviors. For example, during this fiscal year, two contracts were awarded to commercial entities to complete a percentage of PCT applications on the USPTO's behalf. Initially, the outsourced PCT search reports will be thoroughly checked by the USPTO for quality purposes. If the quality of the service is fully satisfactory, the outsourcing will be expanded. Each PCT application that is not handled by a USPTO examiner represents time that can be devoted to the completion of another U.S. application.

As noted earlier in this Report both PPAC and the USPTO believe that improving patent quality is a *mutually shared* responsibility of both applicants and the Office. There are certain applicant behaviors which continue to exacerbate the ability of the Office to perform focused, timely and quality examinations in certain cases. Late filing of prior art in information disclosure statements (IDS) or filing huge numbers of references in an IDS unduly complicate examination and tax examination resources. Similarly, filing applications with inordinately large numbers of claims, or delaying issuance of an application by filing one continuation after another are all practices that in various ways unduly encumber the Office and complicate the examination process.

On the other hand, IDS practice also serves the legitimate interest of ensuring that relevant art is disclosed during examination in accordance with the duty of candor. Continuation and request for continuing examination practice, as well as presenting a variety of claim types and scope, also all serve a legitimate interest in ensuring that applicants are given a full and fair opportunity to fully claim an invention and develop the scope of the claims through examination.

PPAC and the Office have spent considerable time in this fiscal year discussing the shared responsibility of applicants to assist in improving patent quality. The USPTO is now in the process of preparing to publish proposed rule changes in the areas of IDS practice, changes to practice for continuing applications and requests for continuing examination, and changes to the practice for the examination of claims based on the number of claims and whether they are patentably distinct from other claims. The USPTO believes that these proposed rule changes will ultimately lead to a more balanced sharing of the responsibility for improving patent quality.

[29] All of this taken together still represents in many ways a "best case" scenario, and in that sense is subject to a high risk of not being able to completely turn around the increasing pendency, as opposed to merely slowing down the rate of increase.

Briefly summarized, to date the contemplated rule changes include the following:

- Changes to Practice for the Examination of Claims in Patent Applications – This proposal includes a representative claims approach where an applicant will designate the most important claims for initial examination. Once these initial claims are in condition for allowance, all claims will be fully examined. A maximum number of initial claims will be determined that will be intended to balance the need for focused examination with the applicants' ability to fully claim the invention.

- Changes to Practice for Continuing Applications, Requests for Continued Examination Practice, and Applications Containing Patentably Indistinct Claims – With this proposal, an applicant will be able to file a limited number of continuations or RCEs as a matter of right. Any additional continuations or RCEs may thereafter only be filed by an applicant provided there is a showing that the additional reasons for prosecution could not have been presented earlier.

- Changes to Information Disclosure Statement Requirements and other Related Matters[30] – In this proposal, an IDS with 25 or fewer items (cumulative for the application) will not be affected by the rule change (this is the case for 90% of all applicants today). For any item over 30 pages, the applicant or applicant's attorney must indicate the portions that caused the item to be cited. If more than 25 items are submitted, the rule will impose requirements that assist and expedite examiner's consideration of the IDS, such as summarizing the references as to their relevance and showing that they have been timely cited.

With these rule changes, the USPTO anticipates an average efficiency gain from the examining corps of 5%.

While PPAC agrees with the objective of a more balanced sharing of the responsibility for improving patent quality as between both applicants and the Office, where the line should be drawn to achieve that balance and whether these proposed rule changes adequately reflect that balance will require continued dialog between PPAC, the Office and the diverse community of users. We expect this dialog will continue in coming months.[31]

[30] This proposed rule has been discussed conceptually with PPAC but it has not been presented to PPAC yet for PPAC formal review and comment.

[31] The USPTO has advised PPAC that it plans an "extended" comment period for the first two rule packages it plans to release (Changes to Practice for the Examination of Claims in Patent Applications, and Changes to Practice for Continuing Applications, Requests for Continued Examination Practice, and Applications Containing Patentably Indistinct Claims). The Office also plans to hold a series of "town meetings" to aggressively reach out and seek input, solutions or alternatives in response to the proposed rule changes.

V. OTHER MATTERS OF NOTE DURING FISCAL YEAR 2004

A. COMBATING PIRACY AND COUNTERFEITING

As part of the Administration's Strategy Targeting Organized Piracy! (STOP!) initiative,[32] during this fiscal year the USPTO launched an intensive communications campaign to educate small businesses on protecting their intellectual property in the United States and abroad. Small-business conferences were held by the USPTO in Salt Lake City, Phoenix, Austin, and Miami. Other USPTO conferences held in Baltimore and Detroit focused exclusively on challenges associated with doing business in China. All conferences had strong attendance and overwhelmingly positive feedback.

The USPTO staffed the STOP! hotline, 1-866-999-HALT, which lets callers receive information from USPTO attorneys with regional expertise on intellectual property rights and enforcement.

This year the USPTO also provided the STOP! gateway website (www.stopfakes.gov), with "intellectual property toolkits" to help businesses protect their rights in other countries, such as China, Korea, and Mexico. The USPTO also added www.stopfakes.gov/smallbusiness to meet the specific needs of smaller companies seeking to protect intellectual property rights.

In January, the USPTO unveiled a comprehensive plan of technical assistance and cooperative exchanges with their counterparts in the Chinese government to improve China's intellectual property rights administration and enforcement. Through the Joint Commission on Commerce and Trade (JCCT) Intellectual Property Rights (IPR) Working Group, and together with the Office of the USTR, the USPTO helped negotiate a comprehensive set of commitments from the Chinese government to reduce counterfeiting and piracy in China.

The Office also established the USPTO Global Intellectual Property Academy to consolidate and expand current intellectual property training programs for foreign government officials. As part of its ongoing technical assistance, the USPTO conducted programs on IPR protection and enforcement issues for officials and private sector representatives from Southeast Asia, the Middle East, North Africa, Latin America, Russia, Turkey, and other countries.

An initiative was begun to place USPTO IPR experts in Brazil, China, India, Russia, and other developing regions, working closely with the United States and Foreign Commercial Service and the Department of State. These experts will press for improved IPR protection for American businesses and coordinate training and technical assistance efforts to stop piracy and counterfeiting.

[32] In October 2004, the Administration launched the STOP! initiative, which is a comprehensive U.S. Government-wide initiative created to combat trade in pirated and counterfeit goods. The initiative is a collaboration of the Departments of Commerce, Justice, Homeland Security, and the Office of the USTR.

B. PERFORMANCE, ACCOUNTABILITY AND FINANCIAL REPORTING

PPAC notes that for a third consecutive year, the USPTO was awarded the Association of Government Accountants' Certificate of Excellence in Accountability Reporting for its fiscal year 2004 Performance and Accountability Report.

The USPTO also received an unqualified opinion from its independent auditors on the USPTO's fiscal year 2005 financial statements for a 13th consecutive year.

C. GOVERNMENT ACCOUNTING OFFICE (GAO) REPORTS

The Government Accounting Office (GAO) issued two reports this year. The USPTO agreed with the recommendations in the report entitled "Intellectual Property: USPTO Has Made Progress in Hiring Examiners, but Challenges to Retention Remain." In recent discussions with PPAC the USPTO reported on steps taken to develop a communication plan and labor management strategy to inform employees about progress on initiatives, successes and lessons learned. The USPTO also is developing a more formalized technical program for patent examiners to ensure their skills are fresh and ready to address state-of-the-art technology in patent applications.

In response to the second GAO report, "Intellectual Property: Key Processes for Managing Patent Automation," the USPTO advised PPAC that it generally agreed with the GAO's recommendations and with the need for certain improvements, such as developing architectural linkages to the planning process, implementing a capital planning and investment control guide, and completing planned organizational changes, although it disagreed with the GAO finding related to project management and cost accounting. The USPTO already has started implementing many of the GAO recommended improvements.

D. APPELATE PARTICIPATION BY THE USPTO

Under United States Code (U.S.C.) § 35, the Under Secretary of Commerce for Intellectual Property and Director of the USPTO advises the President and other agencies on intellectual property policy, both domestic and international. For example, in addition to defending cases in which the USPTO is sued for decisions it has rendered, the USPTO advises the Solicitor General of the United States on intellectual property matters before the Supreme Court.

Last year the USPTO assisted the Solicitor General in formulating the government's position before the Supreme Court in several important intellectual property cases. For example, the USPTO assisted the Solicitor General's Office with the Government's brief in *Metro-Goldwyn Mayer Studios v. Grokster*, 545 U.S.___, 125 S. Ct. 2764 (2005). In keeping with the government's recommendation, the Supreme Court held that one who distributes file-sharing software designed for use in copyright infringement by third parties is liable for any resulting acts of infringement by those third parties.

The USPTO also assisted the Solicitor General's Office with the government's brief in *Merck KGAA v. Integra Life Sciences I, Ltd., et al.*, 545 U.S.___, 125 S.Ct. 2372(2005), in which the

Supreme Court held that the safe harbor provisions of 35 U.S.C. § 271(e)(1), which exempt from patent infringement the use of a patented invention "solely for uses reasonably related to the development and submission of information" to the Food and Drug Administration (FDA), extend to experiments using patented drugs for developing new drugs which will be the subject of an FDA submission, not just to clinical trials related to an FDA submission.

Lastly, in *Phillips v. AWH Corp.*, 415 F.3d 1303 (Fed. Cir. 2005), the Federal Circuit asked the USPTO to brief the proper role of technical dictionaries and the patent specification when construing patent claims, which is a core issue in both patent application prosecution and patent infringement litigation. In keeping with the USPTO's amicus brief, the Federal Circuit reaffirmed the principle that the specification is the best guide to the meaning of a disputed patent claim term, and rejected an approach to claim construction that gives primacy to dictionaries over the specification.

E. COMPUTERIZED TESTING OF APPLICANTS FOR REGISTRATION TO PRACTICE

This year the Office of Enrollment and Discipline (OED) fully implemented computerized testing of applicants for registration to practice in patent cases before the USPTO. Several important advantages of computerized testing that were expected have been realized. These include: steady-state, non-cyclical workflow in processing applications and preparing examination questions; and greater convenience for applicants when scheduling examination; and same day turnaround for processing examination results.

VI. CONCLUDING OBSERVATIONS

PPAC commends the USPTO for the significant achievements made in this fiscal year with respect to advancing its strategic goals in the area of patent quality. The USPTO has implemented a number of initiatives in this year which we believe hold real promise for improving patent quality. Likewise, we believe the USPTO has made meaningful progress toward its strategic objective of e-government, especially in regard to the prospect which the EFS Web portal holds for providing a much more user friendly e-filing tool, and therefore much greater potential for compliance by users in moving to electronic filing of patent applications.

On the other hand PPAC believes that pendency continues to loom as a problem of major proportion. During a full two-day executive session held last April, PPAC and the USPTO engaged in extensive discussion of patent quality and pendency. At the end of that process the members of PPAC were polled as what they saw as the most significant challenges ahead of the USPTO. The overwhelming response was pendency, and closely related to it, the significant challenge of hiring, training and mentoring, and retaining some 2000 new examiners during this year and next year.

That is not to say that PPAC disagrees with prioritizing patent quality as the number one priority of the Office under its *Strategic Plan.* However, we see the two objectives of quality and pendency as inextricably linked. On the one hand, if the sole concern were improving patent quality, the Office could issue a mere handful of patents each year which could likely be assured

of having the highest possible quality. On the other hand, if pendency were the predominant or only concern, the Office could simply move to a registration system and rapidly reduce pendency to a mere matter of weeks. Clearly, there must be a balance between the two, which at times compete with one another. This was demonstrated by the experience of the Office in this last fiscal year in regard to the time and resources expended to insure review of every allowed application in the second half of the year. While this resulted in dropping the allowance error rate from 5.2% at mid-year to below the target rate of 4%, the result was to reduce the overall allowance rate from 62.5% in fiscal year 2004 to 58.7% for this fiscal year, and adversely affected the allowance rate even in those TCs that were already achieving allowance error rates below the target 4%.

In addressing the now-protracted problem of reducing pendency, we believe several things should be borne in mind.

First, the causes for the current backlog and increasing patent pendency are varied and complex, as noted in our preceding discussion. The USPTO must address the challenges of rising workloads, the shift of applications from traditional arts to more complex technologies, changes in the timing of some of the milestones of the *Strategic Plan* which will delay the efficiency gains outlined in the *Plan*, and last but not least, finding ways to educate applicants and insure greater shared responsibility by them in helping the Office avoid undue expenditure of examining resources.

Second, it must be remembered that the current challenges presented in terms of growing backlog and pendency were not created overnight. They are in large part a result of over a decade's worth of unpredictable and often inadequate resources. Nor will they be solved overnight. It will take sustained, dedicated effort on the part of the Office and applicants, working together. Thus, most important of all is the critical need for continued Administrative and Congressional support for long-term funding stability. Only with stable, long-term funding will the USPTO be able to create a predictable environment for planning purposes. Congress must keep the current fee increases in place beyond 2006, and must insure that the USPTO's appropriation continues to comport with the policy set by the Administration of fully funding the USPTO with all user fees expected to be paid to it during each budget year. Adequate funding will be essential in the coming years in helping the USPTO accomplish its mission and the related strategic goals of quality, pendency and e-government.

Lastly, we again express our appreciation to the men and women of the USPTO for their continued hard work and dedication in the face of what are surely some of the most challenging times the Office has faced.

PPAC looks forward to continuing its work with the USPTO in facing these challenges and continuing to build on the successes of this year, in the coming year.

Respectfully Submitted,

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Patent Public Advisory Committee