Attachment A

Public Comments by Signatories Submitted to USPTO on its Notices of Proposed Rulemaking

Attachment B

The Draft Rules are "Economically Significant" under Executive Order 12,866

USPTO has represented to OMB that these draft final rules are significant under Executive Order 12,866, but not economically significant. These draft rules[4] should be considered a package because they have important interactive effects: complex patent applications are simultaneously more likely to contain more than 10 independent claims and benefit from continued examination practice to carefully refine the scope of those claims, and the two rules impose burdens and requirements that conflict with each other. They meet the test for being economically significant because:

- They may have an annual effect on the economy of $100 million or more
- They may adversely affect in a material way the economy, and in particular, those sectors of the economy that are the engines of technical innovation

I. Reasonably Expected Economic Effects

The Continuations Rule would sharply limit patent applicants' statutory right to file continuing applications and to request continued examination (collectively referred to here as a "continuation" but involving different procedures and circumstances). The proposed rule would allow only a single continuation unless the applicant could "show[] to the satisfaction of the Director [of the Patent Officer] that the amendment, argument, or evidence [contained in the continuation] could not have been submitted during the prosecution of the prior-filed application" or "prior to close of prosecution in the application".[5] The preamble is silent concerning what criteria the Director considers sufficient. For analytical purposes, it is appropriate to assume that the Director's criteria would be stringent because otherwise the rule would be superfluous.

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[4] In its Town Hall presentations, USPTO considered a third rule on related subject matter, RIN 0651-AB95, "Changes to Information Disclosure Statement Requirements and Other Related Matters," 71 Fed. Reg. 38808 (July 10, 2006) to be logically related and functionally intertwined with these two rules, *see e.g.* the "Chicago Slides" in Attachment N. We agree. The IDS Rule also should be designated as economically significant.

[5] 71 Fed. Reg. 59, col. 3, and 61, col. 2.

1. Annual Economic Value of Patent Rights Foregone Likely Exceeds $100 Million

USPTO reports that approximately 317,000 patent applications were filed in FY 2005, with 62,870 of them being continuing applications and 52,000 being Requests for Continued Examination (RCEs).[6] Of the 62,870 continuing applications, 44,500 were designated as continuation/continuation-in-part (CIP) applications and about 18,500 were designated as divisional applications.[7] Thus, 21,800 patent applications would have been affected in FY 2005 if the proposed Continuations Rule had been in place. The $100 million threshold for an economically significant rule would have been exceeded by this NPRM alone if the average social value foregone from each of these 21,800 applications is just $4,587.

Anecdotal (but reliable) data suggest that this threshold is easily exceeded. The value of additional patent protection sought by filing the continuation must at least equal, and almost certainly exceeds, the cost to applicants of preparing and filing such applications. These typically exceed $5,000.[8]

Turning now to the proposed Limits on Claims Rule, it would limit to 10 the number of claims that USPTO will initially examine without submission by the applicant of an Examination Support Document (ESD). In the preamble to the NPRM, USPTO estimated that 1.2% of patent applications would be affected by the rule. In public presentations, USPTO presented data that suggest approximately 1.5% of patent applications contained more than 10 independent claims.[9] Using the lower value, the $100 million threshold would have been exceeded by this NPRM alone if the average social value of the additional claims made in approximately 3,800 (1.2% × 315,000) such applications is greater than about $26,000.

The data provided by USPTO understates the number of applications affected by the proposed Limits on Claims Rule, however. In addition to limiting the number of independent claims that USPTO will examine without an ESD, the Limits on Claims Rule also changes the definition of how claims are classified.[10] Under the proposed rule, many claims that are currently regarded as dependent will be reclassified as independent. Accordingly, historical data provide a downwardly biased estimate of the scope of applications affected by the proposed rule.

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[6] 71 Fed. Reg. 50, col. 1.

[7] 71 Fed. Reg. 50, col. 2 ("About 11,800 of the continuation/CIP applications were second or subsequent continuation/CIP applications. Of the over 52,000 requests for continued examination filed in fiscal year 2005, just under 10,000 were second or subsequent requests for continued examination.")

[8] The filing fee alone for a continuation application is $1,000 and for a continued examination is $790 (halved for small entities). The market value of patent attorney time exceeds $300 per hour.

[9] See Attachment N, slide 57 of the Chicago Town Hall slides.

[10] We explain this flaw more fully in Attachment H, at Section II.2.

Even if the draft final rule under review by OMB has different cut-off values for independent and dependent claims, estimates of regulatory scope based on historical data are still downwardly biased as long as the draft rule reclassifies some dependent claims as independent.

2. Economic Value of Deciding Disputes, and Delay Due to Overloading of Senior USPTO Adjudication Capacity

As a first approximation, we've assumed that patent applicants don't change their behavior in response to these rules. Of course, applicants will change their behavior. For example, a predictable effect of the Continuations Rule is a significant increase in the number of appeals to the Board of Patent Appeals and Interferences (BPAI). In the last several years, USPTO has been able to reduce the number of appeals to BPAI (and the number of appeals it loses) by affording applicants the ability to request a pre-Appeal Brief review by senior examiners and requiring high-level staff review after the appeal brief has been filed. These reforms have succeeded in identifying and rectifying some of the worst examiner mistakes. But if USPTO limits the number of continuations and examiners issue Final Rejections as they do now, senior USPTO management will be inundated by new demands for supervisory review prior to appeal.[11]

As noted above, the proposed Continuations Rule did not specify what criteria USPTO would use to determine whether a further continuation would be permitted, leaving that decision to the discretion of the Director of USPTO (or his designee). With no reliable prospective standard by which applicants can predict how USPTO will exercise this discretion, uncertainty alone will raise the cost of resolving disputes. It is reasonable to expect that the number of contests within USPTO, plus civil suits against USPTO in federal district court, will rise monotonically with the number of denials. These predictable costs would contribute to exceeding the $100 million threshold.

II. Adverse Effects on the Economy, and on Innovation

These two NPRMs radically change the patent application and examination process. For them not to have adverse effects on innovation, it must be true that (a) second and subsequent

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[11] USPTO's own evidence suggests that this is already occurring. For example, the backlog of 882 appeals reported at 71 Fed. Reg. 51, col. 2, was a 20-year low. Since then, the Board's backlog has more than doubled, to 2,071 appeals at the date of this writing. Compare http://www.uspto.gov/web/offices/dcom/bpai/docs/process/fy2007.htm and …/fy2005.htm. Similarly, the backlog in the Office of Petitions, which has historically been 2-4 months, is now over a year for issues such as the "Premature Final Rejection" petition that USPTO proposes as the best remedy for harshness of the Continuations rule. *E.g.*, in application serial no. 09/385,394, a Petition for Review of Premature Final Rejection filed April 10, 2006 remains on the docket for consideration by Brian Hearn in the Office of Petitions as of June 4, 2007.

continuations have no net social value and (b) any independent claims in a patent application over the tenth independent claim, or some other arbitrarily set limit, have no net social value.

Both propositions conflict with both logic and our experience, and USPTO has provided no support for either of them. Logically, there is nothing special about continuation practice suggesting that a single continuation is the socially optimal number. Nor is there any logical basis for believing that the socially optimal number of independent claims is 10 or fewer.[12]

Our experience has been that continuation practice is essential for properly defining the scope of intellectual property rights for complex inventions. The examination and prosecution process is inherently iterative, and each side in the negotiation has generally appropriate substantive incentives.[13] Applicants seek the broadest defensible scope for their intellectual property, and examiners deny claims that are either unclear (*i.e.*, "vague and indefinite"), not supported by the technical disclosure, or overbroad because they cover the prior inventions of others (*i.e.*, "prior art"). When the process begins, particularly with complex inventions, neither applicants nor examiners can predict the scope of the patent that will be finally approved. This discovery and sharing of information drives the process, which leads to more investigation and information discovery, and neither examiner nor applicant can perceive that an outcome is fair until the process has run its course. Price competition among patent attorneys requires them to find the value-maximizing balance between the least-costly path to allowance and the broadest claims that are legally patentable, to the degree this balance can be predicted *a priori*, and to pursue the most-efficient path to it at every step.

The proposed rules assume that these uncertainties do not exist and denies the social value of iterative negotiation to clearly define the scope of an applicant's legitimate claims. USPTO falsely assumes that, very early in the process, applicants have near perfect knowledge about (1) all aspects of what was discovered, (2) which aspects of what they have discovered are most valuable, (3) everything relevant to patentability that others invented that preceded their own discovery, and (4) the precise contour of what claims they will eventually be able to legitimately call their own. Perhaps most perplexingly, USPTO assumes that applicants have perfect knowledge about how an unknown patent examiner of unknown skill, training, and experience will (5) understand the technology related to a complex invention, (6) evaluate his application and (7) the prior art, (8) apply the patent law and guidance to the invention, and (9) that the examiner and applicant will, during examination, find and consider all prior art that all

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[12] Because of its decades of experience implementing the Paperwork Reduction Act, OMB surely is familiar with the arbitrary nature of such thresholds, and the extent to which they induce strategic behavior (e.g., agencies propensity to discover that the optimal number of persons from whom to collect information is nine).

[13] In Attachment F, we explain why examiners' financial incentives are not compatible with expeditious procedure.

future potential licensees, litigants, and other challengers to the patent will ever be able to find.[14] Neither preamble analyzes the practicality of any alternative to this iterative dialog or the effect of cutting it off or limiting it, especially in the context of a complex invention.

USPTO's proposed rules would damage innovation in at least two other important ways. First, by raising the cost of filing patent applications the Office will discourage inventors at the margin from submitting them and divert resources from other innovative activities. To the extent that innovation is financially motivated, reduced patent applications must translate into reduced protection for intellectual property, a diminished incentive to innovate, and less future intellectual property. These social costs may be impossible to quantify, but nevertheless they are very real.

Second, the proposed rules create vast new uncertainty about whether intellectual property will be adequately protected in the United States. Uncertainty diminishes economic actors' willingness to invest and take risks, and thus will reduce innovation by an unknown but significant amount.[15]

III. Other Costs

USPTO claims that these rules will reduce paperwork burden. For the Limits on Claims rule, this appears to reflect USPTO's expectation that no applicant will actually submit the extremely burdensome Examination Support Document (ESD) that the Office would require for applications designating more than 10 claims for initial examination. For the Continuations Rule, USPTO appears to assume that either the circumstances that lead to continued examination will disappear or applicants will simply abandon affected applications.

In Attachment M we show that USPTO has seriously underestimated the existing paperwork burden it imposes on the public, and why its estimates of burden reduction are invalid and unreliable.

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[14] Patent prosecution is akin to a contract negotiation in which applicant and examiner work to reach a consensus decision. The Continuations Rule would allow one side (USPTO) to impose on the other (patent applicants) the restriction that their negotiation shall have no more than two rounds.

[15] USPTO may allege that applicants "game the system" by overfiling in various ways. Despite years of experience, patent attorneys are always uncertain about patent examiners will review and respond to similar claims, and how it will apply the Manual on Patent Examination Practice (MPEP). In addition to deterring some applications for patentable inventions from being filed at all, uncertainty about USPTO behavior logically causes defensive overfiling if (as in the case of patent applications) a failure to advance a claim means that it is permanently lost. See Office of Management and Budget, Economic Analysis Under Executive Order 12866 ("For risk-averse individuals, the certainty equivalent of [an uncertain] net benefit stream would be smaller than the expected value of those net benefits, because risk intrinsically has a negative value")

Attachment C

The Draft Rules Are Not Required by Patent Law or Necessary to Implement Patent Law

The most fundamental requirement of Executive Order 12,866 may be the stated regulatory philosophy:

> **Section 1**. *Statement of Regulatory Philosophy and Principles.* (a) The Regulatory Philosophy. Federal agencies should promulgate only such regulations as are required by law, are necessary to interpret the law, or are made necessary by compelling public need, such as material failures of private markets to protect or improve the health and safety of the public, the environment, or the well-being of the American people. In deciding whether and how to regulate, agencies should assess all costs and benefits of available regulatory alternatives, including the alternative of not regulating. Costs and benefits shall be understood to include both quantifiable measures (to the fullest extent that these can be usefully estimated) and qualitative measures of costs and benefits that are difficult to quantify, but nevertheless essential to consider. Further, in choosing among alternative regulatory approaches, agencies should select those approaches that maximize net benefits (including potential economic, environmental, public health and safety, and other advantages; distributive impacts; and equity), unless a statute requires another regulatory approach.

We examine these circumstances justifying regulation in a logical order that is somewhat different from the text.

I. Does the statute require another regulatory approach?

USPTO's rulemaking authority and obligation to examine patent applications are governed by federal patent law, most notably, 35 U.S.C. §§ 2, 3, 131 and 132 (see Attachment O). Nothing in any statute directs USPTO to restrict inventors' access to continuations, nor does the law direct USPTO to arbitrarily limit the number of claims that will be initially examined in a single patent application.[16] Furthermore, nothing in the law directs USPTO <u>not</u> to maximize net

[16] USPTO may assert that the Limit on Claims Rule does not set an <u>absolute</u> limit on the number of claims that will be examined because applicants who want to have more than 10 claims initially examined are always free to submit the Examination Support Document (ESD). In Attachment M, Sec. II.2, we note that senior USPTO officials have made public statements indicating that they do not expect applicants to actually utilize this "safe harbor" because it is overly burdensome.

social benefits from the issuance of patents. Thus, the regulatory philosophy in Executive Order 12,866 unambiguously applies to these two draft final rules.

II. Are these rules required by law or to interpret the law?

USPTO was required to issue certain regulations implementing new provisions in the American Inventors Protection Act of 1999 (AIPA).[17] These two draft rules are neither required by this law nor needed to interpret any provision of it. Congress has amended the Patent Act several times in recent decades, but never to limit the opportunities of inventors in any way analogous to the proposed rules, or to suggest that USPTO should do so. For example, the AIPA made continued examinations easier, not harder, by adding a new "request for continued examination" provision as a lower-cost, easier alternative to older mechanisms for continuations. It also extended patent term for some classes of continuation applications, and asked USPTO to study ways to encourage inventors to participate in the patent system, not to restrict participation.[18]

III. Is there a material failure of private markets that would justify these regulations?

The patent process is somewhat unusual insofar as it is a user fee based service the federal government provides to utilize market forces (intellectual property rights) in the furtherance of delivering a public good (stimulating innovation). The protection of intellectual property is precisely the kind of function that only governments can provide. Congress having acted to provide this public good, it has delegated to USPTO the authority to provide structure, process and predictability to this process, not to make policy concerning how much of the public good to provide.

As we discuss in Attachment F, a strong case can be made that the problems USPTO is seeking to remedy through regulation are the result of "government failure."[19] Unfortunately, instead of addressing governmental failure directly, USPTO appears to have chosen to further regulate the inventors and innovators who are the customers who pay user fees for its services. USPTO is a monopoly provider of these services. One of its problems is overcoming the natural

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[17] *E.g.*, 65 Fed. Reg. 50092, "Request for Continued Examination Practice and Changes to Provisional Application Practice; Final Rule" and 65 Fed. Reg. 56365, "Changes To Implement Patent Term Adjustment Under Twenty-Year Patent Term; Final Rule."

[18] 35 U.S.C. § 132(b); 35 U.S.C. § 154(b) (providing for term extension for certain continuation applications filed under § 120 but not RCE's under § 132(b)); 113 Stat. 1501 § 4204 (instructing USPTO to "conduct a study of alternative fee structures that could be adopted … to encourage maximum participation by the inventor community").

[19] For a lengthy description and analysis of government failure, see Charles Wolf Jr., Markets or Governments? Choosing Between Imperfect Alternatives. MIT Press, 1988. *See also* Susan E. Dudley, Primer on Regulation, Mercatus Policy Series, Policy Resource No. 1, Mercatus Center, 2005.

characteristics of monopolists – producing less than the optimal quantity at a higher than optimal price.[20]

IV. Has USPTO decided whether and how to regulate based on an assessment of all costs and benefits of available regulatory alternatives, including the alternative of not regulating?

USPTO has disclosed only the results of certain forecasts of changes in backlog ("patent pendency"). These results are found in the Chicago Town Hall slides.[21] None of the results reported concern social benefits or social costs. Thus, if USPTO has performed any analysis of social benefits and costs, it has not disclosed it. In May 2006, one of the signatories of this letter informally asked USPTO Deputy Director Office of Patent Legal Administration Robert Clarke if there were any other supporting data besides the limited information contained in the preambles to the Notices of Proposed Rulemaking. Mr. Clarke replied via email:

> We do not have a complete package of supporting information that is available for public inspection. The study for these packages was substantiated in a series of pre-decisional electronic communications that has not been made available to the public.[22]

In September 2006, another signatory filed a formal Freedom of Information Act (FOIA) request. In October 2006, USPTO FOIA Officer Robert Fawcett replied that USPTO had "identified 114 pages of documents that are responsive to [the] request and are releasable."23 Mr. Fawcett did not acknowledge the existence of pre-decisional materials exempt from FOIA disclosure or explain why they were exempt, and none of the 114 pages released contain readily analyzable data that adhere to OMB's (or USPTO's) principles for information quality, most notably, the principles of transparency, reproducibility, and objectivity.

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[20] *See* W. Kip Viscusi, John M. Vernon, and Joseph E Harrington Jr., Economics of Regulation and Antitrust (2d ed.), MIT Press 1995.

[21] See Attachment N, slides 49-54.

[22] http://www.uspto.gov/web/offices/pac/dapp/opla/comments/fpp_continuation/alderucci.pdf, page 39.

[23] See Attachment N. The 114 pages are the materials found in these four web pages:
http://www.uspto.gov/web/offices/pac/dapp/opla/presentation/chicagoslides.ppt
http://www.uspto.gov/web/offices/pac/dapp/opla/presentation/chicagoslidestext.html
http://www.uspto.gov/web/offices/pac/dapp/opla/presentation/focuspp.html
http://www.uspto.gov/web/offices/pac/dapp/opla/presentation/laiplabackgroundtext.html

If the responses that we received are full and accurate, USPTO did not perform any analysis of regulatory effects as required by Section 1(a) of Executive Order 12,866.[24]

V. What constitutes a "compelling public need"?

The primary stated benefit of these two draft rules is to reduce USPTO's backlog, and thereby improve various performance metrics. For example, the Office has established the reduction in backlog ("patent pendency") as a performance goal under the Government Performance and Results Act (GPRA).[25]

Unfortunately, USPTO's management goal of reduced patent pendency is, at best, a poor proxy for output. Better output measures might include:

1. Maximizing the number of patent claims issued that meet some established standard of quality, and maximizing the number of patent claims denied that fail to meet this standard; and
2. Minimizing the number of erroneous decisions, including both invalid claims issued and valid patent claims denied.

As a proxy for these output measures, patent pendency is not very helpful. Among pending patents, one cannot easily distinguish between valid and invalid patents being delayed. The social cost of delaying a valid patent is almost certainly much greater than the social cost of delaying an invalid patent, as there is no mechanism to compensate an innovator for the lack of or delay in obtaining a valid patent whereas invalid patents may be attacked or limited in several ways.

More importantly, all output measures are inherently defective because they do not take account of the outcomes that the patent examination program was created to achieve – maximizing the social value of protection provided for patentable intellectual property net of the

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[24] Public comments by senior USPTO officials also indicate that the Office did not analyze its data to ascertain whether applicants or examiners were predominantly responsible for its "rework" problem, which was the presumed cause of backlog. At one of the pubic "Town Hall" meetings, held in New York on April 7, 2007, a question was asked by a member of the audience, and answered by Commissioner Doll as follows:

> Question: Commissioner Doll, did you do any studies to identify where these rework applications are coming from? Do you have any sense for whether they're caused by the examiner screwing up or the applicant screwing up? How are you getting into that problem?
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> Commissioner Doll: No, I didn't differentiate between whether it was an applicant error or an examiner error.

[25] United States Patent and Trademark Office, 2007-2012 Strategic Plan (http://www.uspto.gov/web/offices/com/strat2007/stratplan2007-2012.pdf).

social costs of error.[26] Patent pendency is not well correlated to outcome value. For example, pendency could be lowered if applications were rushed through the examination process with a cavalier regard for patent quality, though one certainly would not correlate this decrease in pendency to an improvement in outcomes. Alternatively, USPTO could restrict access to the examination process and otherwise make the application process more cumbersome and expensive. This also would drive down pendency, but there is no basis for assuming that the quality of patents issued would improve, nor would it account for the losses associated with failing to issue patents that should have been issued but never entered examination. (Indeed, that's precisely the mechanism by which these two rules would reduce patent pendency: they would reduce the number of applications, and especially complex ones.)

USPTO's regulatory rationale for these two draft rules can be reduced to agency convenience in service of the management goal of reducing patent pendency. It is conceivable that an agency's management goal might be itself a "compelling public need." That seems highly unlikely unless the management goal is very closely aligned with the substantive policy outcomes that the agency's program is intended to achieve. Perhaps that kind of alignment exists in such extraordinary matters as national security emergencies. It does not exist in this case.

Still, it's not clear why USPTO elevates pendency and backlog over all other concerns, such as costs, incentives for investment, and disclosure, clarity and precision in the definition of the scope of property rights. Perhaps there are other nonregulatory objectives USPTO has in mind for which it has unfortunately selected a blunt regulatory tool.[27]

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[26] USPTO includes quality as one of its management goals. According to its strategic plan, USPTO measures quality three ways:

- "In-process compliance with published statutory, regulatory, and practice standards"
- "End-of-process compliance with these same standards"
- "Review of statistically significant, random samplings of examiners' work".

But there is an inevitable tradeoff between achieving these quality measures and reducing patent pendency. A proper Regulatory Impact Analysis would take account of the adverse effects on quality of regulatory efforts to reduce pendency.

[27] Reducing patent pendency is the first of three metrics listed in OMB's Program Assessment Rating Tool (PART). OMB rates USPTO performance as "adequate" ("Pendency, or the time to examine an application and issue a patent, remains high at 30 months, and approximately 500,000 patent applications await examination"). None of the three metrics is a measure of outcomes. See ExpectMore.gov at http://www.whitehouse.gov/omb/expectmore/summary/10000046.2003.html (summary) and http://www.whitehouse.gov/omb/expectmore/detail/10000046.2003.html (detailed report).

Attachment D

USPTO's Written Rationale for Regulation is Insufficient

USPTO is required to show that these draft final rules are needed and give an informative written explanation for that need:

> Each agency shall identify in writing the specific market failure (such as externalities, market power, lack of information) or other specific problem that it intends to address (including, where applicable, the failures of public institutions) that warrant new agency action, as well as assess the significance of that problem, to enable assessment of whether any new regulation is warranted (Sec. 1(b)(1), as amended).

USPTO's rationale for each of these rules is seriously flawed.

I. Limits on Claims Rule

The rationale for this draft rule is that initially examining more than 10 claims in a patent application is burdensome to USPTO, and limiting to 10 the number of claims that can be initially examined would reduce this burden:

> The changes proposed in this notice will allow the Office to do a better, more thorough and reliable examination since the number of claims receiving initial examination will be at a level which can be more effectively and efficiently evaluated by an examiner.[28]

This rationale does not take into account the reasons why applications might legitimately have more than 10 claims deserving of initial examination. Easing USPTO's workload, without regard for its social costs and social benefits, is not a valid rationale for regulation. It is an especially egregious rationale when examination of those claims is an essential agency service that is funded directly by user fees that are set at a cost-recovery level that was requested by the agency itself.[29]

USPTO has a history of antipathy toward applications with many claims. In 1998, in response to the National Performance Review, the Office proposed similar (but less restrictive) limits on the number of claims it would review. In 1999, it abandoned the proposal in the face of widespread opposition. In the Appendix to this attachment, we reprint the relevant sections of the

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[28] 71 Fed. Reg. 61.

[29] 35 U.S.C. § 41(a) (fees for claims over a set threshold vary from $25 to $200 each); USPTO Strategic Plan, Fee Purpose, http://web.archive.org/web/20030407093355/www.uspto.gov/web/offices/com/strat21/feepurpose.htm ("This legislative proposal [establishes] a new schedule of patent fees … realigning fees so they better reflect the needs of customers and better correlate fees with the extra effort required to meet the demands of certain kinds of patent requests. This proposal would generate the levels of patent and trademark fee income needed to implement the goals and objectives of the strategic plan.")

preamble of both the 1998 Advance Notice of Proposed Rulemaking (ANPRM) and the 1999 notice in which the Office withdrew the proposal.

1. How the Current Process Works

Applicants decide how many claims to file in an application based on their knowledge of the invention and the prior art, as well as various uncertainties, such as how a court might interpret claims or interpret the changes (or amendments) made to claims during examination, and the applicant's general level of confidence in the thoroughness of the prior art searches during examination. There is no question that this is a complicated decision, and especially so for the most complex and commercially valuable patents. Significant technical and legal knowledge must be combined with experience dealing with USPTO policies, practices and procedures. Errors and oversights that may seem trivial early in the process can turn out to be crucial and devastating for the protection of intellectual property.[30]

For decades, USPTO has said that examination proceeds most efficiently when an applicant provides claims for initial examination "ranging from the broadest claim patent owner considers to be patentable over the prior art to the narrowest claim patent owner is willing to accept."[31] This puts all negotiating positions on the table early to give all parties an opportunity to consider all options that might result in agreement. If there is no agreement, USPTO has long recognized that the examiner's view on a full range of claims is essential if appeal is to be

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[30] The *Festo* decisions of the Supreme Court and Court of Appeals for the Federal Circuit in 2002 and 2003 sharply limited the "doctrine of equivalents," and placed a burden on applicants to present as many claims as required to precisely and fully describe the entire scope of all patentable subject matter – subject matter that was formerly covered by inferences drawn from fewer claims now has to be covered expressly, or not at all. *Fest Corp. v. Sheets Kinzoku Kogyo Kabushiki Co., Ltd.*, 535 U.S. 722, 122 Sect. 1831, 62 USPQ2d 1705 (2002) (*Festo VIII*) and *Festo IX*, 344 F.3d 1359, 1366, 68 USPQ2d 1321, 1326-27 (Fed. Cir. 2003).

This change in the way claims are interpreted by courts prompted applicants to consider adopting various strategies, such as filing more claims, including more independent claims, in an attempt to preclude the need for amending claims during examination. See, e.g., John M. Benassi and Christopher K. Eppich, "Litigation and Prosecution after *Festo* III," on-line at http://www.buildingipvalue.com/n_us/182_186.htm ("One approach involves the filing of a number of different independent claims. The independent claims should encompass a scope that ranges from a very broad claim to a claim that is allowable as written."). Anecdotal evidence suggests that applicants have, in fact, adopted such strategies. USPTO could utilize its vast database to determine if, in fact, there has been an upward trend in the number of independent claims since the *Festo* decisions."

[31] Rules to Implement Optional Inter Partes Reexamination Proceedings, 65 Fed. Reg. 76755, 76767 col. 2-3 (Dec. 7 2000); John Love (now Deputy Comm'r for Patent Examination Policy) and Wynn Coggins, Successfully Preparing and Prosecuting a Business Method Patent Application, www.uspto.gov/web/menu/pbmethod/aiplapaper.rtf, presented at 2001 AIPLA meeting, at page 9.

meaningful: "[P]rior to the close of prosecution, the issues are well developed, patent owner is aware of the issues and positions of the … examiner, and patent owner has the right to present evidence and argument in light of the … examiner's rejections and to present amended claims."[32]

USPTO now says this practice is less efficient than it could be because it requires an initial patentability examination of every claim in an application, an effort that is wasted when the patentability of the dependent claims stand or fall together with the independent claim from which they directly or indirectly depend.[33] The Office proposes to reduce its burden by limiting to 10 the number of claims that will be initially examined. USPTO makes no argument, and certainly offers no evidence, supporting the proposition that all inventions disclosed in each and every patent application can be adequately claimed by 10 or fewer claims deserving of initial examination. Rather, the problem USPTO seeks to solve is that applications with more than 10 claims deserving of initial examination are more complex and entail more work for patent examiners, but examiners are not rewarded for doing more work on any given patent application.

Any savings to be obtained by the Limits on Claims Rule is not apparent, however. Under the proposed rule, when an independent claim is allowed, all dependent claims are examined to ensure they are in the proper form. This proposed examination practice is the same as current examination practice, and thus, under this scenario, the Limits on Claims Rule achieves no savings. However, when an independent claim is rejected, then patentability – and an efficiently-obtained agreement between examiner and applicant – lies in the dependent claims that the USPTO proposes, under the proposed rule, not to examine. If there is an efficiency to be gained by not looking for an agreement where it is most likely to be found, a well-considered regulatory analysis should explain it.

2. Applicants give USPTO clear and robust signals of patent value

The filing fee for a "base level" application is $1,000. The Office charges extra filing fees for extra complexity – more than a base number of claims, more than 100 pages of disclosure, prior art references provided to USPTO after a certain time period, and the like. These "complexity fees" can easily double the filing fee cost, or more. In addition, there is an issue fee of $1,300, and "maintenance fees" of $900 due 3½ years after issue, $2,300 due 7½ years after issue, and $3,800 due 11½ years after issue. These issue and maintenance fees are a significant source of revenue for USPTO.[34]

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[32] *Id*.

[33] 71 Fed. Reg. at 62.

[34] "The examination fees for patent applications are set at amounts that do not recover the USPTO's costs of examining patent applications. The USPTO's costs of examining applications are subsidized by issue and maintenance fees under §§ 41(a)(4) and 41(b))." Rationale for 2003 Fee Statute, http://web.archive.org/web/20030407092837/ www.uspto.gov/web/offices/com/strat21/feeanalysis.htm.

Crucially, these fees give robust signals to USPTO of the relative value placed on the application by the applicant: the applicant pays USPTO one or more of these "complexity fees" and also pays several times that amount in attorney fees for preparing the corresponding submission. Applicants do not bear these substantial costs unless they perceive significant value.

A recent empirical study[35] confirmed what one would intuit,[36] that the costs borne up front for patent filing are strongly indicative of the value that the patent owner will later place on the patent, as signaled by continued payment of maintenance fees. The most valuable patents are the ones that had the following characteristics, listed in the author's order:

1. Patents with more claims are more valuable than patents with fewer claims.
2. Patents in which the applicant and examiner had cited more prior art references are more valuable than patents with fewer prior art references considered.
3. Patents cited as prior art by subsequent patents are more valuable
4. Patents with more inventors tend to be more valuable than patents with fewer inventors
5. Patents with more related applications, that is, that are part of a larger family of continuations, are more valuable than patents with smaller families.

This suggests a number of ironies. First, the applications that are directly targeted by the two proposed rules[37] are the applications that patent owners on average believe to be most valuable. Second, at least three of the five characteristics that predict patent value are usually signaled by the time of first examination.[38] As we discuss in more detail in Attachment F, section I, this information could be used by USPTO in its examination resource allocation decisions, thereby reducing the harm to the most valuable patents arising from the backlog, but it is not. Third, the applications that USPTO most wants to discourage are precisely the ones that are more likely to generate the issue and maintenance fees that subsidize examination.

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[35] Kimberley A. Moore, Worthless Patents, Berkeley Technology Law Journal vol. 20 no. 4, pp. 1521-52 (Fall 2005). The results are summarized at pp. 1530-31.

[36] Applicants are more likely to invest more money in the filing and examination of commercially important patent applications, either through the added expense of filing numerous claims of varying scope, through the added expense of filing further continuations in order to obtain claims covering the entire scope of applicant's invention, and by performing a thorough prior art search and providing the examiner with the results of that search. *See* Worthless Patents at 1531.

[37] And a third proposed rule not yet submitted to OMB for review as a draft final rule: RIN 0651-AB95, "Changes to Information Disclosure Statement Requirements and Other Related Matters," 71 Fed. Reg. 38808 (July 10, 2006) (the "IDS Rule").

[38] Item 3 (the number of subsequent citations as prior art), cannot be ascertained during pendency. Item 5 (relationship to other applications in the same family) is sometimes discernable.

To better understand the impact of these rules, both on applicants and on future USPTO revenues, we believe the Office should do a proper Regulatory Impact Analysis. It has a vast storehouse of data from which it could develop credible proxy measures for patent value. This would enable the Office to discern ways to reduce patent pendency while imposing the least cost on innovators, and possibly generating additional social benefits.

3. USPTO Does Not Explain its Reversal of Course

It is also striking that USPTO would now seek to return to a "piecemeal examination" scheme similar to what it abandoned in the early 1960s, but without the procedural flexibility that protected applicants under the old system. Back then, USPTO used a procedure somewhat similar to the procedure still used in Europe and Japan today, under which the examiner need not examine for every issue in the first Office Action, and dialog between the applicant and the examiner continues for as long as the parties perceive progress. "Final Rejection" was not imposed until a genuine impasse was identified.

In the early 1960's, USPTO concluded that this was not efficient, and changed to a "compact prosecution" regime, where the examiner was required to fully consider every issue in the first Office Action, and "Final Rejection" was used as the incentive for applicants not to press unreasonable positions.

USPTO now seeks to impose a structure that seeks to marry the applicant-adverse aspects of modern "Final Rejection" practice and old "piecemeal examination" practice. The Office does not explain how this combination provides incentives for examiners to be complete and efficient, or how it provides opportunities to reach agreement when the Office refuses to consider any more than opening negotiating positions.

4. The Limited Data Presented by USPTO Does Not Help Predict the Impact of the Rule

The Limits on Claims Rule caps at 10 the number of independent claims that USPTO will initially examine without submission of an Examination Support Document (ESD). In the preamble, USPTO said 1.2% of patent applications would be affected by the rule. This figure understates the true proportion of applications affected because the proposed rule changes the measurement base.[39] The public has neither a valid baseline nor any way to consider the rule's effects – only USPTO's assurances that it will reduce the Office's workload and therefore reduce patent pendency.

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[39] See Attachment H, Sec. II.2.

II. Continuations Rule

USPTO's rationale is that the Office has a serious problem with backlog (*i.e.*, "patent pendency"); continued examinations are the cause of this backlog; and restricting applicants to a single continued examination will solve it:

> [E]ach continued examination filing, whether a continuing application or request for continued examination, requires the United States Patent and Trademark Office (Office) to delay taking up a new application and thus contributes to the backlog of unexamined applications before the Office. In addition, current practice allows an applicant to generate an unlimited string of continued examination filings from an initial application.[40]

According to the rationale set forth in the NPRM, continued examinations are inherently undesirable and ought to be reduced or eradicated because they do not contribute significant social value:

> In such a string of continued examination filings, the exchange between examiners and applicants becomes less beneficial and suffers from diminishing returns as each of the second and subsequent continuing applications or requests for continued examination in a series is filed. Moreover, the possible issuance of multiple patents arising from such a process tends to defeat the public notice function of patent claims in the initial application.[41]

In public presentations, USPTO officials framed continued examination pejoratively as "rework,"[42] implying that they involve applicants asking USPTO to re-examine claims that have already been fully examined. While such "rework" may occur in limited situations where applicants abuse the continuation process, it simply doesn't occur in most continued examinations.

For example, continuation-in-part applications (CIPs), by definition, include new subject matter and the claims of these applications are usually directed to this new subject matter. Thus, examinations of CIPs are likely examinations of new claims that have not previously been examined by USPTO, and therefore cannot be "rework." As another example, when filing a Request for Continued Examination (RCE), applicants are specifically required to advance the examination of an application. The examiner is provided with new information to consider (e.g., changes to the claim, new arguments, or new references). Action by an examiner on an RCE is thus, by definition, not "rework." Finally, continuation applications can be filed that are directed

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[40] 71 Fed. Reg. 48.

[41] Id.

[42] See Attachment N, slide 18 of the Chicago Town Hall slides.

to subject matter that is fully disclosed but has never been claimed by applicant. Such new claims have never been considered by USPTO and also are not "rework."

USPTO's pejorative characterization of continuations as "rework" hints at a policy rationale that may explain the purpose of the draft rule.[43] For example, senior officials may believe that inventors should not be allowed to pursue claims to additional aspects of an invention, even if those aspects are fully disclosed in an application as originally filed. Reasonable people may disagree about what the policy should be.[44] But that policy balancing was done by Congress, which determined that both "continuing application" and "request for continued examination" should be available as a matter of right.[45] As we discuss in more detail in Attachment E, USPTO does not have the authority to take these rights away. For that reason, senior officials expect to be sued if this rule is finalized and are not confident that they will prevail.[46]

III. Backlog ("Patent Pendency")

USPTO says the problem it is trying to solve is a rise in its backlog, the number of patent applications in examination. But patent pendency is not a uniformly serious problem across all

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[43] In 1998, USPTO floated a similar proposal similar to the Limits on Claims Rule. In response to extensive opposition, the Office abandoned that effort in 1999. See the Appendix to this Attachment D for more information.

[44] Under current law, an inventor's duty to disclose an invention does not undermine his ability to claim its full economic benefits. If inventors no longer had these protections, fulfilling this duty would invite those who made no contribution to the invention to reap its economic value. The patent law must balance these competing interests, and that is the purview of Congress and not USPTO, whose function is to administer the policy tradeoffs that Congress enacts.

[45] A "continuation application" is a later-filed application that claims the benefit of the filing date of an earlier application. Continuations as a matter of right have long been provided by statute, 35 U.S.C. § 120 (1952), 5 Stat. 353 (1839). Though the form and degree vary country-to-country, rights analogous to U.S. continuation practice, including an inventor's right to add claims directed to additional inventions as those inventions are recognized, exist under the laws of all major patent systems, including at least Europe, Japan and Canada.

[46] Eric Yeager, "USPTO Commissioner Doll Says That Limiting Continuations Will Improve Patent Landscape," 72 Patent, Trademark & Copyright Law 1791 (704) ("John J. Doll, commissioner for patents at the Patent and Trademark Office, Oct. 19 argued at the American Intellectual Property Law Association's annual meeting in Washington, D.C.… When questioned on whether the agency had the statutory authority to make the rules changes, Doll said a lawsuit is highly likely and the agency has 'better than a 50/50 chance of prevailing.'"); USPTO Solicitor John Whealan, Duke University Law School, Fifth Annual Hot Topics in Intellectual Property Law Symposium, February 17, 2006, http://realserver.law.duke.edu/ramgen/spring06/students/02172006a.rm, at time mark 52:10 ("We can write rules, and they issue, and maybe they get overturned.").

technology sectors. For example, the American Inventors Protection Act of 1999 enabled applicants to regain patent term lost due to excessive pendency. So for patentees whose inventions do not reach the market for many years (*e.g.*, pharmaceuticals), current delays do not appear to pose a serious problem. But for patentees in industries where the pace of technological change is very rapid, delays may adversely affect their ability to use the patent system to protect their intellectual property. The economic value of their patents may be realized very early in the 20-year patent term, with little or none of this value accruing, say, 10 or more years out.[47]

USPTO has recognized this market need and recently instituted an Accelerated Examination Procedure that gives applicants the opportunity to supply additional information with their patent filing in exchange for moving their application to the front of the queue. Under this program, USPTO guarantees to issue a patent in 12 months.

Significant differences in the value of reduced patent pendency across technology sectors highlights the need for proper regulatory analysis. This includes identifying reasonably available alternatives and avoiding the temptation to impose one-size-fits-all solutions that address the legitimate needs of only a small subset of patent applicants. A complete regulatory analysis that includes, for example, an examination of the tendency of applicants from different technology areas to pay maintenance fees, may provide USPTO with additional information regarding the Technology Centers in which accelerated examination is most important. Armed with this information, the Office could alter its external and internal incentives and reallocate resources in a way that maximizes net benefits to all rather than just a narrowly defined few.

In support of the Continuations Rule, USPTO cites two scholarly authorities for the proposition that continued examinations are the cause of its backlog problem.

1. President's Commission on the Patent System (1966)

This report has been in circulation for over 40 years. The changes it recommended required legislative action. Congress was well aware of it when it enacted major revisions of the Patent Act relating to continuation practice in 1994 and 1999. For example, in 1994, Congress redefined patent term from the old 17-years-from-issue patent term, to a 20-years-from-filing patent term. This put a practical but indirect cap on continuations,[48] but did not eliminate them. In the American Inventors Protection Act of 1999, Congress then expanded continuation

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[47] This difference in the timing of how economic value from innovation is realized may explain why a small number of very large firms, all in the electronics industry, supported one or both proposed rules. See, *e.g.*, the public comments to USPTO by Apple Computer, Cisco Systems, eBay, Intel, Micron Technology, Microsoft, and Oracle on the Continuations Rule (http://www.uspto.gov/web/offices/pac/dapp/opla/comments/fpp_continuation/continuation_comments.html) and the Limits on Claims Rule (http://www.uspto.gov/web/offices/pac/dapp/opla/comments/fpp_claims/claims_comments.html).

[48] Before this change, one could theoretically have a continuation pending from an initial disclosure that was filed 30, 40, or more years earlier.

practice, by creating the new procedure for Requests for Continued Examination (RCE) that USPTO now finds objectionable. We believe the RCE procedures have considerable merit because they enhance the ability of inventors to maximize the protection they obtain for their intellectual property. In any case, their merits are not matters of policy discretion open to USPTO. Congress has spoken, and USPTO lacks the statutory authority to restrict rights established by law (see Attachment E).

2. Lemley & Moore (2004) [49]

USPTO justifies its claim that continued examinations are the cause of its backlog by reference to a single law review article written by a pair of distinguished legal analysts:

> Commentators have noted that the current unrestricted continuing application and request for continued examination practices preclude the Office from ever finally rejecting an application or even from ever finally allowing an application.[50]

USPTO's reliance on Lemley & Moore is problematic for at least three reasons.

First, Lemley & Moore do not address the problem of USPTO's backlog. While they are critical of continued examination practice, their criticisms are based on unrelated issues. It is inappropriate to invoke Lemley & Moore in defense of a regulatory change motivated by concerns about which they were silent.

Second, as Lemley & Moore themselves concede, the abuses that were the subject of their analysis have been almost entirely eradicated by action of Congress, the courts, and USPTO.[51] Moreover, the major reforms occurred in 1995 and 1999 – long before Lemley & Moore was published – and they have virtually eliminated the phenomenon of "submarine" patents.

What is a "submarine" patent? This is the erstwhile and infamous practice of keeping a patent application hidden from public disclosure for years or even decades, using continued examination practice to illicitly incorporate the inventions of others observed in the marketplace, then surfacing them unexpectedly to sabotage a mature industry with infringement claims. The

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[49] Mark A. Lemley and Kimberly A. Moore, Ending Abuse of Patent Continuations, Boston University Law Review, vol. 84 (63-123) (2004) (hereinafter Lemley & Moore).

[50] 71 Fed. Reg. 49.

[51] Congress acted through several statutes mentioned in the Lemley & Moore article, including a 1995 statute that capped patent term at 20 years from filing and provided for publication of most patent applications. The courts acted in a series of cases cited in the "Continuations" NPRM: *In re Bogese*, 22 USPQ2d 1821, 1824 (Comm'r Pats. 1991) (*Bogese I*), and *In re Bogese*, 303 F.3d 1362, 64 USPQ2d 1448 (Fed. Cir. 2002) (*Bogese II*). In addition, the USPTO now provides web access, on a near real-time basis to most applications, and essentially all continuation applications that are related to issued patents, as they are prosecuted.

most famous "submarine" patents were those of Jerome Lemelson, who probably was responsible for Congress taking the action it did in 1994.

At one time, Jerome H. Lemelson was the patentee of over 185 unexpired patents and many pending patent applications. In 1998, users of bar code scanners began to receive letters from stating that their use infringed various Lemelson patents. One such patent, U.S. Patent No. 4,338,626, issued in 1982 on an application that claimed priority to 1954, almost 30 years earlier. Under U.S. patent law at the time, patents were entitled to a 17-year term from the date of issuance. Thus, Lemelson alleged that he "invented" the bar code scanner as early as 1954 and was entitled to a patent that would not expire until 45 years later. Many of Lemelson's nearly 200 issued patents were similarly obtained by such egregious abuse of the patent system, and they were used to extract hundreds of millions of dollars in royalties.

Fortunately, this kind of abuse of patent continuation practice is no longer possible.[52] A 1994 statute and the AIPA deny applicants the ability to avoid public disclosure unless the patent application is filed solely in the U.S. and has no related applications issued as patents, and determines patent lifetime from the date of application rather than the date of issuance. Further, the USPTO now makes available on its web site the files for very nearly all continuation applications – competitors now have "real time" insight into the scope of claims that are being sought. Thus, the majority of patent claims can no longer be hidden, and delaying final decision cannot increase patent value.[53]

Indeed, the so-called *Lemelson* cases are famous because they were rare. Lemley & Moore also acknowledge that abuses of this sort have never been common[54] and that various changes in the law have taken care of every type of "abuse" that they identify.[55] In any case,

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[52] Though the NPRM does not cite it, USPTO officials have claimed in public forums that the Continuations Rule is needed to prevent submarine patents. Thus far, however, they have not supported these claims with evidence documenting the extent to which submarine patents still exist after courts decided the *Lemelson* and *Bogese* cases of 2002 and Congress enacted legislative reforms in 1995 and 1999.

[53] USPTO may assert that a published application can still be considered a "submarine" patent because one does not know what claims may ultimately be drafted from the published disclosure. However, web access to the file enables the public to gain enough knowledge to successfully manage this issue.

[54] "[T]he abuse of continuation practice is not as pervasive as some might think," Lemley & Moore, 84 B.U.L.R. at 118

[55] Lemley & Moore, 84 B.U.L.R. at 79, 83-85, 88-89, and 91-93: almost every section describing some form of past abuse concludes by identifying the change in the law that shut down the abuse, including 1995, 1999 and 2003 statutory changes; common law changes that confine patents to only that which the inventor invented and disclosed, and render "abusive" patents unenforceable, and give USPTO authority to strike abusive applications. Lemley & Moore omit mention of USPTO's practice, just new at

USPTO expressly states that this rule is not intended as a remedy for abuse,[56] and it cites no evidence suggesting that abuse remains a significant problem. So, even if some level of abuse might remain in the system, the Continuations Rule is not needed to fix it. The Office has all the authority it needs to police instances of abuse as they arise on a case-by-case basis.

Third, as a source of influential information, Lemley & Moore suffers from serious problems that foreclose any use by USPTO for regulatory decision-making, even to address the problem of patent "abuse." For example, Lemley & Moore do not clearly define the term "abuse." There is probably a consensus that several of the phenomena they discuss – delay, submarine patenting, changing claims, "evergreening" – were indeed abusive. But they come perilously close to asserting that all patent continuations are per se abusive without regard for any social value they might contain. That they do not truly believe this becomes clear, however, when they discuss proposed remedies. For example, they reject the notion that continuation applications should be prohibited and finally settle on (coincidentally) the same alternative that USPTO proposed in the Continuations Rule: a single continuation by right. Whereas USPTO proposes this as a remedy to solve its backlog problem, however, Lemley & Moore propose it as a political compromise between competing interests.57 Unlike USPTO, Lemley & Moore acknowledge that USPTO lacks the statutory authority to make such a policy change.58

Two other features of Lemley & Moore are worthy of additional comment. First, this paper is based on analysis of a substantial data set. They collected data on over 2 million patents issued from 1976-2000, which suggests that a host of hypotheses could have been rigorously tested. Unfortunately, the only data analyses they report are descriptive – distributions of prosecution times (Figures 1 and 3) and pendency (Figure 4); the length of time under examination at USPTO (Figure 2); the proportion of patents with continuations by technology sector (Table 2); and total prosecution time by year (Table 1). Descriptions of data can be useful and revealing, but they are not amenable for determining causality or drawing interesting or policy-relevant inferences.

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their publication date, of providing web access to pending applications. Lemley & Moore note that courts have long held that "there is nothing improper, illegal or inequitable" in continuations not addressed by these laws, which appear to cover essentially the entire remainder. Lemley & Moore, 84 B.U.L.R. at 77.

[56] 71 Fed. Reg. 50 ("The proposed rules are not an attempt to codify *Bogese II* or to simply combat such extreme cases of prosecution laches.")

[57] Lemley & Moore at 106-107 ("Even if policymakers conclude that there are good reasons to permit patentees to file continuation applications … those reasons don't justify an unlimited number of continuation applications. A compromise proposal might, therefore, limit each applicant to no more than one continuation application… Allowing even one continuing application will give the applicant five or six bites at the apple. Surely that is enough.").

[58] Lemley & Moore at 105 ("Abolishing patent continuations would require legislative action") and 107 ("Limiting the number of continuation applications may require an act of Congress").

Second, virtually the entire data set predates both the *Lemelson* and *Bogese* cases that were decided in 2002 and the reforms made by Congress in 1995 and 1999.[59] Their data could be compared with a new data set consisting of patents applied for since these reforms were instituted, and such a comparison might yield useful estimates of the effects of these judicial and legislative reforms. But it is analytically inappropriate to use data that are known to characterize an outdated system to describe the current system, much less use them to diagnose current problems or propose remedies.

3. Applying Federal Information Quality Guidelines to Lemley & Moore

The federal Information Quality Act,[60] as interpreted by OMB in its government-wide Information Quality Guidelines, requires that influential information disseminated by federal agencies be objective both in substance and in presentation.[61] USPTO's dissemination of Lemley & Moore does not meet the presentational objectivity standard even if the data and analyses therein are guaranteed to be substantively objective.

First, Lemley & Moore deals with the ambiguously defined problem of patent "abuse" but USPTO's stated objective is to reduce examination backlog. Abuse, however defined, contributes to backlog but it is not the only cause. For example, backlog would be expected if USPTO staffing did not keep up with growth in innovation. Thus, a vibrant economy may be one explanation for USPTO's backlog. The number of patent applications nearly doubled in the 9 years from FY 1996-2005, but USPTO examiner staffing has not kept pace.

Lemley & Moore can't be considered authoritative about backlog because they discuss it only in passing. Moreover, none of their analyses suggest that continued applications are the culprit. It is a clear violation of the presentational objectivity standard to utilize and treat as "influential" scientific, technical, economic or statistical information that was created for and relates to unrelated phenomena, even if that information is assured to be substantively objective.

Second, USPTO expressly disclaims any intent to solve the problem of "abuse" through this rulemaking.[62] That means Lemley & Moore is simply an inappropriate scholarly reference

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[59] Lemley & Moore's data window, which closes with 2000, includes only the simpler applications filed after the June 1995 statutory amendment, but few complex applications filed after this amendment. Similarly, essentially all applications subject to the 1999 statutory amendment are excluded.

[60] Sec. 515, Treasury and General Government Appropriations Act for Fiscal Year 2001 (Public Law 106-554), codified at 44 U.S.C. § 3516 note).

[61] Office of Management and Budget, "Guidelines for Ensuring and Maximizing the Quality, Objectivity, Utility, and Integrity of Information Disseminated by Federal Agencies; Notice; Republication," 67 Fed. Reg. 8452.

[62] See 71 Fed. Reg. 50 ("The proposed rules are not an attempt to codify *Bogese II* or to simply combat such extreme cases of prosecutions laches.")

unless it is accompanied by transparent acknowledgement that the article concerns unrelated issues.

Of course, that would beg the question why USPTO cites it. Clearly, the Office intends that the public infer that its proposed limitation on continuation practice is supported by the data and analysis in Lemley & Moore.[63] In that regard, USPTO is adopting the inferences of Lemley & Moore as an objective characterization of its own, and under applicable information quality guidelines, it is thus responsible for their objectivity.

[63] Whether Professor Lemley and/or Judge Moore personally support or oppose USPTO's draft rule is immaterial. Only the portion of their joint research contained in this 2004 law review article is relevant.

Attachment D, Appendix 1

USPTO's 1998 Proposal to Limit Applicants to 40 Claims, and its 1999 Abandonment of that Proposal

USPTO has previously proposed limits on claims. In a 1998 Advanced Notice of Proposed Rulemaking, the agency identified claims limits as one way to help implement its "business goals" "to increase the level of service to the public." Vice President Gore's National Performance Review prompted this initiative. The agency asserted that it had statutory authority to make these changes in patent practice.

In 1999, USPTO abandoned this initiative in response to widespread criticism. The agency lists seven broad objections raised by public comments (including a direct challenge to its claim of statutory authority). The Comments offered seven alternative approaches for USPTO to consider instead.

The record for the Limits on Claims Rule currently under consideration by OMB contains no analysis of any of these alternatives, and fails to address or avoid the specific objections that were raised.

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53498-53530

DEPARTMENT OF COMMERCE

Patent and Trademark Office

37 CFR Part 1

[Docket No.: 980826226–8226–01]

RIN 0651–AA98

Changes To Implement the Patent Business Goals

AGENCY: Patent and Trademark Office, Commerce.

ACTION: Advance notice of proposed rulemaking.

SUMMARY: The Patent and Trademark Office (PTO) has established business goals for the organizations reporting to the Assistant Commissioner for Patents (Patent Business Goals). The Patent Business Goals have been established in response to the Vice-President's designation of the PTO as an agency that has a high impact on the public, and they are designed to make the PTO a more business-like agency. The focus of the Patent Business Goals is to increase the level of service to the public by raising the efficiency and effectiveness of the PTO's business processes. The PTO is considering a number of changes to the rules of practice and procedure to support the Patent Business Goals. The PTO is publishing this Advance Notice of Proposed Rulemaking to allow for public input at an early stage in the rule making process. The PTO is soliciting comments on these specific changes to the rules of practice or procedures.

…

Topic #4. Limiting the number of claims in an application (37 CFR 1.75)

Summary: The PTO is considering a change to 37 CFR 1.75 to limit the number of total and

independent claims that will be examined (at one time) in an application. The PTO is considering a change to the rules of practice to: (1) limit the number of total claims that will be examined (at one time) in an application to forty; and (2) limit the number of independent claims that will be examined (at one time) in an application to six. In the event that an applicant presented more than forty total claims or six independent claims for examination at one time, the PTO would withdraw the excess claims from consideration, and require the applicant to cancel the excess claims. This change would apply to all non-reissue utility applications filed on or after the effective date of the rule change, to all reissue utility applications in which the application for the original patent was subject to this change, and to national applications filed under 35 U.S.C. 111(a), as well as national applications that resulted from a PCT international application.

Discussion: Applications containing an excessive number of claims present a specific and significant obstacle to the PTO's meeting its business goals of reducing PTO processing time to twelve months or less for all inventions. While the applications that contain an excessive number of claims are relatively few in percentage (less than 5%), these applications impose a severe burden on PTO clerical and examining resources, as they are extremely difficult to properly process and examine. The extra time and effort spent on these applications has a negative ripple effect, resulting in delays in the processing and examination of all applications, which, in turn, results in an increase in pendency for all applications. In view of the patent term provisions of 35 U.S.C. 154, as amended by the Uruguay Round Agreements Act (URAA), Pub. L. 103–465, 108 Stat. 4809 (1994), PTO processing time and pendency are concerns to the PTO and all applicants. Thus, the PTO considers it inappropriate to continue to permit the proclivity of a relatively low number of applicants (less than 5%) for excessive claim presentation to result in delays in examination and unnecessary pendency for the vast majority of applicants.

Approximately 215,000 utility applications were filed in the PTO in Fiscal Year 1997. PTO computer records indicate that the approximate number and percentage of applications filed in Fiscal Year 1997 containing the following ranges of independent and total claims breaks down as follows:

Applications filed in FY 1997 containing	Number	Percentag FY 1997 i ings
Over 50 independent claims	11	00.
Between 41 and 50 independent claims	23	00.
Between 31 and 40 independent claims	77	00.
Between 21 and 30 independent claims	275	00.
Between 16 and 20 independent claims	536	00.
Between 11 and 15 independent claims	1,887	00.
Between 7 and 10 independent claims	7,024	03.
Between 4 and 6 independent claims	27,147	12.
Over 6 independent claims	9,833	4.
Over 500 total claims	5	00.
Between 201 and 500 total claims	88	00.
Between 101 and 200 total claims	652	00.
Between 61 and 100 total claims	2,514	01.
Between 51 and 60 total claims	2,143	00.
Between 41 and 50 total claims	4,056	01.
Between 31 and 40 total claims	8,631	04.
Between 21 and 30 total claims	23,323	10.
Over 40 total claims	9,458	4.

These numbers indicate that over 95% of all applications filed in Fiscal Year 1997 contained fewer than forty total claims and over 95% of all applications filed in Fiscal Year 1997 contained fewer than six independent claims. Thus, the rule change under consideration should not prevent the overwhelming majority of applicants from presenting the desired number of total and independent claims for examination. In addition, the rule change under consideration will benefit the overwhelming majority of applicants, since it will stop a relatively small number of applicants from occupying an inordinate amount of PTO resources.

While the problem with applications containing an excessive number of claims is now reaching a critical stage, this problem has long confronted the PTO…

For these reasons, it is now time for the PTO to act to limit the use of excessive numbers of claims in an application. The PTO is specifically proposing to deal with this problem now on a systemic basis by limiting, via rulemaking, the number of claims that will be examined in an application. This proposal supports the PTO business goals of reducing PTO processing time to twelve months or less for all inventions, and aligning fees to be commensurate with resource utilization and customer efficiency.

A rule limiting the number of claims in an application is within the PTO's rulemaking authority under 35 U.S.C. 6(a) if it ''is within the [PTO's] statutory authority and is reasonably related to the purposes of the enabling legislation * * * and does no violence to due process.'' *See Patlex Corp.* v. *Mossinghoff,* 758 F.2d 594, 606, 225 USPQ 543, 252 (Fed. Cir. 1985) (citations omitted).

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DEPARTMENT OF COMMERCE

Patent and Trademark Office

37 CFR Parts 1, 3, 5, and 10

[Docket No.: 980826226–9185–02]

RIN 0651–AA98

Changes To Implement the Patent Business Goals

AGENCY: Patent and Trademark Office, Commerce.

ACTION: Notice of proposed rulemaking

Limiting the Number of Claims in an Application (Topic 4)

The Office indicated in the Advance Notice that it was considering a change to § 1.75 to limit the number of total and independent claims that will be examined (at one time) in an application. The Office was specifically considering a change to the rules of practice to: (1) Limit the number of total claims that will be examined (at one time) in an application to forty; and (2) limit the number of independent claims that will be examined (at one time) in an application to six. In the event that an applicant presented more than forty total claims or six independent claims for examination at one time, the Office would withdraw the excess claims from consideration, and require the applicant to cancel the excess claims.

While the comments included sporadic support for this proposed change, the vast majority of comments included strong opposition to placing limits on the number of claims in an application. The reasons given for opposition to the proposed change included arguments that: (1) Decisions by the Court of

Appeals for the Federal Circuit (Federal Circuit) leave such uncertainty as to how claims will be interpreted that additional claims are necessary to adequately protect the invention; (2) the applicant (and not the Office) should be permitted to decide how many claims are necessary to adequately protect the invention; (3) there are situations in which an applicant justifiably needs more than six independent and forty total claims to adequately protect an invention; (4) the proposed change exceeds the Commissioner's rule making authority; (5) the change will simply result in more continuing applications and is just a fee raising scheme; (6) the Office currently abuses restriction practice and this change will further that abuse; and (7) since only five percent of all applicants exceed the proposed claim ceiling, there is no problem. Several comments which opposed the proposed change offered the following alternatives: (1) Charge higher fees (or a surcharge) for applications containing an excessive number of claims; (2) charge fees for an application based upon what it costs (*e.g.,* number of claims, pages of specification, technology, IDS citations) to examine the application; and (3) credit examiners based upon the number of claims in the application. Several comments which indicated that the proposed change would be acceptable, placed the following conditions on that indication: (1) That a multiple dependent claim be treated as a single claim for counting against the cap; (2) that a multiple dependent claim be permitted to depend upon a multiple dependent claim; (3) that a Markush claim be treated as a single claim for counting applications are taken up by the same examiner in the same time frame; (5) that allowed dependent claims rewritten in independent form do not count against the independent claim limit; (6) that the Office permit rejoinder of dependent claims upon allowance; and (7) that higher claim limits are used.

Response: This notice does not propose changing § 1.75 to place a limit on the number of claims that will be examined in a single application.

Attachment E

The Rules Exceed the Authority Delegated to USPTO under the Administrative Procedure Act and Patent Act

As noted in many of the comments submitted in response to the two NPRMs, USPTO likely does not have the legal authority to promulgate either the Continuations Rule or the Limit on Claims Rule. While we understand that it is not OMB's role to supplant the judgment of agency officials with regard to their statutory authority, some statutory matters are more clear cut than others. We believe that it is important to avoid a predictable (and likely unfavorable to USPTO) legal challenge. If these rules are promulgated, an enormous cloud of legal uncertainty will surround USPTO and all patent applications while these rules wind their way through the courts. Significant legal uncertainty is itself a social cost of regulation, especially regulation in cases where the agency's likelihood of prevailing is small.

I. Administrative Procedure Act

USPTO's failure to provide a rational connection between a problem and its proposed regulatory action violates not only EO 12,866, but also other provisions of law. In particular, these rules are highly vulnerable to challenge under the Administrative Procedure Act.[64]

1. Failure to Disclose Critical Information

USPTO will not be permitted to rely on any evidence in support of its position that it did not put into the administrative record. In this instance, USPTO is doubly vulnerable because the 114 pages of information it has presented have little or no connection to the inadequacies it purports to address.[65] When agencies use models to project regulatory effects, they must disclose those models and all assumptions.[66] USPTO has computer models and assumptions,

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[64] Senior USPTO officials have conceded as much. See footnote 46.

[65] *Advocates for Highway & Auto Safety v. Federal Motor Carrier Safety Admin.*, 429 F3d 1136, 1145-46 (D.C. Cir. 2005) (rule invalidated where it merely responds to symptoms indicated in another document, "with little apparent connection" to the underlying causes of the problem or alternative recommendations).

[66] *U.S. Air Tour Ass'n v. Fed. Aviation Admin.*, 298 F3d 997, 1008 (D.C. Cir. 2002) ("When an agency uses a computer model, it must 'explain the assumptions and methodology used in preparing the model and, if the methodology is challenged, must provide a complete analytic defense.' "); *Engine Mfrs Assn v EPA*, 20 F3d 1177 (D.C. Cir. 1994) (APA requires making rulemaking data intelligibly available to allow meaningful comment so public sees 'accurate picture of reasoning'); *Solite Corp v EPA*, 952 F2d

and apparently based these rules on them. USPTO offered to make them available to a trade association (see § I.3, below). But USPTO did not include them in the rulemaking file, and declined to make them available when requested.[67] Similarly, agencies are required to publish technical studies and data on which they rely; if USPTO did any such study it did not make it available for comment.

2. USPTO May Not Rely on Off-Point Studies

An agency's rulemaking may not be sustained when it relies on academic studies that are not directed to the precise issue at hand.[68] As we discuss in Attachment D, section III.2, the NPRMs rely heavily on the Lemley & Moore paper for its proposed single continuation provision, but the Lemley & Moore paper is silent on USPTO's backlog problem and suggests this as a remedy for different issues.

3. *Ex Parte* Communications

USPTO may have engaged in improper *ex parte* communications with a trade association. News reports indicate that USPTO offered to share information outside the proper channels of the administrative record.[69] We do not know if those communications occurred, or the content of any communications that did occur. However, the offer to selectively disclose the agency's key information raises questions that should be resolved before the rules are promulgated.

USPTO historically has kept open good lines of communication with its user base, and we strongly support agency efforts to inform itself of the practical day-to-day effects of its

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473, 484 (D.C. Cir. 1991) ("An agency commits serious procedural error when it fails to reveal portions of the technical basis for a proposed rule in time to allow for meaningful commentary"). Indeed, where an agency fails to make its data available, not only is the rule invalid, but the agency is foreclosed from introducing new evidence during judicial review. With no evidence to support "substantial justification" for its position, the agency may be exposed to attorney fees under the Equal Access to Justice Act. *See Hanover Potato Products v Shalala*, 989 F2d 123, 128, 131 (3rd Cir. 1993) (failure of agency to make its rulemaking data available is sufficient lack of justification to warrant an award of attorney fees)

[67] See footnote 22 and accompanying text in Attachment C.

[68] *Public Citizen v Federal Motor Carrier Safety Admin*, 374 F3d 1209 (D.C. Cir. 2004) (rule invalid for relying on external studies not on the precise issue, failure to make cost-benefit analysis)

[69] Eric Yeager, "USPTO Commissioner Doll Says That Limiting Continuations Will Improve Patent Landscape," 72 *Patent, Trademark & Copyright Journal* 704ff (USPTO "invited the AIPLA board to take a look at the agency's models and the assumptions they are based upon. Those models will reveal that USPTO's proposed change to continuation practice will turn the backlog situation around").

policies and practices. However, once USPTO decides to propose new regulations, it is obligated to abide by established administrative law procedures.

II. USPTO's Proposed Retroactive Application of the Rules Exceeds Legal Bounds

Senior officials have publicly stated that USPTO intends to give the rules retroactive effect.[70] In particular, the new rules would apply to all applications that are pending under the old rules but not yet examined as of the effective date of the new rules. This violates the law in three separate ways.

First, new provisions cannot be "submarined" past the requirements for Notice and Comment.[71]

Second, retroactivity violates limits on USPTO's authority. The Supreme Court explained the limits on agencies' authority to promulgate retroactive rules in *Bowen v Georgetown University Hospital*, 488 U.S. 204, 209, 220 (1988), as follows:

> Retroactivity is not favored in the law. Thus, congressional enactments and administrative rules will not be construed to have retroactive effect unless their language requires this result. ... By the same principle, a statutory grant of legislative rulemaking authority will not, as a general matter, be understood to encompass the power to promulgate retroactive rules unless that power is conveyed by Congress in express terms. ... "The power to require readjustments for the past is drastic. It ... ought not to be extended so as to permit unreasonably harsh action without very plain words". Even where some substantial justification for retroactive rulemaking is presented, courts should be reluctant to find such authority absent an express statutory grant.
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> A rule that has unreasonable secondary retroactivity – for example, altering future regulation in a manner that makes worthless substantial past investment incurred in reliance upon the prior rule – may for that reason be "arbitrary" or "capricious," see 5 U.S.C. § 706, and thus invalid.

Bowen makes clear that retroactivity is measured with respect to the activities of the regulated party and its "past investment incurred in reliance upon the prior rule," not with respect to agency action. USPTO's examination schedule is irrelevant.

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[70] John Whealan, Duke University Law School, Fifth Annual Hot Topics in Intellectual Property Law Symposium, http://realserver.law.duke.edu/ramgen/spring06/students/02172006a.rm (Feb. 17, 2006), at time mark 1:01:50, describing how USPTO will apply the rules retroactively to applications filed before the rules' effective date.

[71] *Air Transport Ass'n v. Federal Aviation Admin.*, 169 F.3d 1, 7-8 (D.C. Cir. 1999) (rule invalid where it departs unpredictably from the Notice's proposed rule).

Third, there is no delegation of retroactive rulemaking authority in the statute. Even if the Office successfully defended a "substantial justification" within its jurisdiction (an unlikely possibility) – it has no authority to rely on that justification without authority from Congress.

III. USPTO Concedes that the Rules are "Substantive" and Therefore Beyond its Authority

USPTO has procedural but not substantive rulemaking authority.[72] But the cornerstone proposals of both rules are substantive, and therefore likely to be ruled beyond USPTO's authority when challenged. The NPRMs readily concede that the new rules are intended to "affect substantive rights or interests," and "encode the agency's substantive value judgment," two of the major tests[73] used to determine whether a rule is procedural or substantive. After the NPRMs were published, in the early Town Hall presentations in February 2006, USPTO officials quite openly expressed the view that both the Continuations Rule and Limits on Claims Rule were being proposed for a substantive purpose reflecting USPTO's policy judgment, and that USPTO intended to substantively alter the delicate balance of rights that Congress created.[74]

IV. The Rules Shift Burdens of Proof, and are Therefore Substantive

The Supreme Court has noted that shifts in burdens of proof are "substantive."[75] Under federal patent law, USPTO always has the burden of proof whenever it rejects a patent

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[72] USPTO does "NOT … have authority to issue substantive rules," 35 U.S.C. § 2(b)(2)(A)72; *Merck & Co. v. Kessler*, 80 F.3d 1543, 1550, 38 USPQ2d 1347, 1351 (Fed. Cir. 1996) (emphasis in *Merck*). The full text of § 2 is set forth in Attachment O – note that USPTO has no responsibility to regulate, adjudicate, or gain competence in any aspect of the post-issuance economic lifetime of a patent, except for the very narrow scope of issues reviewable by reissue and reexamination.

[73] *E.g.*, *JEM Broadcasting Co. v. Federal Communications Comm'n*, 22 F.3d 320, 328 (D.C. Cir. 1994) (a rule is ineligible for procedural classification "where the agency 'encodes a substantive value judgment'" in the rule).

[74] John Whealan, Duke University Law School, Fifth Annual Hot Topics in Intellectual Property Law Symposium, http://realserver.law.duke.edu/ramgen/spring06/students/02172006a.rm (Feb. 17, 2006), at time mark 58:26, discussed reasons that USPTO would ***not*** permit continuations. He stated that he would introduce an "intent" element, and substantially rebalance substantive rights, in derogation of the law as stated by the courts, for example, in *Kingsdown Medical Consultants Ltd v. Hollister Inc.*, 863 F.2d 867, 874, 9 USPQ2d 1384, 1390 (Fed. Cir. 1988). Mr. Whealan conceded that USPTO may well be acting illegally. *Id.* at time mark 52:10.

[75] Director, Office of Workers' Compensation Programs, Dept of Labor v. Greenwich Collieries, 512 U.S. 267, 271 (1994) ("[T]he assignment of the burden of proof is a rule of substantive law.").

application, for any reason.[76] Both rules would shift burdens of proof, and are therefore "substantive" and outside the Office's authority.

The Continuations Rule proposes to shift the burden of proof on the issue of the right to file a continuation from USPTO[77] to applicants.[78] Most egregiously, USPTO's "Town Hall" slides specifically state that USPTO would deny permission to file a continuation application when the underlying problem is USPTO's own lack of diligence or violation of its own guidance documents.[79]

Similarly, the Limits on Claims Rule proposes to shift the burden of proof for patentability over prior art from USPTO to the applicant in certain circumstances. It would require the applicant to perform a search and examine all claims against all documents submitted to the Office (for potentially dozens of documents that are of only secondary relevance). It would permit the Office to disallow claims until an applicant does so and it would allow the Office to automatically reject claims that it has not examined. Finally, both rules would shift the burden of proof on the issue of "double patenting."

Each of these shifts of burden of proof are substantive, and therefore not a valid exercise of USPTO's authority to issue regulations governing application and examination procedure.

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[76] *In re Oetiker*, 977 F.2d 1443, 1445-46, 24 USPQ2d 13443, 1444 (Fed. Cir. 1992) ("the examiner bears the initial burden, on review of the prior art or on any other ground, of presenting a prima facie case of unpatentability. … If examination at the initial stage does not produce a *prima facie* case of unpatentability, then without more the applicant is entitled to grant of the patent" [emphasis added]); *In re Haas*, 580 F.2d 461, 198 USPQ 334 (CCPA 1978) (refusal to examine is legally the same as a rejection).

[77] 35 U.S.C. § 120 (a continuation "shall have the same effect" as an original application); 35 U.S.C. § 131 (Director of USPTO "shall cause an examination to be made of the application," not such applications as the Director picks and chooses, or some designated part of the application); *In re Bogese*, 303 F.3d 1362, 1368-69, 64 USPQ2d 1448, 1453 (Fed. Cir. 2002) (USPTO may refuse further examination of an application only after satisfying fairly strict prerequisites, including notice).

[78] The applicant must "show[] to the satisfaction of the Director that the amendment, argument, or evidence could not have been submitted during the prosecution of the prior-filed application" or "prior to the close of prosecution in the application."71 Fed. Reg. 59, col. 3, and 61, col. 2.

[79] See Attachment N, slides 82 and 83 of the Chicago Town Hall slides (Continuation will not be permitted in cases where examiner's work violated USPTO's guidance documents, or was otherwise inadequate or incomplete, even when so inadequate as to constitute "premature final rejection").

Attachment F

Existing Regulations or Administrative Practices Created or Contributed to the Problems USPTO Seeks to Remedy

USPTO has disclosed no analysis of the extent to which its existing regulations or administrative practices have created or contributed to the problems it seeks to remedy, as required by Sec. 1(b)(2).[80] USPTO has disclosed no analysis of alternatives to direct regulation, including most notably "providing economic incentives to encourage the desired behavior" (Sec. 1(b)(3)).

In this case, it is not regulated parties who would benefit from economic incentives; patent examination is a user fee-funded government service. Instead, it is USPTO patent examiners who need economic incentives that more closely align their rewards to the social value of the applications they are reviewing. If USPTO's internal inefficiencies were addressed, the backlog problem for which these rules are said to be the solution would be greatly reduced.

Both proposed rules appear to assume that every application can and should be shaped at filing to fit a "standard box" corresponding to a standard quantum of examination work. In Section I, we describe that "standard box," the internal incentive system under which examiners' performance is measured. We show that examination resources are not allocated based on either the level of effort required to perform a competent and thorough examination or the social value of the application. These incentives are perverse and color every aspect of the examination process, and indirectly affect how users of the system behave. In Section II, we explain the user-fee basis of USPTO's funding and note that USPTO set the fees to recover the full cost of service. What the two draft rules propose to do is stop providing certain services for which USPTO is paid. In Section III, we show that continued examinations require less examining resources than initial applications and, in some instances, may be a revenue center for USPTO. In Section IV, we show that USPTO has serious problems recruiting and retaining competent examiners. In Sections V and VI, we explain how USPTO exacerbates these problems by rewarding examiners for unproductive activity and penalizing them for reviewing technically complex applications. We believe that a regulatory impact analysis would assist the USPTO in developing internal metrics to more accurately allocate its supply of examination resources to the variety of products that its customers want to buy, rather than compel its customers to buy only the one-size-fits-all product that USPTO would find it easier to sell.

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[80] See Attachment C, text accompanying footnote 24, in which Commissioner Doll admits USPTO did no studies to identify the source of "rework" applications in its backlog, and had not attempted to differentiate between rework applications that arise by applicant error or examiner error.

I. How Examiner Performance is Measured

Patent examiner performance and productivity is based on a metric known as a "count." The count system is described in MPEP § 1705 (see Attachment Q). Examiners always get two "counts" per application (and in a few cases, a third). The first "count" is given for the examiner's First Action on the Merits (FAOM), and the second is given for "disposal." The examiner receives a "disposal" count if (1) he grants an Allowance (*i.e.*, awards a patent), (2) the applicant abandons the application, (3) the examiner issues a rejection to which the applicant files a Request for Continued Examination (RCE), or (4) certain other actions. Thus, the examiner gains a reward if his action leads to an RCE. That creates a strong incentive to issue at least one final rejection.

The examiner's reward of a count is independent of the validity of his action. Applications that should not be rejected may be rejected solely to motivate the applicant to submit an RCE. The examiner is neither rewarded for issuing "good" patents nor penalized for issuing "bad" ones. There is no difference in the examiner's reward if he rejects a "bad" claim or rejects a "good" one. It's all the same.[81]

All applications in the same technology area receive a similar "examination budget" – the amount of time the examiner has to review it[82] – irrespective of several factors that obviously are very important, both to the examiner and to the applicant:

- Whether the application has many claims, or few[83]
- Whether the application is 10 pages long or 210 pages long
- Whether the applicant cited no prior art references to USPTO or cited 200 references[84]

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[81] The Court of Appeals for the Federal Circuit has complained about USPTO's predilection for not revealing the basis for its adverse decisions. *See*, *e.g.*, *In re Oetiker*, 977 F.2d 1443, 1449, 24 USPQ2d 1443, 1447 (Fed. Cir. 1992), Plager, J., concurring ("The examiner cannot sit mum, leaving the applicant to shoot arrows into the dark hoping to somehow hit a secret objection harbored by the examiner").

[82] USPTO scales examination budgets by technologies – for example, complex biotech patent applications receive more time than simple mechanical devices. However, we understand that for several years USPTO has not adjusted its scaling factors to keep pace with increasing complexity in some technological areas.

[83] An application with many claims may be burdensome to the examiner but it does not impose a genuine burden to USPTO because the applicant will have paid task-specific extra fees to cover the cost of additional examination. The Office appears not to have aligned its internal incentives to the prices it charges applicants.

[84] In the proposed IDS Rule, (RIN 0651-AB95, "Changes to Information Disclosure Statement Requirements and Other Related Matters," 71 Fed. Reg. 38808 (July 10, 2006)), USPTO would reduce the fee it charges for considering large numbers of prior art references, so long as they are presented early

- Whether the application is a new application or a fifth continuation
  - that can be allowed after ministerial review
  - or that otherwise can be predicted to require less time to examine than a new application
- Whether the application is in actual litigation, imminent litigation or no likely litigation
- Whether the application is allowed or finally rejected.
- The value of the intellectual property the applicant seeks to protect
- The value of timely review to the applicant

Applicants give USPTO either definitive information or strong signals on all but one of these factors that should affect examination. But under current USPTO compensation metrics, this information does not affect an examiner's time budget.[85]

Finally, the examiner's reward is the same whether he performs a competent and thorough review, or a sloppy, careless and uninformed one – one count for a first action on the merits, one count for disposal. Indeed, in response to a question of whether USPTO permitted and incentivized "hide the ball" examination techniques in violation of the agency's guidance document, USPTO stated in a formal written decision that it would not review whether or not counts were actually earned by *bona fide* examination.[86]

II. The December 2004 Increase in USPTO User Fees Was Advertised as the Solution to the Backlog Problem

Effective December 2004, USPTO obtained the authority to impose higher user fees. For example, the fee for each claim in excess of 20 was raised from $18 to $50 and for each

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in examination. One option for regulatory analysis is the idea of calibrating its examination fees and examiner time budget to account for cases where there is a great deal of potentially material prior art, as required by 35 U.S.C. § 41(d)(2).

[85] Many public comments have reminded USPTO that it has both the authority and the requisite information it needs to rationally allocate examination time. See "Changes To Implement the Patent Business Goals, Notice of Proposed Rulemaking" 64 Fed. Reg. 53772-53845 (October 4, 1999), Alternatives (2) and (3) ("(2) charge fees for an application based upon what it costs (e.g., number of claims, pages of specification, technology, IDS citations) to examine the application; and (3) credit examiners based upon the number of claims in the application"); Comments of Heritage Woods, http://www.uspto.gov/web/offices/pac/dapp/opla/comments/fpp_continuation/ heritagewoods_con.pdf, pages 23-32 (discussing various alternatives to the Rules).

[86] 09/385,394, Decision on Petition of Feb. 10, 2006, "[I]nternal Office procedures (i.e., crediting of work completed) are neither petitionable or appealable and will not be addressed further…" The agency's practice with respect to counts and "final rejection" are discussed further in Attachment J.

independent claim in excess of 3 was raised from $86 to $200.[87] The patent bar and users of the patent system, including many signatories to this letter, supported these increases precisely because USPTO assured us that backlog would decline if only they had the funds to dramatically increase staffing and establish incentives that improved examiner retention. Users of the patent system agreed that Congress had "starved" USPTO during the period 1992-2003 by diverting hundreds of millions of dollars of user fee revenue: [88, 89]

> AIPLA supported the fee increase, which was said to be necessary "to substantially cut the size of [the PTO's] inventory," because we believed that it would allow the PTO to both improve quality of the patents it granted and reduce the pendency of its backlog of patent applications. Congress did increase patent fees beginning in fiscal year 2005, and the PTO is now in the second year of that increase. It hired approximately 1,000 new patent examiners in FY 2005 and plans to hire 1,000 more for each of the next four years. We understand that the Office has experienced some difficulties in training and retaining these new examiners. We also understand that the Office has developed a new approach to training examiners and is targeting new hires that will be more likely to make their career in the PTO.
>
> On the other hand, the Office has repeatedly stated, without providing any justification, that it "cannot hire its way out" of the backlog situation in which it finds itself. Absent some compelling evidence to back up this claim, AIPLA cannot accept this mere statement as justification for the proposed rule changes.
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> While it is true that hiring additional examiners would not instantly reduce the backlog of pending applications, any search for a remedy to this problem must consider the PTO's current situation and how it got there. Congress essentially starved the PTO of the resources it needed to keep pace with the increase in patent application filings from roughly FY 1992 through FY 2003, diverting nearly $800 million in fees generated by this increase. Hundreds of examiners, who would be fully trained and experienced today, were not hired. Many of the examiners in the

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[87] Compare 37 C.F.R. § 1.17 from 2004 and today (Attachment P). For example, an application with 10 independent claims and 52 total claims would incur $3,000 (= {(10-3) × $200} + {(52-20) × $50}) in "excess claims," in addition to the $1,000 filing fee for a basic application. Thus a moderately complex application costs four times the filing fee of a basic application.

[88] See AIPLA's comment letter on the Continuations Rule, April 24, 2006, http://www.uspto.gov/web/offices/pac/dapp/opla/comments/fpp_continuation/aipla.pdf at page 3 (page 4 of the pdf) ("Congress essentially starved USPTO of the resources it needed to keep pace with the increase in patent application filings from roughly FY 1992 through FY 2003, diverting nearly $800 million in fees generated by this increase. Hundreds of examiners, who would be fully trained and experienced today, were not hired.")

[89] AIPLA's letter, *loc. cit.*; *Figueroa v. United States*, 466 F.3d 1023, 1027-28 (Fed. Cir. 2006) (describing the history of "fee diversion," Congressional failure to authorize USPTO's authority to spend the fee income it earned).

> PTO at that time have aged and are retiring. Now the Office must find and train the needed examiners, and must provide an attractive workplace and appealing working conditions in order to retain them. This solution will take time; it will not happen overnight. But neither did the crisis in which the Office finds itself arise overnight.

The purpose of the additional user fee revenue was to increase hiring, and indeed, USPTO forecasts that with these new hires and low attrition, the pendency time will be under 35 months in 2011, while without hiring pendency would have exceeded 40 months.[90] Now USPTO officials say that the Office "cannot hire its way out" of the backlog.[91]

III. Continued Examinations Require Less Examining Resources than Initial Applications

In the preamble to the proposed Continuations Rule, USPTO assumes that the resources needed to examine initial and continuation applications are identical. Therefore, every continuing application not submitted means an initial application will be examined instead.[92] There are three scenarios under which this assumption could hold: the first is rare, and the other two are highly implausible. The rare scenario requires that the examiner who reviewed a parent application not review the corresponding continuation application. The first implausible scenario concedes that the same examiner reviews both applications, but assumes that at the time he reviews the continued examination he has no recollection of the earlier application.[93] In the second implausible scenario, all effort expended in earlier examination becomes irrelevant and unusable in continued examination. USPTO has presented no evidence supporting any of these propositions. In fact, common sense suggests that they are true only in unusual circumstances and therefore should not be used as the basis for extrapolating changes in USPTO output. Continuations are almost always reviewed by the same examiner – the only routine exception is when the earlier examiner leaves USPTO employment. The typical time lag between rounds of examination is five to ten months, so a complete lack of recollection is unlikely.

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[90] See Chicago Town Hall Slides at 51.

[91] Eric Yeager, "USPTO Commissioner Doll Says That Limiting Continuations Will Improve Patent Landscape," 72 Patent, Trademark & Copyright Journal 704ff ("'We can't hire our way out of the patent application backlog, and that is certain,' Doll said."). Even if it is assumed that USPTO's forecasts are valid and reliable, the effect of these two rules would be to reduce pendency by just three months. See Attachment N, slide 53 of the Chicago Town Hall Slides, reproduced at Attachment H, section II.

[92] 71 Fed. Reg. 50, col. 1.

[93] A parallel is easy to make to OMB's experience in regulatory review. Staff turnover sometimes means final proposed and draft final rules are reviewed by different Desk Officers, especially when a significant period of time has elapsed. Rarely, however, does a Desk Officer reviewing a draft final rule have no recollection of his own prior review of the draft proposed rule.

Instead, it is far more likely that the same examiner reviews both the original and continuation applications, and recalls a significant amount of detail.[94] Examiners reuse the prior art search (the single largest time commitment in reviewing a new application for the first time) from earlier rounds of examination, and only do "follow up" searches of prior art that was recently published. Therefore, the examining resources necessary to examine a continuation are almost certain to be less than those needed to examine a new application. That means for every continued application USPTO does not examine, it will examine a fraction of one new application with the same resources.[95]

Continuation applications, CIPs, and RCEs appear to be at least self-funding[96] and may be profit centers for USPTO. We predict, for example, that continuation applications on average require significantly less examination resources and generate higher levels of maintenance fee revenue than original applications. We also predict that a well-conducted Regulatory Impact Analysis would show that the perverse incentive structures described in Section I, and problems the Office has recruiting and retaining competent examiners, are greater contributors to backlog than the application attributes it proposes to regulate.[97] If the inefficiencies created internally by USPTO were addressed, we predict that USPTO's backlog would be brought under control. Of course, performing a Regulatory Impact Analysis that complies with Circular A-4 would allow USPTO to evaluate these various issues and enable it to structure reforms that attack the underlying problem rather than unrelated but observable symptoms.

IV. USPTO Has Serious Problems Recruiting and (Especially) Retaining Competent Examiners

To work as a patent examiner, one must have earned a college degree in a relevant technical field plus, in some technological fields, have a higher lever degree, such as a master's or Ph.D. Job postings on the USPTO web site give a starting salary of $38,435, and promotion

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[94] USPTO will have ample data that can be analyzed to determine how often the examiner of the continuation application is not the same as the examiner of the earlier application. We encourage USPTO to include an analysis of this data in preparing a complete regulatory analysis of the impact of the Continuations Rule.

[95] The parallel to OMB review applies here as well. The resources it needs to review draft rules and ICRs would be significantly greater if every submission were new and there was no institutional memory.

[96] If they are not, then USPTO has set its fees in violation of statute, and has both the obligation and authority to reset its fees. 35 U.S.C. § 41(d)(2) ("The Director shall establish fees … to recover the estimated average cost to the Office…"); *see also* footnote 29.

[97] See Section IV below and Chicago Town Hall slides (Attachment N) at 20 (shows hiring and attrition over the past few years).

potential limited to GS-14 equivalent.[98] Postings indicate that higher salaries ($63,885 - $83,052) are available for examiners with Ph.D. degrees or the equivalent.[99] These salaries may be competitive for newly minted degree-holders, but they probably are not sufficient to retain employees, especially in the expensive metropolitan Washington, DC area. GS-15 positions pay better ($120,982-$145,400), but they require years of experience and usually involve management responsibilities.

The retention problem is made worse by the fact that examiners obtain extremely valuable, specialized human capital while employed at USPTO, and they must leave government service to capitalize on it.[100] Starting private sector salaries for persons with similar skills and human capital are much higher – for example, a median starting salary in the Virginia suburbs for an electrical engineer with a Master's Degree and one year experience in some technical fields is about $70,000 per year. Many examiners leave USPTO to attend law school, or more frequently attend law school at night while still employed at the USPTO, to become patent lawyers. Attorneys with 7-9 years' experience in law firms earn about $200,000 per year.[101]

In short, examiner retention is a significant problem and one that may well be endemic to the nature of USPTO's work. It may, in fact, be an impossible problem to solve without returning to the deferred compensation civil service model, which rewarded long term service.[102] Labor markets are brutally efficient at allocating resources, and USPTO simply may not be able to overcome normal market forces with any of the tools at its disposal.

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[98] See http://jobsearch.usajobs.opm.gov/getjob.asp?JobID=53094580&jbf574=CM56&brd=3876&AVSDM=2007%2D04%2D14+13%3A00%3A07&q=EXAMINER&vw=d&Logo=0&FedPub=Y&caller=%2Fa9pto%2Easp&FedEmp=N&SUBMIT1.x=0&SUBMIT1.y=0&ss=0&SUBMIT1=Search+for+Jobs&TabNum=1&rc=3.

[99] See http://jobsearch.usajobs.opm.gov/getjob.asp?JobID=53094737&AVSDM=2007%2D04%2D14+13%3A00%3A05&Logo=0&q=EXAMINER&FedEmp=N&jbf574=CM56&brd=3876&vw=d&ss=0&FedPub=Y&caller=/a9pto.asp&SUBMIT1.x=0&SUBMIT1.y=0&SUBMIT1=Search+for+Jobs.

[100] Attrition also has social benefits: *e.g.*, the corps of patent experts outside the government performs better because there is a cohort that has worked on the "other side" of the table. The challenge to USPTO is to avoid excess attrition, especially among its most competent examiners.

[101] American Intellectual Property Law Assn, Report of the Economic Survey 2005, page I-52.

[102] We are aware of no serious interest in such a change. We mention it only to point out that potential solutions may exist if the problem of retention *per se* is deemed crucial.

V. USPTO Actively Incentivizes its Examiners to Turn Out Faulty Work Product that Delays Examination

The "flat rate" of two counts per application gives examiners a strong incentive to turn out haphazard, incomplete work product.

- An examiner gets one "disposal" count, whether that disposal is in the form of an allowance, an abandonment, or an applicant's filing of a continuation application. (MPEP § 1705, Attachment Q).
- At least as of spring 2006, examiners were not subject to any penalty relating to promotion, retention or compensation, for turning out bad work.[103]

This combination of incentive structures ensures that examiners have only weak incentives to examine applications in a way that advances them toward a meaningful conclusion.[104]

USPTO's continued use of "flat rate" time budgets, and acceptance of perverse incentives and misallocation of resources, is especially surprising after 2003. In 1999, Congress ordered USPTO to analyze its cost and fee structures to better align USPTO's operations with the needs

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[103] Public remarks of Stephen Kunin, former Deputy Assistant Commissioner for Patent Examination Policy, USPTO "Town Hall" Meeting, New York, NY, April 7, 2006.

[104] When an application claims two inventions that are "independent and distinct" of each other, the law permits USPTO to "divide" it, or "restrict" an application to one invention ("division" and "restriction" meaning the same thing). Restriction allows USPTO to legitimately assign different inventions that may be included in a single application to multiple examiners with different subject matter expertise. However, both the fee schedule and the "count" system incentivize USPTO to improperly divide a single invention into many daughter applications. USPTO's guidance — the Manual on Patent Examination practice -- allows the Office even wider latitude -- to divide applications with inventions that are "independent or distinct."

Thus, several different examiners often review similar applications involving different aspects of the same invention at the same time. Economies of scale in examination are lost, and applicants have to provide duplicative (or even inconsistent) arguments to satisfy multiple examiners arguably interpreting the same law and guidance. We predict that a well-conducted regulatory impact analysis would show that USPTO's restriction practice is a major contributor to inefficiency and backlog.

In 2003, USPTO published for comment a White Paper setting forth 10 ideas for reforming restriction practice. The Office received 26 comments that contain a wealth of insight and helpful advice. These public comments used to be linked on its webpage containing links to public comments on dozens of proposed Office actions. See http://www.uspto.gov/web/offices/pac/dapp/opla/comments/index.html, row titled "Summary of Public Comments and the Restriction Reform Options to be Studied by the United States Patent and Trademark Office (November 2003)". USPTO has replaced the link to these public comments with a link to its own 9-page summary of the comments.

of inventors.[105] USPTO did so[106], and restructured both its fee calculation algorithms and relative fee levels in 2004

> to more closely align applicant payment and USPTO revenue with actual cost, reduce the incentives for applicants to pursue wasteful examination, and recover USPTO cost of operations more directly. The net effect is to elicit a level of participation from applicants … that provides economies in examination while maintaining and improving timeliness and quality. These benefits arise from a proposed structure that … better aligns fees with the value provided, that minimizes additional administrative complexity, and that retains the financial incentives for inventors of less financial means.

Since then, a number of public comments to a number of past USPTO Requests for Comment have noted the misallocation of resources that arises because of the "flat rate" count system. These comments noted that the problem under study by USPTO was the product of the count system and could be cured by applying the same logic to examination budgets as USPTO applied to fees. USPTO has apparently ignored those suggestions.[107]

Many of the public comments noted that applicants are happy to pay the costs of thorough examination, subject to two conditions: (a) the fees charged should be reasonably tailored to the Office's costs, and (b) the Office must ensure that examination proceeds in a predictable way under regular procedures. The Office's response to these offers has not been encouraging.[108]

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[105] American Inventors Protection Act of 1999, Pub. L. No. 106-113, 113 Stat. 1501, 1501A-555, § 4204 (directing USPTO to "conduct a study of alternative fee structures that could be adopted [by the Office] to encourage maximum participation by the inventor community in the United States.").

[106] The results of that study are reported in part at http://www.uspto.gov/web/offices/com/strat21/ action/sr1fr1.htm.

[107] See, for example, http://www.uspto.gov/web/offices/pac/dapp/opla/preognotice/ unitycommentssummary.pdf, which contains no mention of the issue, though the idea was raised in several of the comment letters.

[108] For example, in late April 2002, the Office proposed a punitive exponential fee structure (literally exponential, $size^{1.25}$), rather than a linear cost-recovery fee structure. See http://web.archive.org/web/20021005230103/http://www.uspto.gov/web/offices/com/strat2001/ faq.htm#q53. Some applications would have required filing fees in the millions of dollars. The Office appears to be unwilling or unable to propose economically-rational "burden sharing" and instead appears overtly confrontational, and oppositional to those inventors who have complex inventions.

VI. A Significant Fraction of "Continuation" Applications May Be Generated Because of Perverse Incentives Relating to "Final Rejection"

USPTO's guidance document, the MPEP, sets out the criteria for "metering" the quantum of examination given an application for each filing fee. When that quantum of examination has been performed, and the application has not been allowed, the applicant has several options – almost always, a continuation application is by a factor of 3-10 the least expensive. This continuation application occasions a new filing fee to get a new quantum of examination. The "meter" is supposed to run out when an examiner has given two thorough rounds of examination to the application, so that the second rejection can be made "final."[109]

Applicants can respond in several ways to an Office Action that fails to meet the criteria for final rejection:

(1) An applicant can request that the examiner withdraw the finality of the office action.

This rarely works. The examiner's compensation is directly on the line; a petition is a direct request that the examiner commit more effort in return for no additional reward in "counts" (see section I of this Attachment F). Also, examiners are not held accountable for breach of the agency's guidance documents[110], and most examiners lack the legal training to decide such questions with precision. Not surprisingly, many examiners are extremely reluctant to withdraw

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[109] Guidance for the required thoroughness for these two rounds is stated in the MPEP, especially Chapter 2100 (specifying the tasks an examiner must do in each round of examination) and § 706.07(a), which defines the conditions under which a rejection may be made "final":

> "Under present practice, second or any subsequent actions on the merits shall be final, except where the examiner introduces a new ground of rejection that is neither necessitated by applicant's amendment of the claims nor based on information submitted in an information disclosure statement …. Where information is submitted in an information disclosure statement …, the examiner may use the information submitted, …, and make the next Office action final whether or not the claims have been amended, provided that no other new ground of rejection which was not necessitated by amendment to the claims is introduced by the examiner. … Furthermore, a second or any subsequent action on the merits in any application or patent undergoing reexamination proceedings will not be made final if it includes a rejection, on newly cited art, other than information submitted in an information disclosure statement …, of any claim not amended by applicant or patent owner in spite of the fact that other claims may have been amended to require newly cited art. …"

However, as we discuss in Attachment J, that guidance is not enforced in the context of "premature final rejection" or any other.

[110] Public remarks of Stephen Kunin, former Deputy Assistant Commissioner for Patent Examination Policy, USPTO "Town Hall" Meeting, New York, NY, April 7, 2006.

final rejection and give further examination, no matter how incomplete or untimely the examination was.

(2) If the examiner declines request (1), an applicant can petition to withdraw the finality of the office action.

Attorney fees for this petition are typically $3,000-15,000. In our experience, this is never successful because USPTO as a matter of course does not grant them (see Attachment J). Also, higher-level decision-makers are being asked to act contrary to their own financial interests. See MPEP § 1706.

(3) The applicant can file a Request for Continued Examination (RCE) and continue prosecuting the application.

Considering that the filing fee for an RCE is $790 (halved for small entities) compared with the cost of preparing and filing a petition, not to mention its likelihood of success, it makes sense to file the RCE. Examiners like RCEs because they earn at least one, and usually two, more "counts," usually with less effort than would be required to review a new application.

A very substantial fraction of the continuation applications of which USPTO complains are likely to be the consequence of its compensation metrics, and the Office's delegation of the relevant questions to officials that have a direct financial interest in the outcome. Given the economic incentives USPTO gives its employees, it seems at best incongruous that the Continuations Rule would restrict the option that is the most economically expeditious way of handling premature final rejection.

As applicants possess a dispersed data set that defies systematic analysis, our comments here are necessarily anecdotal. A complete regulatory analysis in compliance with Circular A-4 would allow USPTO to utilize their vast database to perform a thorough analysis of this issue.

Attachment G

USPTO Did Not Rely on the Best Available Scientific, Technical, Economic and Other Information

Sec 1(b)(7) of Executive Order 12,866 requires agencies to base their regulations on the best available information. Fortunately, USPTO collects vast quantities of useful data on patent applications. It has at its disposal a database containing millions of records.

Unfortunately, there is little evidence from the preambles to the NPRMs that USPTO adequately utilized this database – to diagnose the problems it wanted to solve, to identify regulatory alternatives, or to choose among such alternatives. To the best of our knowledge based on USPTO's response to a FOIA request by one of the coalition members, the entire administrative record for both of these NPRMs consists of 114 pages:[111]

- Data tables from slides delivered at the Los Angeles Intellectual Property Law Association's "Washington and the West" Conference, January 25, 2006, ("The State of the Patent System; Background for Rule Proposal")
- An 85-slide presentation delivered by Commissioner for Patents John Doll dated February 1, 2006, and delivered first at the Chicago Town Hall meeting, and subsequently many times elsewhere ("Chicago Town Hall Slides")

I. The Data Tables[112]

The data tables provide summary statistics on a number of phenomena of potential interest. Many of these data tables are duplicative over data contained in the Chicago Town Hall Slides. To the extent that there is overlap, we defer discussion of this data to section II below. Data that is not duplicative over the Chicago Town Hall slides include the following:

1. a data table showing the first action pendency and average total pendency for various technology centers
2. data illustrating the increase in continuation (continuation, CPA/RCE, CIP) filing rates from FY1980 to FY2005
3. data illustrating the increase in continuation filing percentage (as percent of total filings) from FY1980 to FY2005

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[111] See Attachment N.

[112] Id.

4. data illustrating the drop in appeal pendency from FY2001 to FY2005
5. a brief description of appeal programs through which applications are reviewed by senior examiners before review by the Board of Patent Interferences and Appeals (BPAI)

For (1) through (3) above, no analysis of the data is provided to examine obvious questions concerning the underlying causes for the data (*e.g.*, why are the pendency figures as shown in (1) above? why has there been an increase in continuation filings from FY1980 to FY2005?). Without an analysis of underlying causes there is no way of determining if the changes proposed in the Continuations Rule will reverse the trends shown in the data or otherwise improve performance.

For (4) above, the data illustrate what we acknowledge to be a success story – the ability of USPTO to drive down the appeal pendency over the past 5 years. However, what is lacking is an analysis of the potential impact on this positive trend if the Continuations Rule is implemented. We believe that if the rule is promulgated as proposed, appeals will drastically increase as applicants attempt to preserve their limited number of continuations and RCEs. We predict that the data from FY 2001 to FY2008 or FY2009 will look far different, resembling more of a V shape as the positive trend of the past few years is suddenly reversed.

For (5) above, USPTO describes several appeal programs that have been instituted to provide review of appeal cases by senior examiners to limit the need for the BPAI to hear cases in which the examiner is most certainly to be reversed. These programs have helped reduce the BPAI's backlog and should be commended. Again, what is lacking is an analysis of the potential impact on these programs if the Continuations Rule is implemented. As noted above, we believe the Continuations Rule will result in a drastic increase in the number of appeals. The description provided in (5) highlights the fact that this increase is likely to have a tremendous impact not only on the Administrative Law Judges that sit on the BPAI, but also on the most senior examiners in the examining corps. We believe that such a drain on examining resources will contribute to rather than alleviate the backlog that USPTO seeks to reduce.

II. The Chicago Town Hall Slides[113]

These slides appear to be a presentation (or set of presentations), but to the best of our knowledge they were distributed at the various Town Hall meetings but never actually presented

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[113] See http://www.uspto.gov/web/offices/pac/dapp/opla/presentation/chicagoslides.ppt (PowerPoint) and (http://www.uspto.gov/web/offices/pac/dapp/opla/presentation/chicagoslidestext.html (HTML), Attachment N. USPTO directs readers as follows:

> For background and justification, see slides 8-30 and 48-60
> For proposals on [Continuations Rule], see slides 31-38 and 72-85
> For proposals on [Limits on Claims Rule], see slides 39-47 and 61-71

or discussed. Most of the slides that contain data are only descriptive rather than analytical (*i.e.*, they do not contain the results of inferential statistical analyses) or they describe selected results of forecasting. Several slides deserve particular attention.

Slides 50-54 are forecasts of patent pendency under six alternative scenarios. The details behind these scenarios, including the modeling USPTO performed to construct the slides, have not been disclosed by USPTO. Moreover, when some of the signatories of this letter asked USPTO for the underlying data and models used to produce the forecasts, USPTO officials declined to do so on the ground that the data and models were pre-decisional and thus not subject to public disclosure. In Attachment K, we show USPTO has failed to adhere to the letter and spirit of the Information Quality Act and OMB's government-wide Information Quality Guidelines.

Attachment H

USPTO's Claimed Reduction in Backlog Is Unlikely to Materialize

In the preambles to its draft rules, USPTO claims that they will reduce the Office's backlog but does not provide any reproducible quantitative estimates of how much reduction will be realized. In fact, the preamble does not provide usable data on the size of the backlog. The only place we can find estimates of either the magnitude of the problem USPTO is trying to solve or the effects of these draft rules is in the Chicago Town Meeting slides.[114]

I. What does USPTO Expect to Achieve?

Below we have reproduced Slide 53, which summarizes average patent pendency (in months of examination time) and forecasts patent pendency under four scenarios, assuming an 8.1% annual increase in patent applications submitted:[115]

- Business as usual (RED line at top)
- 1,000 new hires, low examiner attrition (YELLOW line second from top)
- 1,000 new hires, low examiner attrition, plus proposed Limits on Claims Rule and proposed Continuations Rules (BLUE line third from top)
- BLUE scenario plus third planned rule[116] that would require a Patentability Report, similar to an Examination Support Document, to be filed with any new application of any significance (PURPLE line at bottom)

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[114] For the complete slide set, see Attachment N. In Attachment L, we report that USPTO has refused to make public the data, models and assumptions used to construct these forecasts. In Attachment K, we show why this violates the federal Information Quality Act and OMB's implementing Information Quality Guidelines. In Attachment E, we explain why these (and other) defects lead to a material violation of the Administrative Procedure Act.

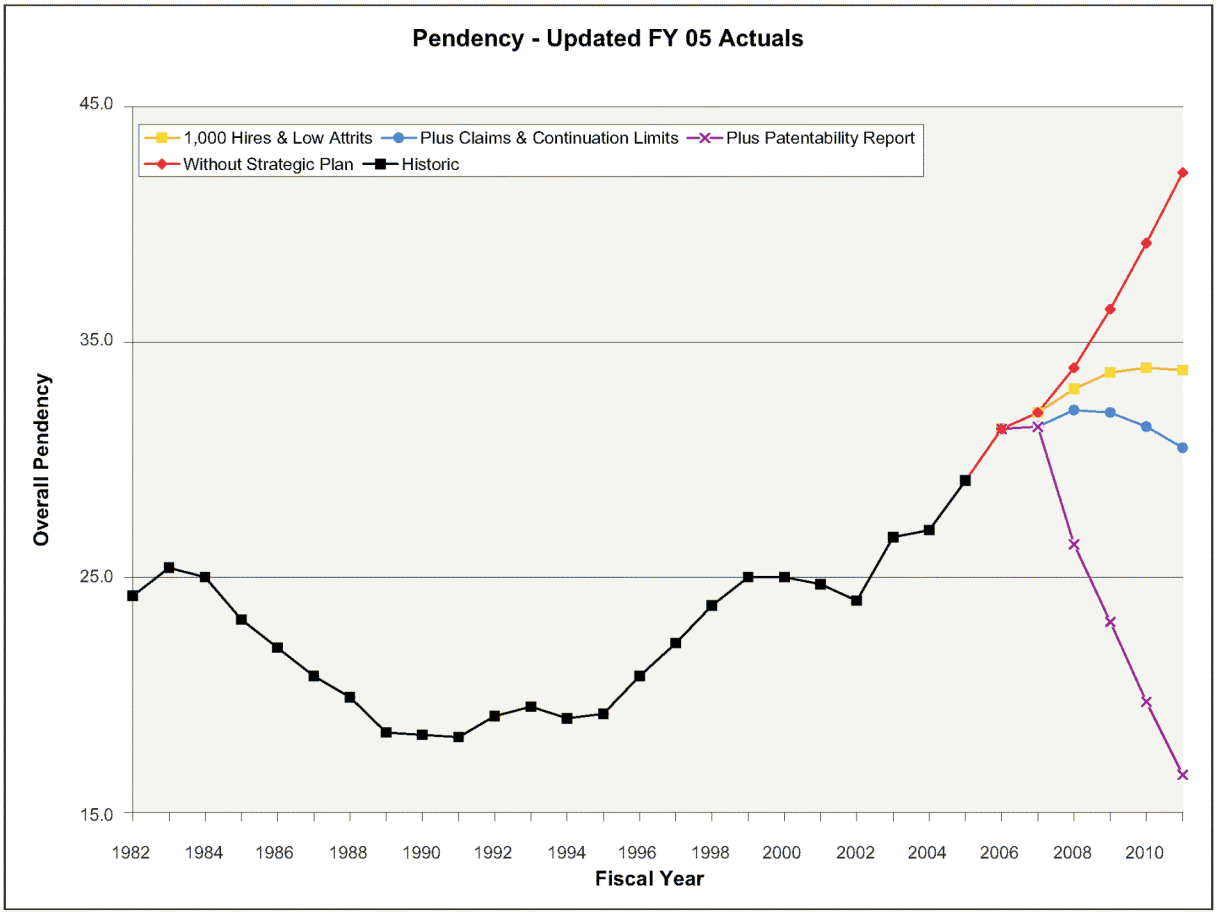
[115] This graph may be most interesting for what it does not include: there are no scenarios showing how internal USPTO reforms such as revising the "count" system, reining in excessive and inappropriate use of restriction practice, or providing better examiner oversight, to name just two examples, would drive down pendency. A regulatory impact analysis would allow the USPTO to prepare a complete list of scenarios showing the impacts of both internal and external reforms that could help the USPTO address its backlog problem.

[116] "Patentability Reports" of this slide appear to correspond to "Patentability Justification" documents that would be required under a third rule, the "IDS Rule," RIN 0651-AB95, "Changes to Information Disclosure Statement Requirements and Other Related Matters," 71 Fed. Reg. 38808 (July 10, 2006). However, this is merely an inference because to our knowledge, USPTO has not public disclosed what would be required in a "Patentability Report."

The graph appears to convey one of two messages. One possibility is that average patent pendency historically ranged within a fairly narrow band, but since 2002 it has wildly escaped its historic range. Alternatively, the increase in patent pendency occurred beginning in 1994 and 2002 was simply an aberration. Statutory changes occurred in 1995 and 1999, but the upward trend shows no significant discontinuities around those years. USPTO offers no explanation for it, either – not in the Chicago Town Hall slides or in the preambles to the proposed rules. Yet it offers these rules as the solution to a problem whose origin they have not clearly identified. Further, USPTO's graph clearly intends to communicate that unless drastic action is taken to address the backlog, by 2011 average patent pendency will have doubled since the mid-1990s (red line).

Most of the increase shown on the graph is forecast, not data. The choice of baseline is a critical element of any analysis and comparison, but USPTO has not disclosed that information. Moreover, the visual appearance is misleading because the vertical axis does not begin at the origin.[117]

[117] Plotting data on a graph using only a portion of the scale exaggerates the visual appearance of variation. This is especially problematic when, as in this case, the scale excludes zero.



As described elsewhere in Attachment, as well as in Attachment K, it is perilous to draw inferences from these statistics.[118] We have focused here on the visual messages that USPTO appears to want the public to take away.

USPTO forecasts that if nothing is done, the upward trend from 1994 to 1999, which abated from 1999 to 2002 for unexplained reasons, will return (red line). The basis for this forecast is unclear, and USPTO has not disclosed the analysis which produced it. USPTO also forecasts that as a result of these draft rules, by 2011 average patent pendency will decline from about 34 months (yellow line) to about 31 months (blue line), or about 10%. Similarly, the basis for this forecast also has not been disclosed.

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[118] In Attachment K, we explain why USPTO's presentation of influential information does not adhere to applicable information quality standards with respect to transparency, reproducibility, and presentational objectivity. In Sections II and III below, we show why the influential information USPTO relies on does not adhere to the substantive objectivity standard, either.

II. What's Wrong with the Influential Statistical Information USPTO Reports?

1. USPTO Relies on a Biased Measure of Central Tendency

USPTO shows us only the (apparently) arithmetic mean for each year. Arithmetic means are unbiased measures of central tendency only for distributions that are normally distributed. But the distribution of patent pendency times is known to be highly skewed.[119] Thus, the arithmetic mean is an upwardly-biased indicator of central tendency. We have no way to know what the curve would look like if an unbiased measure had been used instead. We do know, however, that inferences based on a biased statistic will themselves be biased.[120]

Moreover, central tendency is not the only interesting statistic about a distribution. For example, regulatory design could be different if variation from the mean is more serious problem than the magnitude of the mean itself, or if the tails of the distribution are especially important. From the limited information reported by USPTO, we have no idea what's important.

2. The Influential Statistical Information is Misleading and/or Not Predictive

As described further in Section V of this attachment, the influential statistical information provided overstates the likely impact of the rules on USPTO backlog. It also understates the proportion of applications that would be affected. With respect to the proposed Limits on Claims Rule, USPTO asserts that it would have had no effect on the 98.8 percent of historic applications for which there were 10 or fewer independent claims. But the proposed rule would expand the definition of an independent claim, so that some claims now classified as "dependent" become "independent."[121] By changing the underlying basis for its statistic, USPTO undermines the utility of the historic data for estimating this percentage.

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[119] Lemley & Moore (2004), the primary authority on which USPTO relies for the conclusion that continued examinations ought to be severely attenuated, shows how skewed the distribution is in their Figures 1, 3 and 4. For more discussion of this reference, see Attachment D.

[120] The use of biased statistics is a violation of both the presentational and substantive objectivity standards in OMB's and USPTO's information quality guidelines. See Attachment K, Sec. III. Because USPTO's forecasts are not transparent and reproducible, they are presumptively non-compliant with these standards, as well.

[121] The patent law divides claims into "independent" and "dependent" claims. Generally, independent claims describe the broadest concept of the invention, and therefore present more issues and are more difficult to examine. Dependent claims cover refinements of an invention, and serve several purposes: (a) to provide fallback positions in case prior art is discovered in the future that invalidates the broader claims, (b) to cover various legal technicalities, and (c) to teach the examiner about the invention to secure better examination of the independent claims. It is not clear what alternative means the USPTO intends to provide to cover these three needs. Further, the dividing line between "dependent" and

Further, to the degree that USPTO expects this rule to reduce the number of applications that applicants file, the USPTO has provided no estimate of the social costs of this change. Scholarly studies have shown that the number of claims is the single strongest predictor of patent value,[122] so a mere showing of number of patents affected is unlikely to be relevant to any regulatory impact analysis.

III. What Critical Influential Statistical Information Does USPTO *Not* Report?

USPTO maintains a vast database containing millions of records. For each patent application, USPTO can trace its entire procedural history. Virtually all of these data have been ignored.

1. Distributions

Each annual "average" that USPTO reports is a value from a distribution for that year. Knowing the distribution of the data for each year helps analysts better understand how to interpret the data. Fortunately, USPTO has a rich database. It would be easy for the Office to report the entire distribution and not just a single summary statistic. OMB has been eager to see agencies perform uncertainty analysis,[123] but many agencies and the National Academy of Sciences have complained that the data to support uncertainty analysis are often unavailable.[124] Whatever the merits of those objections, they do not apply in this case because USPTO has at its disposal the kind of database that would make other agencies and scholarly researchers envious.

2. Disaggregation across multiple margins

Patent applications are not all the same. The most obvious margins on which they differ include type (e.g., original, continued, RCE), technology area (USPTO has 8 technology centers), number of claims, and number of prior art references. These margins matter greatly for understanding the patent process and the legitimate complexity inherent to an application; USPTO aggregates them together as if they are all the same.

"independent" is specified by statute, as are the respective fees, 35 U.S.C. § 41(a), 112 ¶ 4, so it is questionable whether the USPTO has authority to change either the definition or fee by rule.

[122] Kimberley A. Moore, Worthless Patents, Berkeley Technology Law Journal vol. 20 no. 4, pp. 1521-52, 1530-31 (Fall 2005).

[123] Office of Management and Budget. Circular A-4: Regulatory Analysis (2003); Final Information Quality Bulletin for Peer Review, 70 Fed. Reg. 2664; Proposed Risk Assessment Bulletin (2006) (http://www.whitehouse.gov/omb/inforeg/proposed_risk_assessment_bulletin_010906.pdf).

[124] National Research Council, Scientific Review of the Proposed Risk Assessment Bulletin from the Office of Management and Budget (2007) (http://www.nap.edu/catalog/11811.html).

As a first and very simple step in exploratory data analysis, USPTO ought to disaggregate its patent pendency distributions by application type and technology area and test whether they are different. For example, is average patent pendency for RCEs much shorter than for original applications? If so, what might explain these facts? How could limiting continuation practice have any significant effect on backlog if it is discovered to be a minor contributor?[125] Is the distribution significantly different by technology sector? If so, why does it make sense to write rules that apply uniformly to all technology sectors?

USPTO's database is remarkably rich. Properly analyzed, it would reveal myriad clues about the reason for the Office's growing backlog problem. But without this analysis, it is difficult to reach any other conclusion but that the limited statistical information revealed is intended to support predetermined policy conclusions and not to inform regulatory decision-making.

IV. Backlog as Evidence of a Congestion Externality

In addition to utilizing USPTO's database for clues, it helps to step back from the details of the patent process and think seriously about what kind of a problem it is. We believe that, at its root, the backlog problem is best understood as a congestion externality.[126] Prospective patentees must submit their applications to the examining group that deals with a specific technological field — there are several hundred non-interchangeable examining groups — and an applicant cannot just pick the one with the shortest queue. Moreover, generally they have to join the queue at the end.[127] The more applicants there are in a given line, the greater is the congestion externality that each application imposes on the others.

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[125] If the average RCE consumes about 1/3 the examining resources as the average original application, then 100,000 RCEs contribute as much to backlog as 33,000 original applications.

[126] There is a rich economic literature on congestion externalities that ought to be the subject of a chapter in the Regulatory Impact Analysis that USPTO ought to perform, or obtain from a competent third party. The literature suggests two general solutions: property rights and Pigouvian taxes. Additional chapters of the RIA should address these competing ideas.

[127] USPTO has established an expedited application process that permits applicants to jump to the head of the queue in some situations.

For example, applications for "design patents" (a patent on the ornamental appearance of an object, as opposed to utility patents that cover traditional functional inventions) can be expedited if the application is filed in complete condition, and the applicant states that a preexamiantion search was conducted, for an extra fee of $900 (in addition to the filing and examination fees of $430.00). 37 C.F.R. §§ 1.155, 1.17(k).

The rules for expedited examination of utility patents have varied over the years, but have never involved an extra fee. Under rules in effect since August 2005, most instances of accelerated examination require that an applicant produce and submit an Examination Support Document. Thus, USPTO does not

The process is analogous to the toll plaza at the George Washington Bridge. First, drivers (patent applicants) must choose a lane (technology center) and cannot (or are not supposed to) cut in front of others. The (application) fee for crossing the bridge is the same for similar vehicles (applications). The threshold value of getting across the bridge (getting a patent) is the same, but the value of getting across quickly (short patent pendency) and being on the other side (the value of intellectual property rights protected) varies a lot.[128]

Understanding backlog as a congestion externality helps conjure up ideas for how to solve the problem. For example, more toll booth operators (patent examiners) can be added or "HOT" lanes (accelerated examination) installed to allow expedited passage to those with urgent need to cross the bridge. USPTO has hired more patent examiners and provides for accelerated examination[127]; thus, there is a precedent for USPTO offering the equivalent of HOT lanes for patent applicants in a hurry to secure approval.[127]

Understanding USPTO's backlog problem as a congestion externality also helps explain what is conceptually wrong with USPTO's proposed rules. The Continuations Rule would deny applicants the right to suspend their progress in the queue – the toll plaza analogy for continuation practice – but it would not change either the length of the queue or move applicants through it more quickly – indeed, a study might show that it increases average service time. Similarly, the Limits on Claims Rule would try to shorten the queue by denying some applicants the right to enter it, and making it easier for toll booth operators to process those who remain, but at the cost of refusing to provide any service to those who used to pay full asking price for a premium service.[129] If applicants respond by dividing their applications into multiple parts, analogous to a trucking company that would divide cargo into multiple small red trucks if big

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charge a higher price to gain access to its HOT lane for utility patents. Rather, it shifts much of the cost and obligation of substantive examination to the applicant. Whether USPTO has designed its "HOT" lanes optimally is a matter for regulatory analysis.

[128] This comparison also highlights important differences between the bridge analogy and the patent application process. First, there are alternative ways to get into Manhattan but there are no alternatives to USPTO. Second, the value of securing a patent varies by orders of magnitude across applicants. Third, whereas no one considers the task of crossing the bridge complete having merely gotten into line, in the patent application process getting in line is what establishes your property right. Being first in line with a specific invention is not a matter of mere machismo or pride, but it's essential for success. Finally, continuation practice is akin to voluntarily suspending one's progress in the queue. A driver might not do this in line at the George Washington Bridge, but people often let others pass in other kinds of line in order to delay their own processing.

[129] USPTO proposes to act like an airline that has a vibrant demand for first class seats, but stops offering first class service. No regulation is needed to solve this problem. Customers seeking first class service would flock to competing airlines. USPTO does not have any competitors.

blue trucks are not allowed to cross the bridge, the rule will increase the length of the queue rather than reduce it.[130]

Other alternatives that were known to the PTO but not considered in the NPRM are mentioned in Attachment I, at Section III.

V. The Limited Data Presented by USPTO Indicate that the Continuations Rule Will Not Effectively Decrease Backlog

In the preamble, USPTO provides internally inconsistent information about the nature of the backlog problem, the extent to which continued examinations contribute to it, and what effect on backlog the rule might have. This information is problematic for the following reasons:

- It incorrectly compares filings during a fiscal year with actions taken by USPTO during the same fiscal year irrespective of the fiscal year in which the applications acted upon were filed
- It exaggerates what the proposed rule could accomplish even under best-case assumptions
- It incorrectly assumes that the amount of effort to examine a continuation is the same as the amount of effort to examine a new application

These errors misrepresent the problem of backlog and exaggerate the likely effect of the proposed rule on backlog.

1. USPTO's Estimate of the Resources Devoted to Continuations Is Invalid

USPTO says that roughly 30 percent of the Office's examining resources must be applied to examining continued examination filings.[131] This calculation is based on 317,000 non-provisional applications filed, which includes 62,870 continuing applications, and 52,750 RCEs. The figure of 30% is obtained by simple division.

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[130] USPTO's use of aggregate statistics to describe its backlog problem also masks the extent to which they are the result of how the Office deploys resources. For example, the backlog in the software and electronics areas is much longer than for most chemical or biotechnology applications. This is due in large part to the difficulties USPTO has recruiting and retaining qualified examiners in areas where federal salaries do not compete with private sector options. Also, examiner compliance with agency guidance is notably different across technology groups, subjective impression confirmed by remarkably different outcomes on appeals from different technology areas. The use of differentiated statistical measures would suggest more reasonably available alternatives for regulatory analysis.

[131] 71 Fed. Reg. 48.

However, filings in any given year do not equal workload, nor is it a proxy for patent pendency. A queuing model, not simple arithmetic, is needed to accurately describe the process flow and identify the sources of backlog.[132]

2. USPTO's Estimate of the Reduction in Backlog From the Rule is Invalid

In the NPRM, USPTO says it issued 289,000 First Office Actions in 2005. By subtracting the number of continuing applications (62,870) from the non-provisional applications filed (317,000), the Office concludes that, had there been no continuation examination filings, it could have issued an office action in every new application received in 2005 (317,000 – 62,870 = 254,130) and reduced the backlog by 35,000 (289,000 – 254,130 = 34,870). The calculation assumes (incorrectly) that the First Office Actions taken in 2005 were on applications filed in 2005. But the obvious implication of the calculation remains: continued examination is the presumptive source of the backlog problem, even though the increased backlog is new but continued examination is not.

However, USPTO also reveals that the number of continued examinations affected by this proposed rule is a small subset of this total. Of the 62,870 continuing applications submitted in fiscal 2005, 44,500 were continuation/continuation-in-part (CIP) applications, and only 11,800 of them were second or subsequent continuations. Of the 52,750 RCEs, only about 10,000 were second or subsequent continuations.[133] At most, the proposed Continuations Rule could affect about 21,800 of all applications submitted in fiscal 2005, or 7%. Thus, under best-case assumptions the proposed rule would increase throughput by about one-fourth as much as USPTO claims.[134] If the draft final rule submitted to OMB differs from the rule proposed in the NPRMs by allowing more than one continuation as of right, the reduction in backlog would be even smaller.

3. Original and Continuation Applications Do Not Impose the Same Examination Burden

USPTO assumes that there is a one-for-one trade-off between the resources needed to examine original and continued applications. This is extremely unlikely. Continued examinations are generally less demanding because the examiner is already familiar with the issues and the

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[132] The operations research literature is rich with queuing models. Surely one of them fits USPTO's circumstances.

[133] 71 Fed. Reg. 50.

[134] This assumes, of course, that none of the 21,800 applications could have satisfied the (unspecified) discretionary criteria for an "allowable" second or further continuation. Surely USPTO did not intend that it would exercise its discretion in such an extreme manner. *But see* remarks of John Whealan discussed in Attachment M, § II.2.

scope of the remaining issues to be resolved is narrower. The examiner of an RCE has even more of an advantage, as this is merely continued prosecution of the same set of claims.[135]

For a continuation application to require the same effort by USPTO, the identity of the examiner must change. But the lag time between a Final Rejection and the filing of a Request for Continued Examination is typically a matter of a few months, sometimes weeks. Thus, if continued examination poses the same workload burden on USPTO as an original application, the underlying problem probably is excessive examiner attrition.[136]

4. Gains in Throughput from the Proposed Rule Are Modest or Nonexistent

At 7%, the upper-bound gain in throughput from the proposed rule would be modest. If just half of applicants could satisfy the (unspecified) criteria for a second or subsequent examination, the gain in throughput would be so small as to be not statistically significant under normal rules of thumb for statistical inference. Ironically, USPTO admits as much:

> [T]he Office's proposed requirements for seeking second and subsequent continuations will not have an effect on the vast majority of patent applications.[137]

It is impossible to see how a "reform" that affects such a small fraction of applications could have an effect larger than the uncertainties in USPTO's projections.

None of these calculations take into account the certainty that applicants will adapt to the new rules in ways that adversely affect backlog. For example, if the right to second and subsequent continued examinations is limited unpredictably, applicants will be much more likely to appeal adverse decisions; in many cases, appeal would become the only alternative. The effect on backlog of a massive increase in appeals is hard to quantify, but it is reasonably clear that it will slow down the examination process and lead to increased backlog.

A high-quality examination in the first instance will always make the examination of a continuation more effective. However, if the initial examination is piecemeal or slipshod (which the proposed Limits on Claims rule would mandate for complex applications), there is less useful work product that the examiner of a continuation (either the same examiner or a new examiner) can build on. Thus, the amount of "rework" associated with a continuation is a function of the

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[135] At the same time, the filing fee for continued examination is the same. That means USPTO "makes money" on continued examinations, as we describe in Attachment F section III.

[136] USPTO has acknowledged that it has a serious problem with examiner attrition, a matter that we discuss in Attachment F, Section IV. A properly performed analysis of the backlog problem would ascertain the extent to which throughput is slowed by the need for new examiners to get up to speed on old applications. A comparison of examination times for original applications and RCEs would reveal whether they require the same level of examination effort.

[137] 71 Fed. Reg. 50.

incentives the USPTO provides to ensure high quality examination at first application. We suggest that a regulatory analysis should examine the extent to which high-quality first examination reduces the amount of "rework," or equivalently, the extent to which low-quality first examination leads to "traffic accordion" pileups.

Attachment I

USPTO Cannot Show that the Proposed Rules are the "Most Cost-effective" Solution

Even if it is assumed that regulation of some sort is essential, USPTO has disclosed no evidence that it has chosen the most cost-effective regulatory approach, as required by Sec. 1(b)(5). All data made public by USPTO suggests that USPTO did not even ask the relevant questions.[138]

I. The NPRMs are Essentially Silent on Social Costs and Benefits

USPTO has not disclosed any analysis beyond the undocumented scenarios portrayed graphically in the Chicago Town Hall slides.[139] Therefore, it is impossible for USPTO to have met any reasonable burden of proof that its draft rules are the most cost-effective regulatory approach just to reduce its own backlog.

This is clearly true if the regulatory objective is founded on the regulatory philosophy and principles of Executive Order 12,866: USPTO has disclosed no data, analysis, or even a credible qualitative argument, as required by Sec. 1(b)(5), that the social costs of these rules are justified by their social benefits, including:

- the effect of restricted access to patent protection on businesses' access to the capital markets, especially for venture businesses whose only book assets may be their intellectual property
- the effect on business R&D activities, if the value of patent protection is reduced
- the effect on the quality of patent disclosures, and the public's ability to make use of those disclosures, that will attend applicants' adjustments to the rules (for example the "disclosure splitting" into non-overlapping disclosures contemplated by the Limits on Claims Rule)
- the costs of exercising published rights to petition premature final rejection and appeal rejections as contemplated by the Continuations Rule, or preparation of Examination

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[138] See Attachment D, footnote 24, in which Commissioner Doll admits USPTO did no study to identify the source of rework applications in its backlog, and had not attempted to differentiate between rework caused by applicants vs. caused by USPTO itself; Attachment C section IV, discussing an email of Deputy Director Office of Patent Legal Administration Robert Clarke in which USPTO refuses to disclose any study it may have done.

[139] In Attachment L, we report that USPTO failed to disclose critical information despite repeated requests. In Attachment K, we show why the influential information on which USPTO relies does not adhere to applicable information quality standards.

Support Documents contemplated by the Limits on Claims Rule (discussed in Sec. II of this Attachment I and in Attachment J)

- the social cost of patent protection that must be abandoned because of the increased costs imposed by the Rules
- the social value of reduced backlog, in view of the patent term protections of 35 U.S.C. § 154(b)
- the cost of increased litigation caused by reduced certainty and specificity that may arise because of abbreviated examination

USPTO alludes to various problems and asserts that inventors will benefit from these rules, but neither allusion nor assertion substitute for analysis. This is also true even if it is assumed that the only regulatory objective of interest is reducing USPTO's backlog, because USPTO has presented no analysis of alternative ways to reduce backlog. USPTO has monetized none of the effects, making both benefit-cost analysis and cost-effectiveness analysis impossible.

II. The Rules Foreclose Reliance on Lower-Cost Alternatives

We describe below just a few examples of additional social costs, none of which were discussed in the NPRMs. USPTO likely did not disclose any data or analysis of social costs because, as one senior USPTO official admitted publicly, the procedures for compliance were apparently still in the "anecdotal" and "in my head" stage, weeks after the publication of the NPRMs.[140]

Town Hall slides[141] 80 and 81 illustrate how the Continuations rule will force applicants to take expensive steps and to anticipate USPTO decisions because, with fewer steps to the process, each one remaining has proportionally greater stakes. Slide 80 reads as follows, describing one of the very narrow circumstances in which USPTO proposes to allow continuation applications (emphasis added):

> **Examples of a Showing for Filing a Second Continuing Application**
>
> Example 2: In a continuation application,
>
> - Data necessary to support a showing of unexpected results <u>just became available</u> to overcome a final rejection under 35 U.S.C. 103, <u>and</u>

[140] John Whealan, speaking at Duke University Law School, Fifth Annual Hot Topics in Intellectual Property Law Symposium, http://realserver.law.duke.edu/ ramgen/spring06/students/ 02172006a.rm (Feb. 17, 2006), at time mark 57:45, stating that procedures were still "in my head" and under development.

[141] See Attachment N.

- The data is the result of a lengthy experimentation that was started after applicant received the rejection for the first time (emphasis added).

It frequently happens that data could exist before the time cutoff set in this slide, but they are expensive to collect or prepare for submission; or, because the examiner's position is not clearly articulated, it is difficult to present the data in precisely the form that will be persuasive to the examiner. If there is a lower-cost approach to replying to the examiner, and hold the higher-cost alternatives in reserve, then that is what is done. If the examiner is persuaded by these lower-cost alternatives, the higher cost approaches are not needed. However, USPTO proposes to require the applicant to gather every bit of available data and present it at the earliest opportunity, because of a new "use it or lose it" approach.[142]

Example 2 has a further practical difficulty that USPTO failed to appreciate. Experiments that start late enough to fall within Example 2 are often themselves expensive – and take longer than the six month window available to respond to an Office Action. Thus, it may very well be that experiments where costs were avoided by starting late enough to be permissible within "Example 2" are the very experiments that cannot be completed within the time window available.

Slide 81, which reads as follows, goes even further:

Example 3: In a continuation application,

- The final rejection contains a new ground of rejection that could not have been anticipated by the applicant, and
- The applicant seeks to submit evidence which could not have been submitted earlier to overcome this new rejection (emphasis added).

Slide 81 expressly requires applicants to anticipate "new grounds of rejection" that the examiner has never articulated, but could be anticipated, and anticipate what data could be submitted to respond to that unarticulated rejection that could be raised some time in the indefinite future. USPTO proposes that applicants must predict all issues that an examiner might raise any time during prosecution, and flood the examiner with all data that might become relevant, before the examiner raises "the rejection for the first time," without regard for cost.

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[142] Ironically, it appears that USPTO itself is attempting to introduce explanations that it could have prepared and submitted earlier, but did not. Six weeks into the Notice and Comment period, it still had no clear idea of the standard it intended to apply. John Whealan, speaking at Duke University Law School, Fifth Annual Hot Topics in Intellectual Property Law Symposium, http://realserver.law.duke.edu/ramgen/spring06/students/02172006a.rm (Feb. 17, 2006), at time mark 57:45 stated "[Y]ou're going to have to explain why you need to do this, and why you didn't do it sooner. Now what satisfies that explanation? I've been on the road doing this a couple weeks now, and I've actually got some people working on some examples that we may try to put out. But anecdotally, in my head, what would satisfy it?"

III. A Number of Available Alternatives were Known to USPTO but Not Considered

Cost-effectiveness cannot exist absent a comparison to alternatives, yet there is no public evidence that the Office considered any alternatives at all. Therefore, USPTO cannot possibly show that its draft rules are the "most cost-effective regulatory approach," as required by Sec. 1(b)(5).

USPTO knew of a number of alternatives, including the alternatives listed in a 1999 Federal Register notice, used by other patent offices, proposed by USPTO and enabled in the 1999 American Inventors Protection Act, or the like.[143] These alternatives were not discussed in the NPRMs. We list a few here. USPTO's regulatory impact analysis should include analysis of each of these alternatives:

1. Are the fees as adjusted in December 2004 sufficient to cover USPTO's costs for the activities involved in examination of applications? USPTO represented to Congress that the new fee levels would "correlate fees with the extra effort required to meet the demands of certain kinds of patent requests. This proposal would generate the levels of patent and trademark fee income needed to implement the goals and objectives of the strategic plan."[144]
2. Credit examiners based upon the number of claims in the application, and other measures of complexity (see Attachment F, § V).
3. Defer examination until an applicant requests it, as in Japan and Canada – permit an application to simply lie pending for some period of time until the applicant requests examination and pays a fee. Based on the rate at which applicants pay 4-year maintenance fees, perhaps 10-20% of applications will never be examined.

The suggestions of Stephen G. Kunin, the recently-retired Deputy Assistant Commissioner for Patent Examination Policy, are particularly astute, and deserve particular consideration:[145]

4. Improve examiner productivity by various performance-based, or billable hour pay systems

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[143] "Changes To Implement the Patent Business Goals, Notice of Proposed Rulemaking" 64 Fed. Reg. 53772-53845 (October 4, 1999) (see Attachment D, Appendix 1); 35 U.S.C. § 41 as amended in 1999 (restructuring fees to permit some of the alternatives discussed here).

[144] USPTO Strategic Plan, Fee Purpose, http://web.archive.org/web/20030407093355/www.uspto.gov/web/offices/com/strat21/feepurpose.htm

[145] Slides of Stephen G. Kunin, the recently-retired Deputy Assistant Commissioner for Patent Examination Policy, titled "PTO Rulemaking Alternatives" presented at USPTO "Town Hall" Meeting, New York, NY, April 7, 2006, available at http://www.aipla.org/Content/ContentGroups/Speaker_Papers/Road_Show_Papers/200612/AIPA/kuninPPT.pdf.

5. Improve examiner productivity by close review of work quality, including review of completeness of rejections as well as allowances
6. Mandatory technical training for all examiners in all fields of technology
7. Reinforce "compact prosecution" principles, not weaken them as proposed by the Rules: provide a thorough search and examination of all claims, and a thorough search of subject matter reasonably expected to be claimed, with a complete first Office Action, and early indication of allowable subject matter
8. Do examination right the first time: Reduce rework caused by inadequate searches and improper claim interpretation, by instituting patentability review conferences before Final Action (that is, implement "second set of eyes" review for rejections, as well as allowances)
9. Examine related cases together, rather than further fractionating them as proposed in the Limits on Claims rule: batch search and examine related applications regardless of filing dates, provide incentives to applicants to identify related cases and hold pre-first office action interviews
10. Modify the order in which applications are examined: Offer expedited examination for PCT national stage entry applications
11. Permit third parties to request examination of long pending applications by submitting a document equivalent to the petition to make special accelerated examining procedure
12. Modify examiner goals and incentives to align examiners' incentives with efficient examination: Reduce production credits for continuation applications and RCE
13. Reevaluate examiner production expectancies and provide more time for the search and first office action; provide examiners with time to review amendments and evidence submitted after final rejection to negotiate allowances by examiner's amendment
14. Exploit searches from foreign patent offices and reduce examiner search time accordingly, especially for PCT cases
15. Eliminate second action Final Rejection Practice that forces the filing of RCE, and the attendant examiner incentives to stall, especially where examiner applies new grounds of rejection or applies new prior art
16. Reduce restriction requirements by adopting a unity of invention standard for national applications
17. Restriction requirements should be made only after a search of the first claimed invention
18. Do away with "second pair of eyes" program as currently implemented (because only allowances are reviewed, an examiner has no practical authority to issue patents; anonymous and unaccountable second reviewers, with little exposure to the application, withdraw a high proportion of allowances)

19. Deal with continuation abuse through finely crafted rules based on prosecution laches (the Continuations Rule states that it is not an attempt to codify *Bogese*, but it isn't clear why)

Other insightful alternatives are set forth in the comment letters, for example, those included in Attachment A:

20. USPTO should take more care that its employees carefully observe published guidance procedures, and should provide enforcement of those procedures during examination phase
21. USPTO should provide some form of enforcement of its procedural rules and guidance through legally-trained ombudsmen, and should remove this function from Technology Center Directors who have a financial interest in denying enforcement of USPTO procedural requirements
22. Several rules should be restored to their 1990's form, which permitted applicants to take certain steps during the interval before an examiner resumed examination, rather than imposing arbitrary date cutoffs that have the effect of requiring examiners to examine claims that applicant no longer wants to have examined
23. Provide applicants more opportunity to assist an examiner in focusing on the relevant issues, through more telephone interviews, and the like

A Regulatory Impact Analysis that complies with Circular A-4 and includes an analysis of the various issues raised in this Attachment I would allow USPTO to determine if the approach it has taken in the proposed rules is, in fact, the most cost-effective solution for the identified problem.

Attachment J

USPTO's Promises of Procedural Remedies Against Substantive Harshness are Illusory

Many of the public comment letters observed that the proposed rules would have harsh consequences that could deprive innovators of valid intellectual property claims. The letters observed that there would be little recourse if USPTO rejected an application before fully evaluating it. In the slides[146] handed out by USPTO at various public discussions, senior officials advised applicants to use "Petitions to the Director"[147] to reopen prosecution when an application was prematurely "finally" rejected, as an alternative to a continuation application.

Petitions directed to premature final rejection are complex and difficult to prepare[148], and (under current practice) are cost-effective in only a small number of cases. Nonetheless, at least

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[146] See Attachment N, slide 82 and 83.

[147] There are two paths of review within USPTO: appeal to the Board of Patent Appeals, 37 C.F.R. 41.1 *et seq*., and Petition to the Director under 37 C.F.R. § 1.181. Generally, if the question is one whose answer is either "'Yes,' this claim is patentable," or 'No,' it isn't," then the issue is appealable. All non-appealable issues are necessarily petitionable, 37 C.F.R. § 1.181(a)(1), plus there is some area of overlap.

At least some decisions reflect a "reverse turf war" within the USPTO: neither the Director nor the Board of Patent Appeals will entertain issues relating to incomplete examination, and neither will issue mandatory orders to examiners to compel complete examination as required by the MPEP. To further aggravate the situation, the Board will not entertain an appeal on the merits where the examiner has failed procedurally to articulate his/her basis for rejecting claims in the manner required by the agency's guidance document. *Ex parte Rozzi*, 63 USPQ2d 1196 (BPAI 2002) (Board will not act as tribunal of first instance); *Ex parte Gambogi*, 62 USPQ2d 1209, 1212 (BPAI 2001) ("We decline to substitute speculation" for the "more definite statement of the grounds of rejections" that has to come from the examiner, and "We decline to tell an examiner precisely how to set out a rejection."); *Ex parte Braeken*, 54 USPQ2d 1110 (BPAI 1999) (appeal is not "ripe," and Board declines to either examine or decide the appeal). However, officials deciding petitions take an incompatible view, that all issues relating even indirectly to claims are not petitionable, even those issues going to whether the examiner examined and rejected claims at all, whether agency guidance was violated, or whether examination was complete enough to permit the Board to hear an appeal, even if the issue is specifically designated as petitionable in the MPEP. *See*, *e.g.*, 09/385,394, Decision of Nov. 8, 2005 (holding an issue of premature final rejection to be appealable; contrary agency guidance in MPEP § 706.07(c) is not acknowledged, let alone distinguished).

[148] Our limited experience is that these petitions can cost anywhere from about $3,000 to $15,000 each. Because it is all attorney time, this cost applies to large and small entities alike. To put it in perspective, the cost of filing a continuation application, such as a Request for Continued Examination, is

one signatory to this letter attempted to utilize the USPTO's "premature final rejection" procedures on several occasions. These petitions were all dismissed or denied on various grounds that never reached the merits of the precise breaches of guidance that were raised:

- Various USPTO officials stated that they never grant such petitions, because premature final rejection is appealable subject matter, not petitionable.[149] These officials cite no authority for the proposition, and fail to distinguish contrary agency precedent and guidance.[150]
- USPTO petitions decisions often recharacterize issues to irrelevant grounds and thereby avoid deciding the precise breach complained of.[151]
- UPSTO decisions often do not carefully and accurately state the law.[152]
- "Premature final rejection" is inherently a time-sensitive issue, and must be decided before deadlines run out,[153] else an applicant must either act in a way that diminishes the remedy grantable by the petition, or face abandonment of the application. Decisions on this class of petition appear to be selectively delayed[154] until that time deadline has

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$790 ($395 for small entities) plus about ½ hour of attorney time. In contrast, the cost of filing this petition is roughly equal to the total post-filing cost of prosecuting a typical application.

[149] *See*, *e.g.*, 09/385,394, Decision of Nov. 8, 2005 (holding an issue of premature final rejection to be appealable, not petitionable).

[150] *E.g.*, MPEP § 706.07(c), "prematureness of a final rejection … is purely a question of practice, wholly distinct from the tenability of the rejection. It may therefore not be advanced as a ground for appeal, or made the basis of complaint before the Board of Patent Appeals… It is reviewable by petition under 37 CFR 1.181."

[151] For example, in 09/385, 394, issues directed to untimely examination were denied because examination was eventually completed. Issues relating to incomplete examination were denied because the petitions examiner would only consider timeliness. A typical set of errors is set forth in a Petition filed April 10, 2006, seeking higher review of lower-level decisions in application 09/385,394.

[152] 09/385,394, Decision of May 4, 2004, at page 6, stating that the test for mootness is whether an event is "likely to recur," and refusing to issue an order to ensure that it will not recur, when Supreme Court precedent provides mootness of a federal agency action only when the agency accepts a "heavy burden" of showing that it will cease all "offending conduct," *Adarand Constructors v. Slater*, 528 U.S. 216, 221-22 (U.S. Sup. Ct. 2000); *see also* 09/385,394, Decision of Nov. 8, 2005, at page 5, stating that the *Kronig* and *Wiechert* decisions will not be followed because "it cannot be seen."

[153] 37 C.F.R. § 1.181(f) ("The mere filing of a petition will not stay any period for reply that may be running…")

[154] 09/385,394, a Petition for Review of Premature Final Rejection filed April 10, 2006 remains on the docket for consideration by Brian Hearn in the Office of Petitions fourteen months later. The Petitions Office representative contacted on June 6, 2007 confirmed that Mr. Hearn's backlog is 2-4

lapsed. USPTO then denies the petition as moot, but refuses to honor the procedural benefits that accrue to an applicant on the USPTO's determination of mootness.[155]

Based on this experience, the protections provided for in the USPTO's guidance document to deal with procedural error by its examiners, and relied upon by the USPTO in addressing applicants concerns about the harshness of the Continuations Rule, do not appear to exist in practice.[156]

While we appreciate that this experience may be anecdotal, we submit that all such evidence presented by patent practitioners will necessarily be anecdotal. Patent applicants possess a widely dispersed data set that defies systematic collection. The USPTO, on the other hand, possesses a centralized database and full knowledge of whether petitions to the Director will present an effective check and remedy for procedural errors and violations of agency guidance by examiners during prosecution. We believe that the USPTO should perform a thorough analysis that complies with Circular A-4, and that this analysis should include a transparent reporting and analysis of the petitions filed to dispute improper finality and the resolution of such petitions, and whether these petitions are being soundly decided on the law.

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months. Similarly, two petitions on different issues were filed in the same art unit at about the same time: a petition directed to an unrelated issue was decided in a few weeks, while the Final Rejection petition filed on April 8, 2005 was decided on September 9, five months.

[155] Under Supreme Court precedent, the legal effect of an assertion of mootness by the USPTO is often identical in consequence to a grant of all relief sought in the petition – a party asserting mootness accepts responsibility for "completely and totally eradicating all effects of the alleged violation," and states "with assurance that there is no reasonable expectation that the alleged violation will recur." That is, by asserting mootness, USPTO waives all challenges to even unproved "allegations" raised in a petition, and accepts the responsibility to eradicate all effects. However, at the highest levels an applicant can access, USPTO uses mootness as a way to deny all relief, not to implement an obligation to eradicate all effects. See, e.g., 09/385,394, Decision of Dec. 4, 2003.

[156] USPTO often does not adhere to its own guidance. *See*, *e.g.*, *In re Alappat*, 33 F.3d. 1527, 1580, 31 USPQ2d 1545, 1588 (Fed. Cir. 1994) (en banc) (Plager, J., concurring) ("The Commissioner [of Patents] has an obligation to ensure that all parts of the agency … conform to official policy of the agency, including official interpretations of the agency's organic legislation. Otherwise the citizenry would be subject to the whims of individual agency officials of whatever rank or level, and the Rule of Law would lose all meaning…").

Attachment K

USPTO Failed to Comply with Applicable Information Quality Principles and Guidelines

The Federal Information Quality Act and OMB's government-wide Information Quality Guidelines have been in place for almost five years.[157] USPTO, separate from the Department of Commerce of which it is part, issued its own guidelines implementing OMB's guidelines taking into account its particular needs.[158]

Both OMB's and USPTO's guidelines require that information USPTO disseminates satisfy applicable quality standards.[159] The standards relevant to these draft rules are *utility*, *reproducibility* and *objectivity*.

USPTO's definitions of these terms follow the definitions established by OMB. In addition, because the information in question constitutes the agency's basis for regulatory decision-making, it is inherently influential.[160]

I. Utility

> "Utility" refers to the usefulness of the information to its intended users, including the public. In assessing the usefulness of information that the agency disseminates to the public, the agency considers the uses of the information not only from its own perspective but also from the perspective of the public (Sec. 6(b)).

In principle, it's possible that the limited information disclosed by USPTO in support of these two draft rules is sufficiently useful from its own perspective. However, it is inarguably false that this information is useful "from the perspective of the public." As documented in Attachment L and Attachment N, USPTO's responses to both informal and formal requests for supporting data, models and assumptions, and its apparent willingness to provide selected

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[157] Office of Management and Budget, "Guidelines for Ensuring and Maximizing the Quality, Objectivity, Utility, and Integrity of Information Disseminated by Federal Agencies; Notice; Republication, 67 Fed. Reg. 8452.

[158] U.S. Patent and Trademark Office, "Information Quality Guidelines," online at http://www.uspto.gov/web/offices/ac/ido/infoqualityguide.html.

[159] Nothing in this Attachment should be construed to imply that the domain of information disclosed by USPTO is sufficient for purposes of Executive Order 12,866. We restrict our review to the information that USPTO actually disclosed.

[160] "Influential" information is defined by USPTO as "information that will have or does have clear and substantial impact on important public policies or important private sector decisions consisting primarily of statistical information on USPTO filings and operations."

individuals with privileged access, proves that agency officials know that the public considers the information it has disseminated to have little or no utility.

II. Reproducibility

> "Reproducibility" means that the information is capable of being substantially reproduced, subject to an acceptable degree of imprecision. For information judged to have more (less) important impacts, the degree of imprecision that is tolerated is reduced (increased). With respect to analytical results, "capable of being substantially reproduced" means that independent analysis of the original or supporting data using identical methods would generate similar analytical results, subject to an acceptable degree of imprecision or error (Sec. 7).

The reason that the Administrative Procedure Act and E-Government Act of 2002 require disclosure of an agency's data, models and assumptions is to provide informed comment during the prescribed public comment period. As a prerequisite, the public must be able to reproduce USPTO's own analyses. Without access, it is simply impossible to do so.[161]

III. Objectivity

> Objectivity" involves two distinct elements, presentation and substance. The presentation element includes whether disseminated information is being presented in an accurate, clear, complete, unbiased manner, and within a proper context. Sometimes, in disseminating certain types of information to the public, other information must be disseminated in order to ensure an accurate, complete, and unbiased presentation. Sources of the disseminated information (to the extent possible, consistent with confidentiality protections) and, in a scientific, or statistical context, the supporting data and models need to be identified, so that the public can assess for itself whether there may be some reason to question the objectivity of the sources. Where appropriate, supporting data shall have full, accurate, transparent documentation, and error sources affecting data quality shall be identified and disclosed to users. The substance element focuses on ensuring accurate, reliable, and unbiased information. In a scientific, or statistical context, the original or supporting data shall be generated, and the analytical results shall be developed, using sound statistical and research methods. If the results have been subject to formal, independent, external peer review, the information can generally be considered of acceptable objectivity (Sec. 6(a)).

In this case, both presentational and substantive objectivity are important. Most clearly, USPTO's forecasts of future backlog must be "accurate, reliable, and unbiased." Whether the

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[161] This is not a Shelby Amendment "data access" issue given an information quality veneer. The data, models and assumptions in question are USPTO's, not those of an arguably independent third party.

agency's forecasts meet these tests speaks directly to the merits of its stated regulatory objective, assuming arguendo that the stated objective is defensible under law and Executive Order 12,866.

To be presentationally objective, USPTO's forecasts must be presented in "an accurate, clear, complete, [and] unbiased manner, and within a proper context." We are especially concerned about "completeness" and "proper context." For USPTO's forecasts to be complete, they must at a minimum include information about how rates are predicted to vary by application type, art and technology center. In addition, additional information is needed about variability and uncertainty.[162] To be in a "proper context," it is essential to have "accurate, reliable, and unbiased" information about the effects these rules would have on applicants and innovation.

USPTO's forecasts are presented without documentation in any of these areas. The forecasts have no utility for the regulated public; are not reproducible; and cannot satisfy the presentational objectivity test.

USPTO might have been able to meet these quality standards if it had subjected its analyses to independent external peer review, in accordance with OMB's government-wide standards.[163] According to USPTO, it does not use peer review as a tool for pre-dissemination review to ensure that applicable information quality standards are met.[164] Rather, it utilizes other unspecified procedures.[165]

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[162] Variability is a measure of the extent to which random influences would affect predicted backlogs. Uncertainty is a measure of the extent to which predicted backlogs would change if the different assumptions or models were used, especially if USPTO's models have not been validated.

[163] Office of Management and Budget, "Final Information Quality Bulletin for Peer Review," 70 Fed. Reg. 2664.

[164] "Based on the review it has conducted, the United States Patent and Trademark Office believes that it does not currently produce or sponsor the distribution of influential scientific information (including highly influential scientific assessments) within the definitions promulgated by OMB. As a result, at this time the United States Patent and Trademark Office has no agenda of forthcoming influential scientific disseminations to post on its website in accordance with OMB's Information Quality Bulletin for Peer Review." See http://www.uspto.gov/main/policy/infoquality_peer.htm.

[165] "Historically, a pre-dissemination review process of all USPTO information disseminated is incorporated into the normal process of formulating the information. This review is at a level appropriate to the information, taking into account the information's importance, balanced against the resources required and the time available to conduct the review. USPTO's business units treat information quality as integral to every step of USPTO's development of information, including creation, collection, maintenance, and dissemination. USPTO receives and relies on feedback from both internal and external customers if the accuracy or completeness of the information disseminated is below standard. Corrective measures are taken immediately to limit the impact and re-disseminate the corrected information. In an unbiased manner, USPTO makes every effort to provide complete databases on USPTO website of all patents and trademarks that have ever been captured electronically. All USPTO information

dissemination products are labeled and initially distributed with the accompanying file specifications for clarity and proper context. Several file specifications are available on USPTO website.…." See USPTO Information Quality Guidelines Section VII(A).

Attachment L

USPTO Has Withheld Data and Analysis Essential for Evaluating its Proposals

I. Data, Models and Assumptions Withheld

USPTO has made limited data available for the public to review in preparing its public comments. We identify and discuss these data in Attachment G. Data consist of selected tables[166] and an 85-slide PowerPoint presentation widely referred to as the Chicago Town Hall Slides.[167]

The stated problem USPTO intends to remedy is rising backlog, and slides 50-54 of the Chicago Town Hall Slides display USPTO's forecasts of future backlog under six scenarios. To independently analyze these forecasts, the public must have access to the data and models that USPTO used to derive them

On May 3, 2006, one of the signatories of this letter asked Robert Clarke, Deputy Director, Office of Patent Legal Administration, USPTO, to provide the underlying data, models and assumptions. He replied that no publicly releasable information could be provided:

> We do not have a complete package of supporting information that is available for public inspection. The study for these packages was substantiated in a series of pre-decisional electronic communications that has not been made available to the public.[168]

On September 12, 2006, one of the signatories sent USPTO a formal request for this information under the Freedom of Information Act (FOIA). On October 12, 2006, USPTO's FOIA Officer Robert Fawcett replied:

> The United States Patent and Trademark Office (USPTO) identified 114 pages of documents that are responsive to your request and are releasable. A copy of the material is enclosed.

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[166] See http://www.uspto.gov/web/offices/pac/dapp/opla/presentation/laiplabackgroundtext.html.

[167] See http://www.uspto.gov/web/offices/pac/dapp/opla/presentation/chicagoslides.ppt (PowerPoint) and (http://www.uspto.gov/web/offices/pac/dapp/opla/presentation/chicagoslidestext.html (HTML).

[168] Dean Alderucci, Comments of Cantor Fitzgerald in Response to the Proposed Rules of the U.S. Patent and Trademark Office at 71 Fed. Reg. 48 (January 3, 2006) and 71 Fed. Reg. 62 (January 3, 2006) at Exhibit A (online at http://www.uspto.gov/web/offices/pac/dapp/opla/comments/fpp_continuation/continuation_comments.html, Individual Comment #3.

The 114 pages enclosed consisted of the data tables and the Chicago Town Hall Slides and other information now on USPTO's web pages.[169]

USPTO's refusal to disclose critical information apparently does not apply to all members of the public. During the annual meeting of the American Intellectual Property Law Association (AIPLA), on October 19, 2006, Commissioner for Patents John Doll offered to share the agency's models and assumptions with AIPLA's board of directors.[170] Like many of the signatories of this letter (see page 6 of the principal letter and Attachment A), AIPLA formally opposed both the Continuations Rule and the Limits on Claims Rule.[171] Nevertheless, selective disclosure of critical data, models and assumptions is fundamentally incompatible with any reasonable standard of good governance.

II. Legal Vulnerability

Under administrative law USPTO must make the technical bases for its proposed rules available at the beginning of the Notice and Comment period. This is not new.

Connecticut Light and Power Co. v. Nuclear Regulatory Comm'n, 673 F.2d 525, 530-31 (D.C. Cir. 1982) explains the need for agency transparency as follows:

> The purpose of the comment period is to allow interested members of the public to communicate information, concerns, and criticisms to the agency during the rule-making process. If the notice of proposed rule-making fails to provide an accurate picture of the

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[169] See Attachment N.

[170] Eric Yeager, "USPTO Commissioner Doll Says That Limiting Continuations Will Improve Patent Landscape," 72 *Patent, Trademark & Copyright Journal* 704ff ("USPTO invited the AIPLA board to take a look at the agency's models and the assumptions they are based upon. Those models will reveal that USPTO's proposed change to continuation practice will turn the backlog situation around").

[171] "These proposed changes, taken individually or together, are troubling. In one instance, the Office proposes to severely limit the number of claims it would accept in an application for initial examination. We believe that this would tend to limit the ability of an applicant to obtain claims for an invention that are commensurate with the full scope of the contribution by the inventor(s). In the other instance, the Office proposes to severely limit the opportunity for continued presentation of claims by means of continuation and continued examination practice. Standing alone, this proposal would disadvantage applicants by prematurely truncating prosecution of their applications; however, it would further disadvantage applicants when combined with the limited number of claims proposed to be accepted for initial examination. As a practical matter, these proposals would place great pressure on applicants (1) to reduce the scope of the claims pursued (whether in a single application or in unrelated applications) and (2) to accept more narrow claims as a result of the more limited opportunity for continued presentation of claims. Inventors would be far less able to adequately protect their property." See Letter to Undersecretary of Commerce Jon Dudas from AIPLA Executive Director Michael Kirk at 2, online at http://www.aipla.org/Content/ContentGroups/Issues_and_Advocacy/Comments2/Patent_and_Trademark_Office/20066/ContinuationLetter.pdf.

> reasoning that has led the agency to the proposed rule, interested parties will not be able to comment meaningfully upon the agency's proposals. As a result, the agency may operate with a one-sided or mistaken picture of the issues at stake in a rule-making. In order to allow for useful criticism, it is especially important for the agency to identify and make available technical studies and data that it has employed in reaching the decisions to propose particular rules. To allow an agency to play hunt the peanut with technical information, hiding or disguising the information that it employs, is to condone a practice in which the agency treats what should be a genuine interchange as mere bureaucratic sport. An agency commits serious procedural error when it fails to reveal portions of the technical basis for a proposed rule in time to allow for meaningful commentary. (Emphasis added)

Other courts have similarly recognized the importance of ensuring that regulated parties have access to the complete public record and all data on which an agency relies.[172]

In Attachment E, we outlined why USPTO lacks the statutory authority to issue substantive rules and why the Office is vulnerable to legal challenge for exceeding its authority. By withholding critical information, USPTO also has committed a fatal error in administrative law sufficient to justify a federal court to vacate these rules before ever reaching any argument about USPTO's statutory authority.

[172] *See also Hanover Potato Products, Inc. v. Shalala*, 989 F.2d 123, 130, fn. 9 (3rd Cir. 1993) (*citing Home Box Office, Inc. v. FCC*, 567 F.2d 9, 54 (D.C.Cir.1977) ("[e]ven the possibility that there is here one administrative record for the public and this court and another for the [agency] and those 'in the know' is intolerable") and stating "We believe a regulated party automatically suffers prejudice when members of the public who may submit comments are denied access to the complete public record.")

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Attachment M

USPTO's Estimates of Paperwork Burden are Invalid and Unreliable

Paperwork burdens are an important part of the patent application and examination process. Indeed, except for the indirect effects that the process has on innovation and property rights, the largest effects of the system are realized as paperwork burden.

USPTO has disclosed no analysis of the likely social costs and benefits of these draft rules (Sec. 1(b)(6)). The benefits USPTO emphasizes are reductions in burden to USPTO. In Attachment H, we show that even these benefits are largely illusory, and that there is a high probability that these rules will result in a significant increase in patent applications (in response to the "Limits on Claims" Rule) and overload the senior examining corps and Board of Patent Appeals and Interferences (in response to the "Continuations" Rule). USPTO has set forth no reasoned determination that the benefits of these regulations justify the costs (Sec. 1(b)(6)). Without even a rudimentary analysis of benefits and costs, a reasoned determination simply isn't possible.

I. USPTO's Baseline Estimates of Paperwork Burden

1. ICR

Both rules refer to the same Information Collection Request (ICR 0651-0031). The Limits on Claims Rule would require applicants to submit Examination Support Documents (ESDs) for applications designating more than 10 claims for initial examination; the ESD is an element of ICR 0651-0032.

2. Burden estimates

The following data come from OMB's paperwork Approved Information Collection Inventory[173] (with averages calculated for convenience):

ICR 0651-0031

2,495,139 respondents
3,724,791 hours
$114,723,236

Average hours per respondent: 1.5
Average cost per respondent: $46

[173] See http://www.reginfo.gov/public/do/PRAMain.

ICR 0651-0032 (ESD only)

10,000 responses
240,000 hours
$3,900

Average hours per respondent: 24
Average cost per respondent: $0.39

To put these burdens in perspective, the average billing rate of a patent lawyer who prepares an application exceeds $300 per hour (USPTO uses $304). If USPTO's estimates of burden and non-labor cost are reasonably accurate, the total cost of paperwork burden exceeds $1.2 billion for ICR 0651-0031 and $72 million for ESDs.[174]

Based on hundreds of man-years of experience combined in the signatories of this letter, we believe that these estimates grossly understate the true burden. If USPTO's figures were correct, the cost of applying for a patent for the average applicant would be approximately $350.[175] Even the simplest patent applications cost over $5,000, relatively complex computer inventions cost average about $10,000, and complex applications can cost $30,000 or more.[176]

USPTO's burden estimate for preparing an ESD is 24 hours.[177] We've been unable to determine how the Office arrived at this estimate. The most recent substantive ICR submitted to OMB (and approved on June 5, 2007) has a published supporting statement, but it is silent about the burden of ESDs. None of the previous five substantive ICRs, going back to 1999, has an available supporting statement.

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[174] USPTO's burden estimates exclude the time and cost associated with appeals.

[175] For the purposes of this analysis, we exclude user fees paid to USPTO to pay for examination services. In FY 2006, USPTO's patent operations recognized $1.384 billion in fee income. http://www.uspto.gov/web/offices/com/annual/2006/2006annualreport.pdf page 63.

[176] American Intellectual Property Law Assn, Report of the Economic Survey 2005, page I-94 to I-95.

[177] See OMB's Information Collection Inventory, Department of Commerce, ICR 0651-0032, row 2 ("Examination support document filed in certain nonprovisional applications covering the independent claims and the designated dependent claims (proposed 37 CFR 1.75(b)"). http://www.reginfo.gov/public/do/PRAMain.

OMB Control Number History for ICR 0651-0032 Related to ESD Requirement in Proposed Limits on Claims Rule						
ICR Reference Number	Date Review Concluded by OMB	Respondents	Burden Hours	Dollars	Supporting Statement?	Supporting Statement Explains ESD Burden?
200702-0651-008	06/05/2007	543,591	10,677,624	$ 243,201,076	Yes	No
200506-0651-001	07/31/2006	454,287	4,171,568	$ 575,550,000	No	--
200309-0651-007	07/31/2006	454,287	4,171,568	$ 493,593,000	No	--
200304-0651-002	07/14/2003	454,287	4,171,568	$ 258,115,000	No	--
200004-0651-002	08/07/2000	344,100	2,990,360	$ 7,095,000	No	--
199908-0651-001	10/26/1999	344,000	2,994,160	$ 7,095,000	No	--
Actions reported by OMB as non-substantive or emergencies extension are excluded\						

Currently, ESDs are only required for accelerated examination. We have reviewed a few and it is our judgment that they require much more than 24 hours of effort. In order to prepare an Examination Support Document, the applicant must:

1. Perform a pre-examination search of all U.S. patents and patent application publications, foreign patent documents, and non-patent literature directed to the designated claims, giving the claims the broadest reasonable interpretation. This pre-examination search could easily uncover 25 to 100 or more documents. While some of these documents could be 1-2 pages, the vast majority of these documents will likely be 10-20 pages in length, and in for some inventions, particularly biotechnology, it would not be uncommon for many if not most of these documents to be from 50 to 100 pages or more in length.
2. Have their patent attorney analyze in detail all of the documents uncovered by the search to determine the documents that are most closely related to the claims designated for examination. This analysis is quite time consuming and far exceeds a mere reading of the documents. The patent attorney must fully understand how the teachings of the document relate (or don't relate) to the claimed invention. If the resulting patent were ever litigated, improperly excluding just one document that a court later finds to be highly relevant could result in the patent being unenforceable. The relevance of a document could turn on a description in one paragraph or one data table of a 100+ page document.
3. Once the patent attorney has determined the documents that are most closely related to the designated claims, the patent attorney's assistant or paralegal must prepare a form to

submit to the USPTO listing these documents ("the cited references"). For a small number of documents, this is not a very time consuming task.

4. The patent attorney must then prepare a description that identifies all of the portions of the designated claims that are disclosed by each of the cited references. These statements could be used against the applicant by USPTO or the courts. Thus, the patent attorney must take a lot of time and care in crafting this description.
5. The patent attorney must then prepare a detailed explanation of how each of the designated claims are patentable over the cited references. If the resulting patent were ever litigated, this explanation could come under intense scrutiny, and imprecision in the language of the explanation could result in the patent being held unenforceable. Thus, the patent attorney must take a lot of time and care in crafting this explanation.
6. The patent attorney must then prepare a concise statement of the utility of the invention as defined in each of the independent claims.
7. Finally, the patent attorney must prepare a description of where each limitation of the designated claims is provided by the description provided by the application (and in some circumstances in other applications as well). If the resulting patent were ever litigated, this description could come under intense scrutiny, and imprecision in the language of the explanation could result in the patent being held unenforceable. Thus, the patent attorney must take a lot of time and care in crafting this description.

The Examination Support Document in essence outsources the research behind an examination to the applicant. As noted above, every statement or omission made in the ESD could be grounds for invalidating the patent during litigation. Applicants will have to take an extraordinary amount of time in preparing such documents in an attempt to limit these potential adverse effects of future litigation. Similar misstatement or omissions by examiners cannot be used in litigation to render the patent invalid. Accordingly, USPTO is charging applicants for this research, then outsourcing it back to the applicant, who for legal reasons is the highest cost provider.

We've been unable to determine how USPTO arrived at an estimate that the Office could expect to receive 10,000 ESDs annually or how they would require only 24 hours to prepare an ESD (as stated in the ICR Inventory), or reconcile these figures with the absence of any burden at all from preparing ESDs (as set forth in the proposed Limits on Claims Rule).[178] As for the non-labor costs, USPTO's estimate needs no further discussion.

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[178] We can speculate that USPTO concluded that the preparation of an ESD requires three work days, or perhaps that is the amount of time that it would take an examiner to prepare an ESD; after all. several of the tasks required to prepare an ESD are typical "examiner" tasks. However, as noted above, examiners do not need to take inequitable conduct concerns into account when preparing ESDs and other documents whereas this is a crucial element in the private practice in patent law.

II. USPTO's Predicted Changes in Paperwork Burden

1. ICR

The Limits on Claims Rule would limit applicants to initial examination of 10 claims or require them to prepare an ESD. The Continuations Rule could cause applicants to submit vastly more mature and elaborate applications at very early stages of the process. Alternatively, the Limits on Claims Rule apparently invites applicants to spend extra time and money splitting the disclosure that would now be placed in a single application into several separate applications.[179] It is understood that these changes would significantly increase the cost of submitting patent applications on complex inventions. At a symposium held at Duke University in February 2006, the Deputy General Counsel for Intellectual Property Law and Solicitor of USPTO, John Whealan, acknowledged the increased applicant burden, and cited it as a rentseeking benefit to the patent bar:

> "The good news is, for you patent prosecutors out there, your rates should go up, not your rates, but your hours, because this is going to take probably more work to do."[180]

Mr. Whealan was the Office's designated speaker at Duke and at many other USPTO's "Town Hall" meetings, so he must be presumed to speak with authority for USPTO. The question therefore is not whether paperwork burdens will increase under these rules; it's how much.

2. Burden estimates set forth in the two draft rules

The proposed rules provide the following estimates of paperwork burden for ICR 0651-0031

2,284,439 respondents
2,732,441 hours

This is a decrease of 210,700 respondents (8.4%) and a decrease in burden hours of 992,350 (27%). The average burden would decline from 1.5 hours to 1.2 hours, meaning that the applications not submitted average 4.7 hours each. At first blush, this appears to be consistent with both the data found in the Continuations Rule that about 30% of USPTO's workload is

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[179] The invitation is either illusory, or *extremely* difficult to comply with: in the Continuations rule, proposed 37 C.F.R. §1.78(f)(2) establishes a rebuttable presumption of double patenting when there is a "substantial overlapping disclosure" between one application and any other applications or patents that share the same filing date and name at least one inventor in common.

[180] See Duke University Law School, Fifth Annual Hot Topics in Intellectual Property Law Symposium, http://realserver.law.duke.edu/ramgen/spring06/students/02172006a.rm (Feb. 17, 2006), at time mark 1:01:03.

associated with continuations[181] and our calculation that about 7% of total applications would be affected by the Continuations Rule – so long as one presumes that the intellectual property behind these applications simply vanishes.

The Limits on Claims Rule includes a new requirement that applicants prepare Examination Support Documents (ESDs) if they want to have more than 10 claims initially examined. However, the paperwork notice contained in the preamble identifies no new burden from ESDs. Although this may appear to be counterintuitive, it might not be: USPTO has indicated that it expects that no applicants will avail themselves of the opportunity to submit an ESD. John Whealan admitted as much at the Duke University symposium:

> "You file 50 [claims,] we're going to look at ten. . . . We'll look at the independents, a couple dependents. If you want all your claims examined up front, you can have it done, but it's going to cost you, you're going to have to do some work, which in the current law of inequitable conduct, nobody's going to want to do."[182]

The "law of inequitable conduct" imposes on patent attorneys a duty of "candor, good faith and honesty" in their dealings with USPTO, and the chief duty is to provide the Office with all prior art materials that "a reasonable examiner would have considered … important in deciding whether to allow … the application."[183] It is not a trivial matter,[184] and for that reason USPTO's chief litigator believes that the ESD requirement constitutes a "poison pill" that will ensure no applicant opts to have more than 10 claims initially examined. And Mr. Whealan is not alone in recognizing the practical effect of this doctrine. In its comments to USPTO opposing the proposed Continuations Rule, the American Intellectual Property Lawyers Association specifically noted that the alternatives the agency was offering had limited value precisely

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[181] It is inconsistent with the data in Attachment H, which shows that far less than 30% of all applications are second and subsequent continuation that would be terminated by the draft rule.

[182] See Duke University Law School, Fifth Annual Hot Topics in Intellectual Property Law Symposium, http://realserver.law.duke.edu/ramgen/spring06/students/02172006a.rm, at time mark 1:02:58.

[183] *Digital Control Inc. v. Charles Machine Works*, 437 F.3d 1309, 1316, 77 USPQ2d 1823, 1829 (Fed. Cir. 2006).

[184] If a court finds that inequitable conduct has been committed, all patent rights are taken away and the patent is unenforceable. Severe sanctions per se are not objectionable, but the circumstances under which they are imposed can be highly unpredictable. See, e.g., "United States: Patent Prosecutors Beware, Litigators Take Note: Federal Circuit Affirms Novel Inequitable Conduct Ruling," describing the Federal Circuit's recent decision in *McKesson Information Solutions v. Bridge Medical* (Fed. Cir. 2007). (on-line at: http://www.mondaq.com/article.asp?articleid=48813). The inability to predict what behavior could have devastating consequences leads patent lawyers to act in highly risk-averse ways.

because the threat posed in litigation by the law of inequitable conduct meant that the burden of submitting applications would be much higher:

> The Office argues that neither proposal is "absolute" in the sense that applicants are not absolutely precluded from filing a second continuation application or a second request for continuing examination, nor are they absolutely precluded from presenting more than ten claims for examination. In a practical sense, however, these alternatives will be of little comfort to applicants, who will have to pay the higher costs of performing the initial search and examination themselves and pursuing continued claim presentation opportunities through the more costly administrative route of petition and/or appeal and a much higher potential for subsequent inequitable conduct allegations.[185]

3. Adaptive responses by patent applicants not accounted for by USPTO

USPTO's estimates of the change in paperwork burden require at least two very strong assumptions to be valid. First, if continuations above some number are essentially abolished, applicants will simply drop the applications as if they were superfluous. Second, if applicants have to submit an ESD in order to have more than 10 claims initially examined, all claims beyond 10 independent claims will disappear. Neither assumption is remotely plausible.

With respect to the Continuations Rule, applicants will engage in various forms of adaptive response, including some combination of the following practices. First, they will devote more effort to their initial applications and to the single continuations that they still would be permitted by right. These additional efforts must translate into greater burden. So, even if the number of respondents were to decline exactly as USPTO forecasts, each application that otherwise would reasonably have been expected to consist of multiple continuations will be more burdensome to prepare. Also, because the right to subsequent continuations will be essentially abolished, many more Final Rejections will be petitioned and/or appealed. Petitions and appeals should be estimated and counted as paperwork burden, especially when they are the direct result of a policy change that putatively results in burden reduction.

With respect to the Limits on Claims Rule, applicants will engage in various other forms of adaptive response, including some combination of the following practices. In some cases, they will divide a complex invention into multiple applications to ensure that claims to each aspect of the invention are initially examined. Also, they will draft certain claims in ways not warranted by patent law, simply to gain full examination of subject matter within the 10-claim limit. Both of these predictable adaptive responses entail greater paperwork burden.

USPTO has ignored all of these adaptive responses in estimating paperwork burden.

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[185] See Comments by AIPLA at http://www.uspto.gov/web/offices/pac/dapp/opla/comments/fpp_continuation/aipla.pdf, footnote 1.

4. Appeals

We've already pointed out that USPTO has ignored the paperwork burden associated with increased numbers of appeals to the Board of Patent Appeals and Interferences (BPAI), and the increased numbers of petitions to the Director relating to premature final rejection. It also has ignored the likelihood that these rules would inundate the BPAI and petitions office. By limiting continuing examination, USPTO raises the stakes associated with Final Rejections and will thus increase the number of both proceedings.

Attachment N

Materials Received from USPTO by FOIA Request, Including USPTO's "Town Hall" Slides

06-176

Culver, Jennifer

From: Boundy, David [dboundy@willkie.com]
Sent: Saturday, April 01, 2006 6:11 PM
To: EFOIA
Subject: FOIA request

The following requests for documents are presented pursuant to the Freedom of Information Act.

Request 1. Attached is one of the slides from the PTO's recent Townhall presentations on the proposed rule changes, showing projected pendency.

<<From townhall slides - pendency projection.ppt>>
Kindly provide all documents that demonstrate (a) any data and assumptions on which the projections of this slide are based, and (b) the methodology or analysis used to generate the slide's projections from the data and assumptions.

In particular, please provide documents that support the projection that pendency will increase as projected for 2008-2011 (the red projection), and the projection that pendency will fall sharply if all rule proposals are enacted (the two purple declining projections).

The following documents are within the scope of this request. The relevant time period is at least the years 1996 to 2011 (the time period covered by the slide):

- documents showing the number of applications actually filed, and projected to be filed
- documents showing historical and projected examiner hours per application
- documents comparing examiner hours per original application vs. examiner hours per continuation application or RCE

- documents showing historic and projected examiner hiring and attrition
- any spreadsheet or other calculations that correlate or generate the projected pendency numbers from the underlying data and assumptions

- any documents that reflect applicants' likely response and adjustments to the proposed rules, and how that response/adjustment will affect pendency estimates.

Request 2. Please provide documents sufficient to identify the proportion of examiners, supervisory examiners, special program examiners, and Technology Center Directors that have law degrees.

Request 3. Please provide documents sufficient to identify the rate of disposition of "obviousness-type double patenting" issues during appeal conference and *ex parte* appeal to the Board of Patent Appeals and interferences for recent years.

Thank you.

Electronic documents, such as spreadsheets, may be emailed to DBoundy@Willkie.com This would be the appropriate vehicle for providing spreadsheets, as the spreadsheets would contain the formulas that show the relationship between underlying data and conclusions.

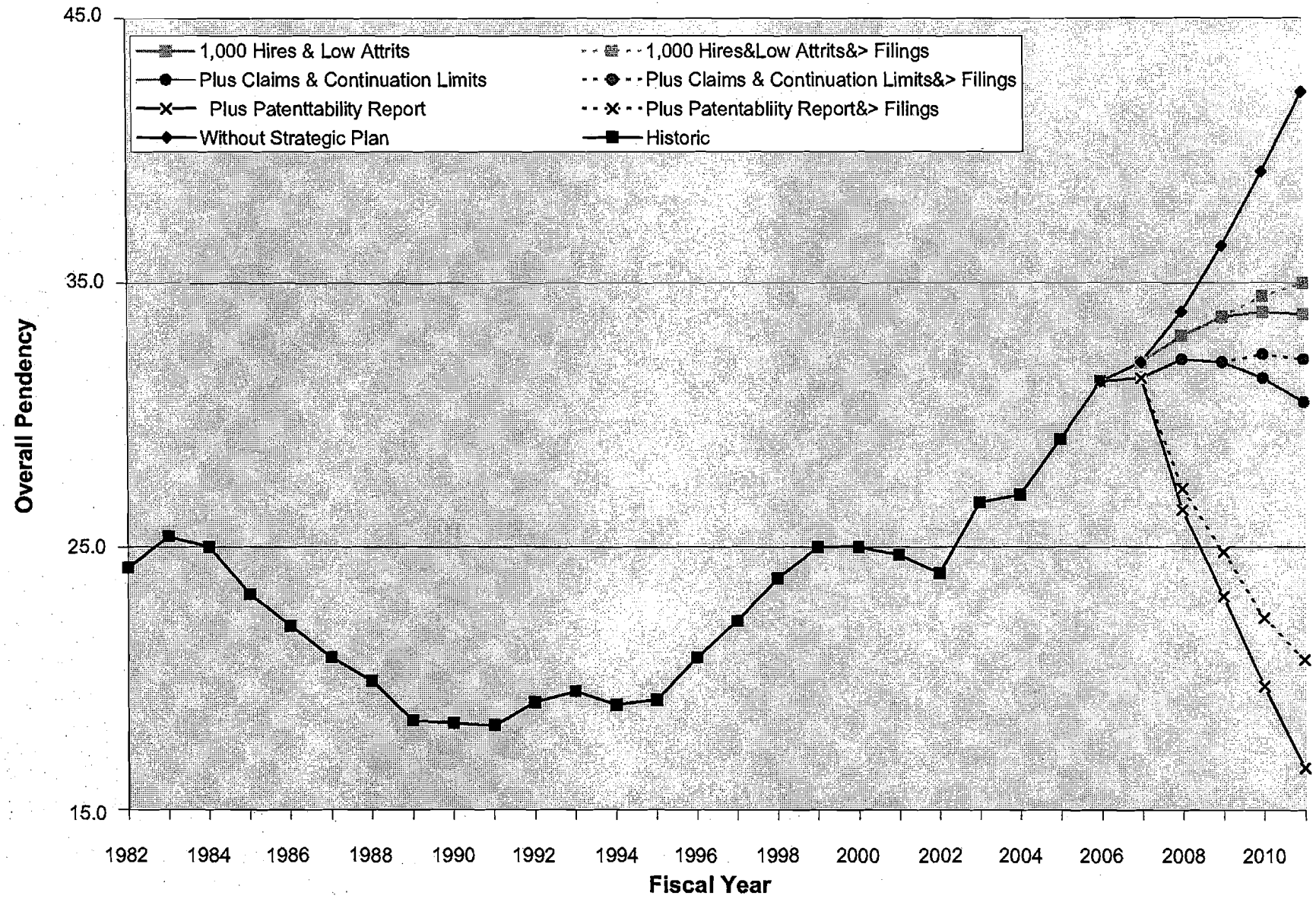
Paper documents may be mailed to the address below.

David Boundy

Willkie Farr & Gallagher LLP
787 Seventh Avenue
New York NY 10021

(212) 728 8757
(212) 728 9757 (FAX)

Pendency Using FY 2005 Actual Filings at 8.1%



UNITED STATES PATENT AND TRADEMARK OFFICE

GENERAL COUNSEL

JUN - 5 2006

Mr. David Boundy
Willkie Farr & Gallagher, LLP
787 Seventh Ave.
New York, NY 10021

Re: Freedom of Information Act (FOIA)/Privacy Act Request No. 06-176

Dear Mr. Boundy:

The Office of the General Counsel received your e-mail dated April 11, 2006, in which you requested, under the provisions of the Freedom of Information Act, 5 U.S.C. § 552, a copy of

"(1) documents showing the number of applications actually filed, and projected to be filed;

(2) documents showing historical and projected examiner hours per application;

(3) documents comparing examiner hours per original application vs. examiner hours per continuation application or RCE;

(4) documents showing historic and projected examiner hiring and attrition;

(5) any spreadsheet or other calculation that correlate or generate the projected pendency numbers from the underlying data and assumptions;

(6) any documents that reflect applicants' likely response and adjustments to the proposed rules, and how that response/adjustment will affect pendency estimates;

(7) documents sufficient to identify the proportion of examiners, supervisory examiners, special program examiners, and Technology Center Directors that have law degrees;

(8) documents sufficient to identify the rate of disposition of 'obviousness-type double patenting' issues during appeal conference and ex parte appeal to the Board of Appeals and Interferences for recent years."

The United States Patent and Trademark Office identified 74 pages of documents that are responsive to your request. A copy of this material is enclosed.

The processing fee was less than $20.00, and is hereby waived.

Sincerely,

Robert Fawcett
Program Manager

Performance and Accountability Report Fiscal Year 2005
Other Accompanying Information

Table of Contents | Management | Financial | Supplementary | Auditor | IG | Other

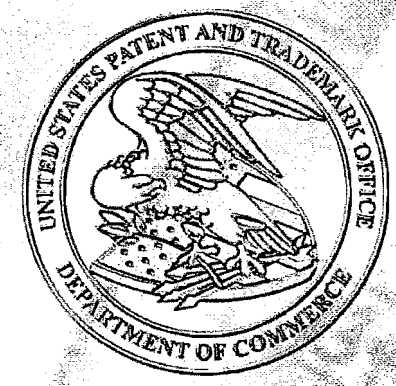
TABLE 2: PATENT APPLICATIONS FILED (FY 1985 - FY 2005)

Year	Utility	Design	Plant	Reissue	Total
1985	115,893	9,504	244	290	125,931
1986	120,988	9,792	291	332	131,403
1987	125,677	10,766	364	366	137,173
1988	136,253	11,114	377	439	148,183
1989	150,418	11,975	418	495	163,306
1990	162,708	11,140	395	468	174,711
1991	166,765	10,368	414	536	178,083
1992	171,623	12,907	335	581	185,446
1993	173,619	13,546	362	572	188,099
1994	185,087	15,431	430	606	201,554
1995	220,141	15,375	516	647	236,679
1996	189,922	15,160	557	637	206,276
1997	219,486	16,272	680	607	237,045
1998	238,850	16,576	658	582	256,666
1999	259,618	17,227	759	664	278,268
2000	291,653	18,563	786	805	311,807
2001	324,211	18,636	914	956	344,717
2002	331,580	19,706	1,134	974	353,394
2003	331,729	21,966	785	938	355,418
2004 [1]	353,319	23,457	1,212	996	378,984
2005	**381,797**	**25,304**	**1,288**	**1,143**	**409,532**

Notes:

1: Revised to reflect final FY 2004 data. *(back to text)*

< Previous Page | Next Page >



2007 BUDGET

2007 President's Budget

UNITED STATES PATENT AND TRADEMARK OFFICE

UNITED STATES PATENT AND TRADEMARK OFFICE

FISCAL YEAR 2007 PRESIDENT'S BUDGET

February 6, 2006

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USPTO Budget-at-a-Glance

DEPARTMENT OF COMMERCE STRATEGIC GOAL 2

"Foster science and technological leadership by protecting intellectual property..."

	Actuals[1]	Enacted	Budget	Outyear Estimates			
Dollars in '000s	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
USPTO Goal 1: Improve quality of patent products and services and optimize patent processing time							
Amount	$1,213,162	$1,335,124	$1,472,479	$1,603,349	$1,757,646	$1,975,383	$2,198,128
Total UPR Production Units	288,315	311,900	343,900	372,900	414,400	458,700	509,400
Allowance Error Rate	4.6%	4.0%[2]	4.0%	4.0%	4.0%	4.0%	4.0%
Average First Action Pendency/UPR (Months)	21.1	22.0[3]	23.0	23.7	23.9	23.8	23.5
USPTO Goal 2: Improve quality of trademark products and services and optimize trademark processing time							
Amount	$141,605	$142,776	$148,264	$153,742	$158,910	$163,518	$169,697
Total Units of Production[4]	666,687	706,900	787,200	820,500	850,000	888,500	932,700
First Action Deficiency Rate[5]	4.7%	6.5%	6.0%	5.5%	5.0%	4.5%	4.0%
Final Action Deficiency Rate	5.9%	6.5%	6.0%	5.5%	5.0%	4.5%	4.0%
First Action Pendency (Months)	6.3	5.3	3.7	3.0	3.0	3.0	3.0
USPTO Goal 3: Create a more flexible organization through transitioning patent and trademark processing to an e-							
Amount	$153,625	$205,186	$222,223	$237,906	$243,345	$256,888	$267,243
Applications Managed Electronically: Patents	96.7%	99.0%[6]	99.0%	99.0%	99.0%	99.0%	99.0%
Applications Managed Electronically: Trademarks	99.9%	99.0%	99.0%	99.0%	99.0%	99.0%	99.0%
IP Technical Activities Completed	59	82	84	84	84	84	84
USPTO Appropriation	**$1,508,392**	**$1,683,086**	**$1,842,966**	**$1,994,997**	**$2,159,901**	**$2,395,789**	**$2,635,068**

[1] The USPTO consolidated statement of financing, status of budgetary resources, reimbursable obligations incurred for year ending September 30, 2005.
[2] The quality goal target has been revised from the fiscal year 2006 President's Budget based on fiscal year 2005 performance results, resource requirements, and customer feedback.
[3] Fiscal year 2006 target revised and the long term pendency goal of 18 months will not be achieved in the near term because of (1) priority emphasis on quality initiatives, (2) actual application growth rates above those assumed for planning purposes and, (3) implementation delays and legislative requirements which had the effect of postponing competitive sourcing efforts.
[4] Total units of production were previously based on an "action point" standard. The standard was changed to "balanced disposals" with the implementation of a new performance appraisal plan in the second half of fiscal year 2005; units of production were revised based on the new standard. The production standard for examining attorneys has changed from action points to balanced disposals beginning in fiscal year 2006 with the implementation of a negotiated performance appraisal plan.
[5] The deficiency rate for assessing the quality of first and final office actions have been revised based on actual experience and expectations for improvement since the criteria for assessing the substantive decision making of examiner's action was first implemented in fiscal year 2004.
[6] This goal has been modified as it has been determined that a small percentage of documents, such as applications under security review, may not be managed electronically.

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Fiscal Year 2007 Budget Request

EXECUTIVE SUMMARY

The USPTO's fiscal year 2007 budget submission is for $1,843 million and represents a $160 million, or a 9.5 percent increase over the enacted fiscal year 2006 budget. This requirement will provide $1,641 million for completing over 349,100 first actions on patentability determinations and over 338,700 patent application disposals; and $202 million for completing 418,000 first actions on trademark applications and 326,100 office disposals. In addition, this budget submission applies funds towards the accomplishment of strategic and other initiatives associated with the performance goals contained in the USPTO *21st Century Strategic Plan* to transform the agency into a quality-focused, highly productive and responsive organization that supports a market-driven intellectual property system. Our strategic goals will enhance the agility, capability, and productivity of both primary business lines, as well as the expanded intellectual property protection and enforcement program. The corresponding fee income estimates for fiscal year 2007 are $1,641 million for Patents and $202 million for Trademarks and assume continuation of the fee levels based on the provisions of Title VIII in the Consolidated Appropriations Act, 2005 (P.L. 108-447).

The USPTO fiscal year 2007 budget request supports the Department of Commerce in its goal to foster science and technological leadership by protecting intellectual property. The growth proposed in this request is guided by the President's Management Agenda (PMA) strategy for improving the management and performance on five key Government-wide areas: strategic management of human capital, competitive sourcing, improved financial performance, expanded electronic government, and budget and performance integration.

Mission Statement

The mission of the USPTO is to ensure that the intellectual property system contributes to a strong national and global economy, encourages investment in innovation, and fosters entrepreneurship. This mission is accomplished by the USPTO through its two distinct business lines, Patents and Trademarks, which embodies Intellectual Property inventions or creations and aims to:

- Promote the progress of science and the useful arts by securing, for limited times to inventors, the exclusive rights to their respective discoveries (Article 1, Section 8 of the United States Constitution).
- Provide businesses with enhanced protection of trademark rights and notices of the trademark rights claimed by others, as well as protect consumers against confusion and deception in the marketplace.
- Build the infrastructure for innovation and lead the way in creating a quality-focused, highly productive, responsive organization that supports a market-driven Intellectual Property system for the 21st Century.

USPTO Strategic Plan

The USPTO is dedicated to the goal of *The 21st Century Strategic Plan* which is to transform the USPTO into a responsive and flexible agency capable of competing in a global, market-driven economy. The ambitious plan was first issued in June 2002. In response to stakeholder input, a revised plan was submitted as part of the USPTO's fiscal year 2004 budget request, including legislative changes to USPTO's patent and trademark fee schedules. The plan was internally adjusted in fiscal years 2003 and 2004 to revise planned accomplishments to align with enacted funded levels. In December 2004, with the passage of the Consolidated Appropriations Act, 2005 (P.L. 108-447), the proposed fee changes were enacted for two fiscal years and the USPTO received full access to its projected fee income for 2005, which allowed the USPTO to move forward with many of the initiatives contained in *The 21st Century*

Strategic Plan. Since it's conception, the USPTO has been anticipating an improvement in the economy and has been planning for increased workloads. Over the last two years, however, the overall direction of the U.S. economy and the global economy, in general, has been more positive than anticipated. The USPTO has experienced even higher than projected growth in patent and trademark applications in fiscal years 2004 and 2005. *The 21st Century Strategic Plan* has laid the foundation to facilitate improvements in Patent and Trademark quality and address increases in pendency due to the growing complexity of applications and increasing workloads. The USPTO will continue to explore all opportunities available to optimize Patent and Trademark quality and processing time, including working with our Intellectual Property (IP) partners on worksharing initiatives, expanding and training our examination staff and focusing them on the core examination functions, and working with our customers and stakeholders on changes to our processes which will aid the USPTO in meeting the workload challenges it faces. Additionally, the USPTO is focused on increasing the number of applications and communications received and processed electronically and other e-government initiatives. Strengthening worldwide protection and enforcement of intellectual property is also a priority of the USPTO and many initiatives address this effort. Achievement of the USPTO's outyear goals is dependent upon permanent authorization of the revised fee schedule that was set forth in the Consolidated Appropriations Act, 2005.

The continued challenges of forecasting economic change and volatility in demand for products and services present the USPTO with ambitious transformation opportunities to leverage innovative solutions that are geared toward making the organization a value-creating, customer-focused partner in business results.

President's Management Agenda

The USPTO is committed to the objectives of the PMA. This is evidenced by the progress we have made in improving the strategic management of human capital, competitive sourcing, improved financial performance, expanded e-government, and budget and performance integration. One such notable progress is the competitive sourcing plan for searches done in cases filed pursuant to the Patent Cooperation Treaty (PCT). At the end of fiscal year 2005, the USPTO began to competitively source PCT searches. This will serve as a pilot for the competitive sourcing of U.S. application searches. Additionally, the USPTO continues to enhance our electronic business center which is available at the USPTO web site www.uspto.gov, and provides consumers with online services for fee payment, obtaining historical patent and trademark information, filing applications and correspondence for pending applications and maintaining patents and registered marks, viewing patent and trademark documents, and locating registered patent attorneys or agents. The USPTO's web site has received recognition for its design, content, services offered, help features, navigation, site legitimacy, and accessibility.

By design, our annual performance plan is linked to our fiscal year 2007 budget submission and reflects the priorities of the Under Secretary and goals contained in *The 21st Century Strategic Plan.* The annual budget request is a consequence of USPTO managers integrating their funding requirements to the plan, which contain measurable objectives and milestones for each business goal. The annual integrated budget/performance plan is the most effective and efficient way of establishing accountability by making sure that performance measures are consistent with the views of the Administration and the Congress. The USPTO utilizes the Program Assessment Rating Tool (PART), and other assessment evaluations and modeling techniques to effectively enhance delivery of services and achieve improved program results. The agency routinely monitors program performance targets to ensure achievement of actual results to performance goals. Organizational goals and crosscutting performance measures are also included in senior executive members' performance appraisal plans to ensure alignment with agency mission, goals, and strategic objectives.

The Economy and USPTO Workloads

USPTO workloads are dependent upon many factors, including economic activity in the U.S. and around the world. In addition to the normal difficulties associated with determining business cycle turning points, the economic outlook over the last few years has been extremely uncertain because of worldwide security concerns. Today, while many of the national security uncertainties remain, the overall direction of the U.S. economy and the global economy, in general, is positive. With the world and especially the U.S. economy improving, the workload outlook for the USPTO is also positive. Based on this outlook, the projected demand for patents and trademarks is expected to continue to grow.

Economic Assumptions

In projecting future workloads, the USPTO considers a number of factors, prominently including the overall condition of the global and U.S. economies and the state of research and development within the United States. Such projections are always uncertain, with national security concerns and record petroleum prices the Assumptions sources of uncertainty in the current projection.

U.S. Economy

U.S. economic activity has continued to expand since the recession of 2001 and the general expectation is that the U.S. economy will continue to grow in 2006 and remain strong at least over the next one to two years. As compared to this time last year, forecasts of the U.S. economy from the Congressional Budget Office (CBO) have been revised downward slightly for near-term GDP growth and slightly upward for mid-term GDP growth.[7] CBO is currently optimistic, envisioning recent rapid growth moderating only to a small extent through 2007.

Corporate profits and equity markets have recovered from the recent downturn and unemployment levels have improved, although employment gains have been below expectations to some extent. The prognosis for both consumer spending and business investment is good. Moreover, from the USPTO's prospective, it is important to note that continuing healthy economic growth over the next two years will be led by business investment spending, which will undoubtedly be further reflected in continued growth in patent and trademark filings.

For the remainder of fiscal year 2006, U.S. real GDP growth is expected to be near 3.4 percent. According to the CBO and private forecasters, such as those represented in the Blue Chip survey, fiscal years 2006 and 2007 growth is expected to be above 3.0 percent, absent significant external shocks resulting from terrorist activity in the U.S. or abroad, or from record high petroleum prices. Based on the probable overall economic growth path alone, the USPTO should experience steady demand for patents and trademark filings through fiscal year 2007. There is little evidence thus far, however, that points to a resumption of the extremely high rates of workload growth that the USPTO experienced in the late 1990s.

Research and Development

Another key factor influencing the direction of USPTO workload is R&D expenditures, which is a useful leading indicator of patent application filings. The latest revised figures available from the National Science Foundation (NSF) show that total U.S. R&D expenditures increased by $7.4 billion to $283.8 billion in 2003. About two-thirds of this total was funded by private industry. When the figures are adjusted for inflation, U.S. R&D expenditures are estimated to have increased by only about one-tenth of a percent in 2003.

Annual growth rates of U.S. R&D expenditures are estimated to have improved since 2003. According to the Battelle-R&D Magazine annual funding forecast, U.S. R&D expenditures were estimated to have reached about $301.5 billion in 2004 or about 6.2 percent higher than the 2003 level. For 2005, R&D expenditure growth is expected to be about 3.5 percent higher than the 2004 level. Historically, the USPTO has found R&D expenditures impact its patent filings workload approximately one year later.

Global Economy

Since intellectual property protection is a world-wide concern, the global economy is an important component of the USPTO's workload outlook. Approximately 45.0 percent of patent application filings and about 19.0 percent of trademark application filings originate in foreign countries.

[7] CBO develops a domestic forecast twice a year and presents it formally in testimony before Congress, making it both timely and authoritative. The current forecast is as of August 15, 2005. In particular, it can be viewed as an official update of the forecasts appearing in the Economic Report of the President.

Global economic growth has been strong in recent years, with world output increasing 4.0 percent in 2003 and 5.1 percent in 2004. For calendar year 2005, the current growth rate estimate is 4.3 percent. The outlook remains positive, but economic growth will likely decelerate in the future and return to a more sustainable rate of expansion that reflects higher oil prices. According to the International Monetary Fund, world output is expected to increase at a 4.3 percent rate in 2006. Continued global economic growth would suggest that patent and trademark filings from overseas are also likely to continue to increase through 2006 and 2007.

Economic Outlook Summary

Economic activity in the U.S. remains strong and many economists are expecting the outlook to remain positive in the near future. With the global economy, and especially with the U.S. economy continuing to expand, the workload outlook for the USPTO remains positive despite some risks, such as rising oil prices, which could negatively impact the future.

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Fiscal Year 2007 Budget Request By Business Line

The USPTO operates as a performance-based organization based on two mission driven business operations — Patents and Trademarks. The budget presentation takes into account full program costs in order to illustrate a clear link to Patent and Trademark performance goals and targets. The performance plan (performance budget) is organized according to Federal Accounting Standards Advisory Board's (FASAB) managerial cost accounting standards Statement of Federal Financial Accounting Standards (SFFAS) No. 4. Under this cost accounting concept, the tables on pages 11 and 15 depict total budget estimates including (a) direct traceable costs, (b) assigned costs on a cause-and-effect basis and, (c) allocated costs on a consistent and reliable basis that help to establish key Patent and Trademark operational and policy requirements. Direct costs are shown as principle functions of the examination pipeline and indirect costs correspond with other contributing resources.

PATENT BUSINESS

Patents — The core mission of the Patent Organization is to examine applications and grant valid patents in accordance with the law. This is accomplished by comparing the claimed subject matter of an inventor's application for a patent to a large body of existing technological information to determine whether or not the claimed invention is new, useful, and non-obvious to someone knowledgeable in that subject matter. In the course of examining patent applications, examiners make determinations on patentability, prepare answers to briefs in appeals contesting actions rejecting an application, make holdings of abandonments, recommend institution of interference proceedings to determine priority of invention, and act on other post-examination issues in accordance with the provisions of 35 U.S.C. and 37 C.F.R.

The examination of patent applications consists of several distinct, but interrelated functions, which are described below. Workloads, together with the strategic initiatives, drive all increases in budget estimates for fiscal year 2007.

- ***Initial Examination — $34.000 million***: This function includes the administrative review of all applications filed (including those filed under the Patent Cooperation Treaty) before delivery to the Patent Examining Corps for examination. In this phase, the review is for compliance with requirements of form and content; determination of the adequacy and acceptability of statutory fees; conversion to the Image File Wrapper (IFW), except if filed electronically, for electronic processing of all documents and orders; assignment of the official filing date and application tracking number; and inputting of patent bibliographic data in the Patent Application Location Monitoring (PALM) system.
- ***Examination — $758.724 million:*** In this phase, examiners compare the application's subject matter to a large body of technological information to determine the patentability of a claimed invention, whether or not the invention is new, useful, non-obvious, adequately described or enabled, and claimed in clear and definite terms to individuals knowledgeable in that subject matter. The fiscal year 2007 cost of examination includes a net increase of 530 in examining staff over fiscal year 2006 staffing levels.
- ***Scientific, Technical, and Classification Services — $45.418 million:*** The patent scientific, technical and classification services are an integral part of the patent examination process. These functions are required to maintain a patent classification system by subject matter and to provide

electronic access to all U.S. and foreign patents and related technical literature used for searching. The current examiner search files contain more than 8.4 million U.S. patent documents and 23.0 million foreign patent documents. Examiners also have access to over one thousand commercial databases containing non-patent technical literature documents.

- ***Pre-Grant Publication and Patent Issuance — $102.189 million:*** Pre-grant publication is the process of publishing those applications that are subject to publication 18 months after the earliest effective filing date. The patent issuance function occurs after examiners have allowed applications and includes tasks associated with the preparation for issue and printing of patents and publication of a weekly edition of the electronic *Official Gazette* for dissemination to the public. Also included in the cost of this phase is the printing of reexamination certificates, Statutory Invention Registrations and new effort for searchable database for non-published applications.
- ***Patent Appeals and Interferences — $16.418 million:*** This phase includes post-examination hearing and deciding appeals from examiner adverse decisions concerning patent applications, and conducting interference proceedings to make final determinations as to questions of priority of invention.
- ***Operations, Including Systems Maintenance and Automation Support — $75.911 million:*** Outside of the above patent examination process components, direct support of patent operations includes costs related to patent executive and policy leadership, quality review and training functions. These estimates also include the costs of maintaining all automated information systems that directly support the patent process. As part of this function, patent automation personnel serve as business process experts in working with the Chief Information Officer (CIO) organization to implement information technology systems and to procure and deploy related hardware and software in support of the Patent Business.
- ***Strategic Initiatives — $139.424 million:*** The strategic initiatives supporting the Patent Business include all of the initiatives discussed under Goal 1 — Improve quality of patent products and services and optimize patent processing time. Additionally, the initiatives discussed under Goal 3 that directly support the Patent Business are also captured here.
- ***Other Contributing Resources*** (assigned in direct costs of support functions and miscellaneous general expenses) — ***$468.337 million:*** These costs represent the patent share of agency-wide strategic initiatives such as the share of IT Security and other indirect costs such as rent, utilities, program administration, internal operations and infrastructure that support the entire Agency. The USPTO utilizes an activity-based costing methodology that provides greater transparency to the program's operational performance in identifying various factors that drive program costs.

Dollars in Thousands

Patents Operations— Resource Requirements are Driven by Incoming Workloads and Targeted Outputs	**FY 2005** *Actual*	**FY 2006** *Enacted*	**FY 2007** *Budget*
• Initial Examination	$30,674	$31,269	$34,000
• Examination	$569,497	$651,849	$758,724
• Scientific, Technical and Classification Services	$41,908	$43,432	$45,418
• Pre-Grant Publication and Patent Issuance	$98,434	$101,062	$102,189
• Patent Appeals and Interferences	$13,683	$15,389	$16,418
Operations, Including Systems Maintenance and Automation Support	$71,724	$71,289	$75,911
Strategic Initiatives	$65,715	$136,345	$139,424
TOTAL DIRECT	**$891,635**	**$1,050,635**	**$1,172,084**
Other Contributing Resources (Indirect Costs for Support Functions)	$427,381	$443.039	$468,337
GRAND TOTAL	**$1,319,016**	**$1,493,674**	**$1,640,421**
FTEs	6,020	6,996	7,582
KEY PERFORMANCE RESULTS			
Efficiency	$3,877	$4,214	$4,196
Examiners On-Board at End-of-Year	4,177	4,705	5,235
Utility, Plant, and Reissue (UPR) Disposals	279,345	307,200	338,700
UPR First Actions	297,287	316,600	349,100
Pendency to First Action (Months)	**21.1**	**22.0**	**23.0**
Total Pendency (Months)	**29.1**	**31.3**	**32.0**

Planned Performance Results

In fiscal year 2007 the Patent business will:

- Receive 444,000 new UPR applications;
- Complete 349,100 first actions on the merits to achieve a first action pendency of 23.0 months; this production target is 10.3 percent more than the 316,600 first actions planned for fiscal year 2006; and
- Dispose of over 338,700 cases to achieve a total pendency of 32.0 months; and issue and print over 181,200 patents; this target is 13.3 percent more than the 160,000 projected for fiscal year 2006.

Critical Events

- Increase the capacity of the patent examining corps by hiring 1,000 new patent examiners. To support the training and inclusion of this large number of new hires, Patents will establish a new training program, the USPTO Patent Training Academy, and will graduate new hire examiners with the ability to work with reduced oversight thereby reducing the training burden faced by the Supervisory Patent Examiners (SPE). New examiners will be hired in incoming classes of approximately 128 new hires who will remain in the training environment for approximately 8 months. Courses will be a combination of large lectures and small "labs" with groups of approximately 16 who will work in a similar (or same) technology environment.
- Implement retention incentives to retain a highly qualified and productive workforce and continue an enhanced performance-based award package for SPEs and managers. Efforts are underway to ensure that all internal and external factors that influence the retention of examiners are identified and assessed. Programs will be established to reward examiners throughout their career and additionally ensure that the best-qualified examiners seek supervisory positions by providing the potential to be rewarded at the same level as examiners.
- Increase participation in telework by implementing a patent hoteling program that will also allow for the expansion of the patent examining corps without incurring additional office space costs.
- Continue an enhanced performance-based award package for SPEs and managers.
- Collaborate with other Intellectual Property partners to maximize work-sharing opportunities and competitively source the search function, to allow the USPTO to generate gains in examiner resources by focusing examiners on making patentability determinations rather than spending substantial amounts of time on searching.
- Continue the deployment of the Patent File Wrapper (PFW) functionality including the new text and image file repository, the new automated workflow, redesigned scanning operations, and expanded electronic filing and correspondence providing a more comprehensive and productive set of integrated information technology (IT) tools to accomplish end-to-end electronic application processing.

TRADEMARKS

Trademarks — The core mission of the Trademark Organization is to register marks that meet the requirements of the Trademark Act of 1946, as amended, and provide notice to the public and businesses of the trademark rights claimed in the pending applications and existing registrations of others. With such notice, readily available at www.uspto.gov, a business can make an informed decision when it wishes to adopt a new mark or expand the goods or services marketed under an existing mark. Federal registration provides enhanced protection for the owner's investment in the mark and in the goods and services sold under the registered mark.

The core process within the Trademark Organization is the examination of applications for trademark registration. As part of that examination, examining attorneys must make determinations of registrability under the provisions of the Trademark Act of 1946, as amended, including searching the electronic databases for any pending or registered marks that are confusingly similar to the mark in a subject application, preparing letters informing applicants of the attorney's findings, approving applications to be published for opposition, and examining Statements of Use in applications filed under the Intent-to-Use provisions of the Trademark Act.

The examination of trademark applications consists of several distinct functions, which are:

- ***Initial Examination — $6.697 million:*** When an application for trademark registration is received it is reviewed for adherence to filing requirements. If basic filing requirements are met, the application is classified and data is transferred into trademark automated systems. Trademark automated systems are the source for application data that is used in the processing and examination of trademarks. The automated system also provides information available to the public through the USPTO web site. Initial examination also encompasses the processing of applications filed under the Madrid Protocol.
- ***Examination — $61.769 million:*** In this phase of the process, examining attorneys determine if the mark in the application is entitled to registration under the provisions of the Trademark Act of 1946, as amended. As part of the examination process, examining attorneys evaluate many types of marks, such as trademarks, service marks, certification marks, collective marks, and membership marks. Examining attorneys must search a database of about 1,200,000 registered marks and more than 500,000 pending marks in order to determine if a mark in the subject application is confusingly similar to an existing mark.
- ***Publication and Registration — $3.719 million:*** This phase includes the publication of applications for opposition or notice that the mark has been approved, the registration of allowed applications that have demonstrated use, and the processing of allowed intent-to-use applications awaiting statements of use.
- ***Post Registration — $3.338 million:*** Between the fifth and the sixth year after registration and at ten year intervals after registration or renewal, the registrant must file an affidavit and proof that the mark shown in the registration is being used in commerce, or that grounds for excusable non-use exists. Failure to file the required affidavit and proof of use results in cancellation of the registration. These requirements serve to remove trademarks from the register when the mark is no longer in use.
- ***Appeals and Inter Partes Proceedings — $9.908 million:*** This phase includes review, at applicant request, of adverse registrability determinations, opposition hearings where an existing trademark holder believes that an allowed application may be confusingly similar, and other proceedings involving registrations where a third party wishes to challenge the validity of a registration.

- *Operations, Including Systems and Automation Support — $19.944 million:* Outside of the above trademark examination process components, direct support of trademark operations includes costs related to trademark executive and policy leadership, customer assistance, quality review and training functions. These estimates also include the costs of maintaining all automated information systems that directly support the trademark process. Dedicated trademark support personnel serve as business process experts in working with the CIO organization to implement information technology systems and to procure and deploy related hardware and software in support of trademark operations.
- *Strategic Initiatives — $9.864 million:* These are the costs of those strategic initiatives that are discussed under Goal 3, that directly support the Trademark Business.
- *Other Contributing Resources* (indirect costs for support functions that are reasonably allocated to programs and activities on a prorated basis using a consistent cost allocation methodology) — *$87.306 million:* These costs represent the trademark share of agency-wide strategic initiatives such as the share of IT Security and other indirect costs such as rent, utilities, program administration, internal operations and infrastructure that support the entire Agency. The USPTO utilizes an activity-based costing methodology that provides greater transparency to the program's operational performance in identifying various factors that drive program costs.

Dollars in Thousands

Trademarks	**FY 2005**	**FY 2006**	**FY 2007**
Operations — Resource Requirements are Driven by Incoming Workloads and Targeted Outputs	*Actual*	*Enacted*	*Budget*
• Initial Examination	$10,734	$7,520	$6,697
• Examination	$57,993	$57,657	$61,769
• Publication and Registration	$2,217	$2,889	$3,719
• Post Registration	$2,399	$3,163	$3,338
• Appeals and Inter Partes Proceedings	$8,408	$8,835	$9,908
Operations, Including Systems and Automation Support	$20,777	$20,872	$19,944
Strategic Initiatives	$9,484	$10,101	$9,864
TOTAL DIRECT	**$112,012**	**$111,037**	**$115,239**
Other Contributing Resources (Indirect Costs for Support Functions)	$77,364	$78,375	$87,306
GRAND TOTAL	**$189,376**	**$189,412**	**$202,545**
FTEs	**805**	**879**	**975**
KEY PERFORMANCE RESULTS			
Efficiency	$677	$635	$621
Examining Attorney FTE on production at End-of-Year	357	359	414
Total Office Disposals	252,275	298,100	326,100
Total First Actions	317,757	371,600	418,000
Pendency to First Action (Months)	**6.3**	**5.3**	**3.7**
Total Pendency (Months)	**19.6**	**18.8**	**17.3**

Planned Performance Results

In fiscal year 2007 the Trademark business will:

- Receive 376,000 new applications for registration;
- Complete 418,000 first actions to achieve a first action pendency of 3.7 months; this production target is about 12.5 percent more than the 371,600 first actions planned for fiscal year 2006;
- Complete 787,200 balanced disposals[8]; this production target is 11.4 percent more than the 706,900 balanced disposals planned for fiscal year 2006; and
- Complete 326,100 office disposals to achieve a total pendency of 17.3 months; this production target is 9.4 percent more than the 298,100 disposals planned for fiscal year 2006.

Critical Events

- Expand the Trademark Work-at-Home program to 280 participants;
- Continue to complete the transition to a fully electronic workflow, and;
- Implement *The 21st Century Strategic Plan* initiative for non-attorney examination of statements of use.

[8] All of the following count as one balanced disposal per class: First action, Approval for publication and allowance on the Principal or Supplemental Register, and Abandonment (initial examination). Examiners have the potential to earn up to 2 balanced disposals per class. The production standard was changed from action points to balanced disposals with the implementation of a negotiated performance appraisal plan in 2005.

SUMMARY OF ACCOMPLISHMENTS AND FUTURE CHALLENGES

Strengthening Intellectual Property Protection Worldwide

During the course of fiscal year 2005, strengthening intellectual property protection and enforcement continued to be one of the main themes of USPTO efforts worldwide. Officials from the USPTO continue to discuss ways of enhancing protection for copyrights, geographical indications, patents, trademarks, trade secrets and other forms of intellectual property in China, Brazil, Paraguay, Mexico, Eastern Europe, the Republic of Korea, the Philippines, and many other countries, and for the countries in which the United States is negotiating or has negotiated Free Trade Agreements (Morocco, Bahrain, the Central American countries, Australia, Panama, the Andean countries, Thailand, the Southern Africa Customs Union, Chile, Jordan, and Singapore).

In fiscal year 2005, the USPTO expanded its intellectual property protection and enforcement program based on the provisions in the Consolidated Appropriations Act, 2005 (P.L. 108-447) to include training assistance programs, special work assignments aimed at enhancing technical assistance, a public awareness campaign, and studies on key intellectual property issues.

Electronic Government

The USPTO has made significant progress in maximizing electronic tools to make the patent and trademark examination process fully transparent and accessible to the public. Anyone with Internet access anywhere in the world can use the USPTO web site to track the status of, and review documents in, published patent applications through Public Patent Application and Information Retrieval (PAIR), and the full contents of all pending trademark application files through the Trademark Document Retrieval (TDR) system, including all decisions made by the examiners and their reasons for making them.

Patent applications become eligible for publication 18 months after the earliest effective filing date and trademark applications are added as they are filed. The USPTO projects that about 343,900 new published patent application files and 376,000 trademark applications will become available to the public in 2007. The E-Patent Reference system is available to applicants to access U.S. references referred to in examiners' office actions for patent documents that are not yet available to the public, eliminating the need for mailing paper copies of U.S. patents and published application references to applicants.

The Patent Organization has eliminated the movement of paper patent applications by creating an electronic image of patent applications filed since June 30, 2003, and pending applications filed before that date. The IFW system is used by all patent examiners, technical support staff, and other adjunct users. Full implementation of the USPTO's "Electronic Patent Processing Pipeline" is based on a two-phased approach. The first phase was an image-based solution, achieved through the IFW system. The second phase is a text-based process that will allow the USPTO to provide more automation of manual processes and will improve accuracy and reliability. In order to increase the number of electronically filed patent applications, the USPTO will move to PDF as an alternative to the earlier XML solution. Development of the second phase began in fiscal year 2006.

The USPTO established more options for filing for trademark registration, consistent with *The 21st Century Strategic Plan*, to create financial and market-based incentives and encourage greater participation in the U.S. trademark system. Trademark owners can now select the option that best meets their needs – with higher fees for filing on paper, and lower fees for filing electronically. Changes in the fee structure and system improvements have lead to an increase in the number of applications that are filed through the award-winning Trademark Electronic Application System (TEAS). More than 90.0 percent of applications for registration are now filed electronically, making it easier than ever to file for Federal registration. Electronic communications make it possible to conduct a preliminary search prior to filing an application, determine the status of pending and registered trademarks, respond to office actions, access general

information on marks published, registered and renewed, file initial applications and maintain a registered mark through the USPTO website. The USPTO has continued to enhance the system and expand the number and type of transactions that can be completed on-line. 26 TEAS forms are available and provide the means to handle most trademark transactions electronically.

The award-winning Trademark Work-at-Home program was expanded to include 69.0 percent of eligible examiners by the end of fiscal year 2005. In all, 220 employees are working nearly exclusively from home due to the success of this program with the number projected to increase to 280 by fiscal year 2007. The program has demonstrated a number of benefits including retention of experienced employees and has allowed the USPTO to expand its examining corps to address filing increases without incurring additional costs for office space.

The USPTO has made significant progress in achieving its long-term goal to create an e-government operation and now relies exclusively on trademark data and images submitted through electronic forms or captured from paper documents to support examination, publish documents, and issue trademark registrations. All trademark examination is conducted directly from electronic records. Examiners access applications for examination, take subsequent actions and transactions, and manage their individual case dockets from electronic records and systems. A complete electronic records database covering all trademark applications, including on-going correspondence, has been created by capturing the text and image of approximately 500,000 pending paper files and documents. The USPTO is well on its way to completing the integration of existing automated systems with an electronic file management system that will eliminate manual paper based processes altogether.

The Trademark Trial and Appeal Board (TTAB) now operates with a completely electronic workflow system, permits electronic filing of all documents, and makes available on the USPTO web site image copies of all its proceeding files.

As a result of the tremendous efforts made by the USPTO in e-government, the Winter Corporation recognized our Oracle database for electronic patent processing as one of the largest transactional databases in the world. The database consists of patent records and images that support the electronic processing of patent applications. The database is growing at the rate of over one terabyte every two months and is approaching 20 terabytes in size. This database automatically replicates every transaction for backup and protection.

Quality Enhancements

The USPTO is committed to improving the quality of its products and services by continuing to implement the initiatives set forth in *The 21st Century Strategic Plan.* In the patent examining corps, an enhanced Quality Assurance Program has been implemented that includes end product reviews, in-process reviews and enhanced "second pair of eyes" reviews. The feedback from these reviews is used to identify and develop training modules and other quality enhancements. Additionally, to ensure that primary patent examiners maintain the knowledge, skills, and abilities (KSAs) necessary to perform a high quality examination, primary examiners are evaluated and re-certified every three years. This program includes mandatory continuing education courses with quizzes and expanded work product reviews. Also, a certification program was implemented to ensure that junior examiners have the required KSAs prior to promotion to the level where they are given legal and negotiation authority. This program includes a "Patent Law and Evidence" course and requires passing a certification examination before promotion to the GS-13 level. Programs that aim to monitor and improve the quality of work performed by the technical support staff and the quality of the examination of international applications filed under the Patent Cooperation Treaty (PCT) have also been developed.

The USPTO has instituted new measures and criteria to create a more comprehensive and meaningful review of what constitutes quality of trademark examination. The results of an examiner's first and final

office action are reviewed for the quality of the substantive basis for decision making, search strategy, evidence, and writing. Based on the data collected from those reviews, the Office has targeted both electronic and traditional training initiatives addressing specific problem areas. In addition, this program provides prompt feedback to examining attorneys when their work products are reviewed. Specific comments on any work product, which is either "excellent" or "deficient," are sent to the appropriate examining attorney and supervisor. As a result, training takes place both on the micro level, with specific feedback, as well as on the macro level, with training modules that address trends, targeting topics that warrant improvement. Examiners are required to take a series of self-paced e-learning tutorials, as part of the USPTO's commitment to improve quality of examination and ensure that all examiners possess the KSAs necessary to perform their jobs. The Office has developed a schedule to implement new e-learning modules throughout the year based on topics that are identified through quality review evaluations.

Growth in Application Filings

The number of patent and trademark applications that were filed increased during fiscal year 2005 from the previous year at an average growth rate of 8.0 percent each. In the near future, patent and trademark applications are expected to continue to increase at this growth rate, with a slight decrease in the outyears The continued growth in patent application filings has been further magnified by an overall increase in the technological complexity of patent applications, which together make pendency improvements challenging and complicated. More applications, both in numbers and as a percentage of overall filings, seek patent protection in technology areas that are more complex, and the time spent on complex technology applications is almost double that required for traditional applications.

MANAGEMENT PRIORITIES

- ***Shift in Complexity of Filings /Growing Backlog of Applications / Sustained Emphasis on Quality***— Technology has become increasingly complex, and demands from the public for higher quality products and services have grown in importance. In order to meet customer needs, USPTO is continuing to address the challenges of rising workloads and the shift of applications from traditional arts to more complex technologies by hiring additional examiners and exploring process changes to reduce the amount of examination resources required. Quality is the most important component of *The 21st Century Strategic Plan.* The USPTO has in place several quality initiatives including an enhanced Quality Assurance Program for end product reviews, in-process reviews, and enhanced "second pair of eyes" reviews. Additionally, to ensure that our primary patent examiners maintain the KSAs necessary to perform a high quality examination, the USPTO implemented a recertification program, with primary examiners being recertified once every three years. Quality will be assured throughout the process by striving to identify the people most likely to become the best patent examiners, certifying their knowledge and competencies throughout their careers, and focusing on quality throughout the patent examination process.
- ***Sustained Funding Stream***— Permanent enactment of the fee changes made with the Consolidated Appropriations Act, 2005 is necessary to provide a stable and predictable funding stream for the agency. In the U.S., demands for products and services have created substantial workload challenges in the processing of patents. The Congress, the owners of intellectual property, the patent bar, and the public-at-large have all told the Department of Commerce that it must address these challenges aggressively and promptly. Permanent enactment of these fee changes and continued implementation of *The 21st Century Strategic Plan* initiatives and timeframes will address many of the challenges.
- ***Electronic Workplace*** — The USPTO's Patent and Trademark operations are rapidly moving to eliminate paper documents from their processes. Electronic communications will continue to be improved, encouraging more applicants to do business electronically with the delivery of web-based text and image systems. Patent and Trademark operations have made significant progress in achieving the long-term goal to create an e-government operation, and Trademarks now relies exclusively on trademark data submitted or captured electronically to support examination, publish documents, and print registrations.
- ***Multilateral and Bilateral Agreements*** — Under *The 21st Century Strategic Plan*, the USPTO continues to work with its intellectual property (IP) partners to improve the efficiency of our processing systems. To streamline the IP system and protections, the USPTO must consult with, and receive the support of, other IP offices in structuring new bilateral and multilateral initiatives and agreements. Reaching bilateral and multilateral agreements will require all sides to openly communicate and strive toward a more global convergence of patent and trademark standards.

COMMITMENT TO THE PRESIDENT'S MANAGEMENT AGENDA

The USPTO is committed to the implementation of the PMA. This is evidenced by the progress made in improving the strategic management of human capital, competitive sourcing, improved financial performance, expanded electronic government, and budget and performance integration.

- ***Strategic Management of Human Capital:*** *The 21st Century Strategic Plan*, together with the *USPTO Strategic Workforce/Restructuring Plan* lay out an explicit workforce planning strategy that is linked to the Agency's strategic and program planning efforts. The Agency has projected its current and future human capital needs, including the size of the workforce and its deployment across the organization, and has identified key competencies needed to fulfill the agency's mission and strategic goals. *The 21st Century Strategic Plan* and the *USPTO Strategic Workforce/Restructuring Plan* demonstrate that the USPTO is focused on building competencies in response to customer demands for enhanced quality. The USPTO also is leveraging competitive sourcing and e-government to better manage time devoted to examination of patent and trademark applications. The Office has become a recognized leader in Federal Government telework programs, and was the recipient of the 2004 Telework in the Federal Government Leadership Award for leadership in enterprise-wide telework programs. As a consequence of this recognized success, other Federal agencies have sought our assistance in establishing their own telework programs. *The 21st Century Strategic Plan* also views workforce planning from an international perspective, and incorporates how work sharing among IP offices can have an impact on USPTO's human capital planning and management. In addition, the USPTO's current organizational structure supports decision-making at the lowest appropriate level.

- ***Competitive Sourcing:*** The USPTO is committed to achieving performance enhancements and cost-savings through competitive sourcing. In recent years, we have competitively sourced many functions, such as payroll, mail processing/handling, clerical support, data transcription, systems maintenance and development, help desk support, etc. In particular, service contracts have presented an excellent opportunity to help us deal with fluctuating workloads and to minimize the impact on our employees as the Office transitions to a fully electronic workplace. Currently, approximately 35.0 percent of the USPTO's total workforce consists of contract personnel working either onsite or offsite at contractor facilities. *The 21st Century Strategic Plan* offers new approaches for performing work that is currently accomplished by Federal employees. While preserving the inherently governmental responsibility for examination, the USPTO is committed to increasing total patent examiner output by competitively sourcing prior art searches. At the end of fiscal year 2005, the USPTO began to competitively source Patent Cooperation Treaty searches. This will serve as a pilot for the competitive sourcing of U.S. patent application searches. In fiscal year 2006, a Request for Proposal was issued for reclassification functions. Reclassification of existing classification schemes serves to improve quality of examination by updating the existing schedules to reflect emerging technology and growth, as well as harmonizing with international systems. Additionally, the USPTO has completed two competitions for commercial activities in accordance with OMB Circular A-76, Performance of Commercial Activities. A streamlined A-76 competition for the Pre-Grant Publication Classification requirements resulted in a private sector performance decision. Based on that decision, a Request For Proposal for the private sector competition was released in the first quarter of fiscal year 2006.

  The USPTO also made strides in performance-based services acquisition and, as a result, was awarded the government-wide FY 2004 Excellence in Performance-Based Services Acquisition Award sponsored by the General Services Administration and the Performance Institute.

- ***Improved Financial Performance:*** The USPTO is in compliance with all Federal accounting principles and standards and has encountered no instances of material weaknesses in internal controls

or non-compliance with Federal accounting regulations. We will continue to maintain and strengthen our internal controls and improve the timeliness and usefulness of our financial management information. For fiscal year 2005, the USPTO met all quarterly financial reporting requirements instituted by OMB and the Treasury and accelerated the fiscal year 2004 annual reporting requirement. Again, the USPTO sustained its clean audit opinion with fiscal year 2005 marking the thirteenth consecutive unqualified audit opinion and the ninth consecutive year with no material weaknesses. The USPTO has a certified and accredited, fully integrated financial management system that routinely produces timely information and uses a data warehouse to accommodate both financial and operational data. The data warehouse is used by managers for analyzing financial results and performance and by SPEs for managing patent processing timeframes. The USPTO also operates a mature Activity Based Cost (ABC) Accounting system that captures costs of core mission activities and both direct and indirect costs for the entire agency. Managers use data from the ABC system to analyze the cost of operations when making decisions regarding improving processes, setting fees, or allocating budgetary resources. Additionally, the USPTO met its fiscal year 2004 financial performance measurement goals. Finally, for the third year in a row, the Association of Government Accountants awarded USPTO the prestigious Certificate of Excellence in Accountability Reporting for the agency's fiscal year 2004 Performance and Accountability Report.

- ***Expanded E-Government:*** USPTO is accelerating deployment of critical automated information systems, particularly the electronic end-to-end processing of patent and trademark applications. In addition, the USPTO is currently working on ways to improve delivery schedules, reliability, performance, security and monitoring the cost of its automated information systems. USPTO continues to work towards the completion of the Trademark Information System (TIS), the file management system that will create a fully electronic workflow system to manage all transactions throughout the examination, petition and post registration process.

  USPTO met its target to deliver an electronic operating process for patent applications by completing the image-based IFW system, which was developed in conjunction with the EPO's image-based system. This collaboration will help to achieve common goals and share systems already in use or in development. The system implemented in 2004 creates an image-based patent file wrapper system that includes an electronic image of all incoming and outgoing paper documents. The next phase of the patent e-government strategy will be to shift to a text-based system.

  USPTO seeks to choose IT projects that best support its mission and comply with its enterprise architecture. Individual projects are evaluated in the broader context of technical alignment with other IT systems as well as the investment's impact on the USPTO IT portfolio's performance, as measured by cost, benefit, and risk. As part of the Capital Planning and Investment Control (CPIC) process, USPTO prioritizes each investment and decides which projects will be funded in subsequent fiscal years. Once selected, each project is managed and monitored consistently throughout its life cycle. At key milestone dates, progress reviews are conducted to compare the project's status to planned benefit, cost, schedule, and technical efficiency and effectiveness measures. All major IT system investments are included in the fiscal year 2007 Exhibit 53.

- ***Budget and Performance Integration:*** Since 1999, the USPTO has developed an annual corporate plan that links the annual performance plan and budget request such that resource requirements for continuing programs and new initiatives are aligned with outputs and performance goals. Subsequently, in June 2002, the USPTO introduced *The 21st Century Strategic Plan* and an updated version of the plan in February 2003 in order to address issues raised by intellectual property stakeholders. *The 21st Century Strategic Plan* is a multi-year plan that identifies critical tasks designed to provide the USPTO and external stakeholders with a long-term vision of agency goals, potential funding levels, and planned outcomes. Following development of the Plan, USPTO has refined its

budget formulation process for better integration of budgetary resources with both enterprise-wide strategic goals and individual unit performance targets.

The USPTO made interim adjustments to *The 21st Century Strategic Plan* originally issued June 2002. These interim adjustments are provided as an addendum to the fiscal year 2007 Budget Request. Additionally, the USPTO will formally update *The 21st Century Strategic Plan* during fiscal year 2006 in concert with the development of the fiscal year 2008 budget cycle.

THE USPTO 21ST CENTURY STRATEGIC PLAN

This budget request provides an inclusive perspective by deciding on and identifying critical Patent and Trademark requirements, challenges, approaches and initiatives along with corresponding proposed legislation necessary for successful multi-year implementation of *The 21st Century Strategic Plan.* All of our business line requirements center on three broad strategic themes:

- ***Agility:*** Address the 21st century economy by Becoming a More Agile Organization— We will create a flexible organization and work processes that can handle the increasing expectations of our markets, the growing complexity and volume of our work, and the globalization that characterize the 21st century economy. We will work, both bilaterally and multilaterally, with our partners to create a stronger, better-coordinated and more streamlined framework for protecting intellectual property around the world. We will transform the USPTO workplace by radically reducing labor-intensive paper processing.
- ***Capability:*** Enhance Quality through Workforce and Process Improvements— We will make patent and trademark quality our highest priority by emphasizing quality in every component of *The 21st Century Strategic Plan.* Through the timely issuance of high-quality patent and trademark registrations, we will respond to market forces by promoting advances in technology, expanding business opportunities and creating jobs.
- ***Productivity:*** Accelerate Processing Times Through Focused Examination— We will control patent and trademark pendency, reduce time to first Office action, and recover our investments in people, processes and technology.

The USPTO has three supporting performance goals with measures. Two of the strategic themes— *Agility* and *Productivity* — have a direct relationships with the three USPTO performance goals, while one crosscutting strategic theme— *Capability*— spans all three performance goals.

The *Agility* theme is linked to the third performance goal and incorporates ongoing initiatives in e-government and collaboration with our IP partners worldwide. As a first priority, the USPTO has made electronic end-to-end processing of both patents and trademarks the centerpiece of its business model by deploying critical automated information systems. In addition, the USPTO is currently working on ways to improve delivery schedules, reliability, performance, security and cost control of all our automated information systems. Further, the USPTO is enhancing existing, and establishing new alliances with our friends in other national and international IP organizations to strengthen intellectual property rights around the world.

The *Productivity* theme is linked to Performance Goals 1 and 2 and addresses the planned longer-term reduction in patent and trademark pendency as measured by the average first action pendency and the average total pendency. Costs related to pendency reduction initiatives are depicted in examination.

The *Capability* theme crosses all performance goals, emphasizes the quality and process improvement element in the USPTO, and permeates throughout all our activities and operations. Quality will be assured throughout the process by hiring the people who make the best patent and trademark examiners, certifying their knowledge and competencies throughout their careers at the USPTO, and focusing on quality throughout the examination of patent and trademark applications.

The budget request for fiscal year 2007 follows and is presented by each of USPTO's three performance goals.

Fiscal Year 2007 Budget Request by Performance Goal

GOAL 1 — BUDGET AND PERFORMANCE

Improve quality of patent products and services and optimize patent processing time

The core process under Goal 1 is the examination of an inventor's application for a patent by comparing the claimed subject matter of the application to a large body of technological information to determine whether the claimed invention is new, useful, and non-obvious to someone knowledgeable in that subject matter. A quality review of the examination requirements and practice includes reviewing a random sample of both in process and allowed applications for quality. The patent examination process also includes deciding appeals regarding issues of patentability and preparing interference proceedings.

Other phases of the patent process include the initial administrative review of applications filed before examination and the publication of applications 18 months from the earliest effective filing date and upon issuance for dissemination to the public. Additionally, the Patent Organization is responsible for managing automation requirements for implementing and maintaining classification schemes for organizing and retrieving technical information contained in patents and other documents in the search files, and for acquiring, maintaining, and providing access to scientific and technical literature in support of the examination process.

Although the long term patent pendency goal remains 18 months, this goal will not be achieved in the near term because of (1) prior constraints on funding for new hires, which resulted in priority through fiscal year 2004 being placed on quality initiatives, (2) actual application growth rates for fiscal year 2005 above those assumed for planning purposes (with a growth rate of 8.0 percent), and (3) implementation delays and legislative requirements which have had the effect of postponing the realization of the competitive sourcing efforts. Additionally, of the applications filed, a higher percentage are being filed in the very high complexity art areas such as data processing, telecommunications, and biotechnology. These applications require more hours to examine than applications in the relatively less complex areas such as general mechanical and traditional chemical technologies. The time spent by an examiner on complex technology applications is almost double that of traditional applications. The USPTO is committed to an 18 month patent first action pendency goal. In fiscal years 2006 and 2007 the USPTO will be addressing pendency by hiring additional examiners, continuing competitive sourcing and worksharing opportunities and exploring other potential options with our customers and stakeholders.

As stated above, the USPTO began implementing several quality initiatives, including an enhanced Quality Assurance Program that includes end product reviews, in-process reviews, and enhanced "second pair of eyes" reviews. The feedback from these reviews is used to identify and develop training modules and other quality enhancements. In fiscal years 2006 and 2007, we will continue the quality efforts currently implemented. Additionally, we will continue to enhance the pre-employment assessment of patent examiner applicants to make sure they have the needed competencies. We will review work products throughout prosecution to ensure compliance with examination practice and procedures standards.

Additionally, in fiscal year 2007, we will continue to focus on the enhancement of the skill sets of the examination staff via the examiner certification program. The certification program, which includes the development and delivery of a patent law and evidence course, is now mandatory for examiners before promotion to a GS-13. In addition to this certification program for junior examiners, the Patent Organization also initiated a re-certification course for all primary examiners. This re-certification, which

will take place every three years, ensures that primary examiners are maintaining the necessary KSAs in current patent law, practice, and procedure. In fiscal years 2006 and 2007, we will continue both the certification and re-certification programs requiring the examiners to pass a comprehensive test that attests to their understanding of the content of the completed training. In combination, all of these quality initiatives will provide improved patent quality by providing review of work product, feedback to examiners on areas for improvement, targeted training, and safeguards to ensure competencies.

Focus on employee skill sets to improve overall patent quality has also been implemented at the technical support staff level. A comprehensive quality review program began in the second half of fiscal year 2004 and covers technical support staff work related to the processing of new applications, amendments, and issued patents. Employee-level assessments are generated and have been included as part of their annual performance plans. In fiscal years 2006 and 2007, we will continue to monitor quality at key training and certification points to ensure that implemented actions translate into improved work products of the technical support staff.

Goal 1: Resource requirements for improving quality of patent products and services and optimizing patent processing time

Dollars in thousands	2005 Actual	2006 Enacted	2007 Budget	2008 Est	2009 Est	2010 Est	2011 Est
Initial Examination	$30,674	$31,269	$34,000	$35,246	$37,259	$39,665	$40,742
Examination	$569,497	$651,849	$758,724	$881,602	$983,911	$1,076,924	$1,155,242
Scientific, Technical and Classification Services	$41,908	$43,432	$45,418	$49,025	$52,325	$56,186	$59,474
Pre-Grant Publication and Patent Issuance	$98,434	$101,062	$102,189	$101,178	$109,276	$121,179	$133,948
Appeals and Interferences	$13,683	$15,389	$16,418	$16,721	$17,033	$17,883	$18,235
SUBTOTAL EXAMINATION	**$754,196**	**$843,001**	**$956,749**	**$1,083,772**	**$1,199,804**	**$1,311,837**	**$1,407,641**
Management, Policy and Administrative Support	$32,241	$31,583	$35,577	$38,115	$39,827	$41,458	$43,572
Automation Support	$39,483	$39,706	$40,334	$39,620	$38,141	$38,395	$38,727
Strategic Initiatives	$8,186	$36,897	$46,245	$55,581	$90,103	$185,963	$302,032
SUBTOTAL DIRECT SUPPORT	**$79,910**	**$108,186**	**$122,156**	**$133,316**	**$168,071**	**$265,816**	**$384,331**
Other Contributing Resources (Indirect Costs for Support Functions)	$379,056	$383,937	$393,574	$386,261	$389,771	$397,730	$406,156
TOTAL FOR GOAL 1	**$1,213,162**	**$1,335,124**	**$1,472,479**	**$1,603,349**	**$1,757,646**	**$1,975,383**	**$2,198,128**
Allowance Error Rate	4.6%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
In-Process Examination Compliance Rate	86.2%	86.0%	88.0%	89.0%	90.0%	91.0%	92.0%
UPR Applications Filed	384,228	414,900	444,000	475,100	508,400	543,900	582,000
UPR Applications Filed Percent Change Over Previous Fiscal Year	8.1%	8.0%	7.0%	7.0%	7.0%	7.0%	7.0%
UPR Units of Production	288,315	311,900	343,900	372,900	414,400	458,700	509,400
Average First Action Pendency (Months)	21.1	22.0	23.0	23.7	23.9	23.8	23.5
Average Total Pendency (Months)	29.1	31.3	32.0	33.0	33.7	33.9	33.8

Strategic Initiatives Under Goal 1

Agility/ Flexibility 1 — Initial and Pre-Grant Classification of Newly Received Applications

Newly received patent applications are classified for routing to the correct Technology Center and examining unit and those applications that are published at 18 months from filing are subject to Pre-Grant classification. Currently, classifiers in pre-examination, patent examiners, and SPEs perform this function. The USPTO expects to begin the process of relying on commercial entities for these classification functions during fiscal year 2006, and will gradually expand to full implementation by the end of fiscal year 2007. This initiative will redirect the time patent examiners now spend on classification to core examination activities. Similarly, SPEs' time will be redirected to focusing on the quality of examiner work products and on training and mentoring examiners.

Dollars in thousands	**FY 2007**	**FY 2008**	**FY 2009**	**FY 2010**	**FY 2011**
Amount	$14,000	$14,100	$14,500	$15,300	$16,100

Agility/ Flexibility 2 — Support for Patent Cooperation Treaty (PCT) Search Activity

The USPTO receives international applications that require the performance of an international search to discover relevant prior art in Chapter I applications. As an International Searching Authority under the PCT, the USPTO is obligated to perform this search function. The USPTO plans to competitively source this search function, which will allow the USPTO to redirect patent examiner resources back to the examination of U.S. applications. Pursuant to the funding provisions of the Consolidated Appropriations Act, 2005 (P.L.108-447), the planning process began in fiscal year 2005 and resulted in a contract award during the fourth quarter of fiscal year 2005 to initiate a pilot program. During fiscal year 2006 the USPTO will conduct evaluations to assess whether the pilot should continue. The USPTO will evaluate the results of the pilot and report to the Congress. Assuming a successful pilot, the Competitive Sourcing of Search Function initiative would begin to be implemented (see below). Also, during fiscal year 2006 the USPTO entered into a Memorandum of Understanding with IP Australia to perform search and examination work on PCT applications. Additionally, future options may include enlisting support from other IP offices to enhance capacity for completing PCT search functions. The funding identified below will be used for system modifications, to explore alternative options with other IP offices, and to competitively source the PCT Chapter I search activity.

Dollars in thousands	**FY 2007**	**FY 2008**	**FY 2009**	**FY 2010**	**FY 2011**
Amount	$14,487	$17,163	$29,144	$30,330	$31,586

Agility/ Competitive Sourcing of Search Function

The Support for PCT Search Activity initiative will serve as the pilot for competitively sourcing the search of national cases. Given the large numbers of patent applications in or awaiting examination, the USPTO plans to competitively source the searches of prior art. This will generate substantial gains in examiner resources by focusing examiners on making patentability determinations rather than spending substantial amounts of time on searching. The USPTO will pilot sourcing the search function through the PCT Search Activity above. The UPSPTO will conduct an evaluation of pilot competitive search results before full implementation of the concept throughout the patent corps. The USPTO will monitor contractor performance to ensure that these searches (of available prior art relating to the subject matter of inventions claimed in patent applications) meet or exceed established search standards for patentability determinations.

The funding requested below is based on beginning full implementation of the competitive sourcing of search in fiscal year 2009. Based on the provisions of the Consolidated Appropriations Act, 2005 (P.L.108-447), the USPTO began a search pilot in late fiscal year 2005 (see Agility/Flexibility 2 above).

The USPTO plans to conduct an evaluation of the pilot and report its findings, and begin full implementation in fiscal year 2009.

Dollars in thousands	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Amount	$0	$0	$20,172	$112,897	$225,831

Agility/Flexibility 3 — Competitive Sourcing of Reclassification Functions and Transition to International Patent Classification System

Over time, the file of issued patents and non-patent literature that patent examiners must search expands significantly. As the numbers of patent documents in each class and sub-class increases, and as new technologies come to the forefront, the classification mechanisms become less focused and new classification schemes must be established. Currently, Federal staff is devoted to carrying out these activities. By second quarter fiscal year 2006, a Request for Proposal will be issued for reclassification functions. Additionally, the USPTO will consider entering into agreements with other IP office to increase the capacity to perform reclassification functions. Reclassification of existing classification schemes serve to improve quality of examination by updating the existing schedules to reflect emerging technology and growth, as well as harmonize with the international system. The funding identified below will be used to continue the process of competitive sourcing of reclassification functions in fiscal year 2007 along with exploring alternative options with other IP offices.

Dollars in thousands	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Amount	$3,000	$4,000	$4,500	$5,000	$5,500

Capability/Transformation 2 — Competitive Compensation Packages for Supervisory Patent Examiners and Managers

The USPTO will create a competitive compensation package for SPEs and other managers to encourage the best candidates to seek supervisory positions and simultaneously reward high-performing incumbent SPEs. The ability of SPEs to train and mentor employees, while demonstrating excellent interpersonal skills and competent knowledge of their art, patent laws and procedures, is fundamental to achieving the desired level of quality and productivity in the examining corps. The funding identified below will be used to implement a performance-based awards package of up to 10 percent for SPEs and other managers providing them the potential to be rewarded at the same levels as examiners.

Dollars in thousands	FY 2007	FY 2008	FY 2009	FY 20010	FY 2011
Amount	$3,472	$4,477	$4,824	$5,163	$5,447

Capability/Transformation 7 — Implementation of Pre-Employment Testing for Patent Examiners

One of the most essential competencies of a successful patent examiner is the ability to communicate effectively, both orally and in writing. In the past the USPTO has received negative feedback from our customers regarding the communication skills of some of its examiners. In response, in fiscal year 2002, the USPTO launched an interim program for pre-employment testing of oral and written communication skills of applicants for patent examiner positions to ensure that selected candidates possess the requisite language skills to perform their job. In fiscal year 2005 the USPTO partnered with OPM to develop an automated competency assessment tool and explore suitability testing tools. This development will include enhancements to the Job Application Rating System (JARS) to provide pre-employment testing information to SPEs and the Office of Human Resources; full development and deployment will be completed in fiscal year 2006 and the funding identified below will be used to maintain and enhance the tools.

Dollars in thousands	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Amount	$250	$300	$51	$52	$53

Capability/Transformation 9 — Re-Certification of Primary Patent Examiners

Primary patent examiners are authorized to issue patents with their own signature, generally without further review by a SPE. It takes approximately 5-6 years to reach this level of expertise, during which time individuals are certified only once. However, because of periodic changes in patent law, policy and practice, the USPTO recognizes the advantages of periodic re-certification of primary examiners to ensure that they possess the required up-to-date KSAs for making sound patentability determinations. The USPTO implemented a re-certification program in the form of continuing legal education (CLE), in parallel with expanded review of primary examiner work products to ensure that current patent law, practice, and procedures are followed in all completed Office actions. In fiscal year 2003, the USPTO delivered three CLE programs and initiated the In-Process Review program in all Technology Centers, which increased the number of primary examiner work product reviews completed. In fiscal year 2004, Patents conducted re-certification of one third of primary examiners and in fiscal year 2005 another third of the primary examiners went through the re-certification process. The funding identified below will be used for completing the establishment of automated CLE training courses and continuing re-certification of all primary examiners on a three-year cycle.

Dollars in thousands	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Amount	$435	$305	$310	$314	$318

Capability/Quality 5 — Expand Patent Reviews

In fiscal year 2003, Patents expanded the "second pair of eyes" review that was originally piloted on a limited basis in the art units dealing with business method patents. The purpose of this review was for the reviewer to quickly flag issues that needed further consideration by the examiner and/or examiner's supervisor. This program has been expanded to other areas identified as having high rates of errors. The funding identified below covers salaries for the staff dedicated to perform this function.

Dollars in thousands	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Amount	$211	$215	$219	$223	$227

Capability/Legislation/Rules 1c — Monitor Practitioner Adherence to Rules of Practice

The USPTO has identified a number of changes to current processes and procedures to improve legal practice before the agency and thereby help improve the quality of patent examination. With significant input from the public, disciplinary rules are in the process of being modernized, including clarification of rules on frivolous filings. A program was announced that provides registered practitioners with options to satisfy a continuing legal education obligation, including the agency's provision of online education and certification of CLE providers. The funding identified below will be used to support contractor resources for the practitioner continuing legal education and patent examiner re-certification programs. The funding also covers salaries of the specialized staff to support these programs.

Dollars in thousands	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Amount	$1,462	$1,469	$1,498	$1,525	$1,553

Capability/Worksharing 1 — Mutual Reliance on Searches

The USPTO supports the reciprocal reliance on prior art search results. This program focuses on utilizing Office of First Filing (OFF) completed search reports or Office actions, as appropriate, for use by the Office of Second Filing (OSF). As a strategic plan goal, the USPTO will rely on prior art searches performed by another IP office to the maximum extent practicable on a reciprocal basis so as to reduce duplication of efforts, decrease workload, and accelerate processing times. In this initiative, the USPTO will implement mutual reliance on search results with our trilateral partners, the EPO and JPO, to the extent practicable. Based on agreements with EPO and JPO, the USPTO began exchanging search results with them on a pilot basis in fiscal year 2003 for evaluation purposes. In fiscal year 2004, the USPTO

undertook an initial assessment of the Search Exchange pilot to review the applicability and quality of the search reports received from the EPO and JPO. The USPTO also evaluated the feedback received from EPO and JPO on the search reports generated by the USPTO and provided to the other IP offices. This feedback focused on the reasons why the other IP offices did or did not rely solely on the search report provided by the USPTO. These search report "gaps" are currently being analyzed to strengthen USPTO prior art search strategies. Fiscal year 2004 activities also addressed the scope of the next phase of the pilot; that is, if and to what extent these OFF searches are available and could be relied upon. The USPTO also pursued bilateral agreements with non-trilateral offices to benefit from searches performed by certain other IP offices, such as the United Kingdom and Australia. In all cases where the USPTO uses a search report provided by another IP office, the patentability determination will still reside with the USPTO and our examiners will have the opportunity to perform additional searches, as needed. No further funding is necessary for implementation of this initiative.

Productivity/Pendency 2 — Multi-Track Examination

In an effort to dramatically change current business practices, the USPTO will move from a "one-size-fits-all" patent examination process to a Multi-Track Examination Process in order to eliminate duplication of effort, improve the quality of patents, and decrease processing time. While the current process has served the USPTO well, there are numerous shortcomings that, if unchanged, will not deliver quality patents in a timely manner; therefore, changes are needed to promote expansion of business opportunities, stimulate research and development, and expand U.S. businesses globally. Under the Multi-Track Examination Process, the USPTO will provide applicants with an incentive to: (1) expressly abandon an application if the applicant loses interest in the application before it is taken up for examination by the USPTO; or (2) have the application searched by an IP office with which the USPTO has a bilateral search exchange agreement. These changes will also permit the USPTO to examine applications in Technology Centers having the largest backlogs by using search reports from qualified search authorities rather than conducting complete in-house searches. The Multi-Track Examination Process will provide pendency and quality benefits by eliminating the need for the USPTO to spend resources to examine an application that the applicant decides he/she no longer wishes to pursue before it is taken up for examination, and allows the USPTO to exploit search reports prepared by other IP offices or qualified search contractors.

To implement the Multi-Track Examination Process, the USPTO plans to: (1) refund a portion of the search fee if the applicant expressly abandons the application before it is taken up for examination by the UPSTO; and (2) refund a portion of the search fee if an IP office provides the USPTO with a search report for the application.

No further funding is necessary for implementation of this initiative.

Productivity/ Pendency 3 — New Hire Recruitment Costs

In support of the Patent Examining Corps' building a competent and diverse patent examiner workforce, as presented in this budget request, the USPTO has developed an outreach recruitment strategy that identifies the agency as an employer of choice and promotes the patent examiner career in the Federal government. Our outreach plan includes recruitment branding, a marketing campaign, college recruiting, and a university partnership program with ten target schools. The funding identified below will be used to implement the branding initiative through media advertisements, job fairs and career conferences, partnered events at target universities, and Internet recruiting.

Dollars in thousands	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Amount	$751	$752	$762	$782	$782

Productivity/ Shared Responsibility 2 — Post-Grant Patent Review of Claims and Continuation Reform

This initiative reflects support for a new proceeding to allow parties, through litigation at the Patent Board, to obtain post-grant patent review of patent claims. This proposal, contained in *The 21st Century Strategic Plan*, has been endorsed in subsequent reports by the National Academies of Sciences and the Federal Trade Commission and has been the subject of hearings by the House Judiciary Committee. The projected workload after implementation of the expected legislation is around 1,000 requests annually (compared to roughly 2,500 district court patent cases filed a year). Legislation for this requirement will be submitted in early 2006. In fiscal year 2007, it is estimated that the filing of post-grant proceedings will require an additional 25 Administrative Patent Judges (APJs) and an additional 12 paralegals and administrative staff to ensure timely handling of these post-grant proceedings. Current estimates are modest, as the private bar is estimating a higher usage rate of post-grant review, and lower early disposition rates may be possible. The USPTO will refine these estimates as the final design of a proceeding becomes clearer in the legislative process. Additionally during fiscal year 2007, the Board of Patent Appeals and Interferences (BPAI) anticipates it will begin to receive an increased level of appeals following continuation rulemaking to bring greater finality to patent application prosecution. Based on existing assumptions, the office anticipates BPAI's appeal workload to increase by approximately one-third. Therefore, in order to maintain a level of timeliness in appeal processing while initializing post-grant review, the office estimates an increase of 10 APJs, or other legal professionals, and seven paralegals to support continuation reform. Thus, a total of 35 APJs or other legal professionals, and 19 support personnel, are needed to support this overall initiative.

Dollars in thousands	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Amount	$8,179	$12,800	$14,124	$14,378	$14,635

Productivity/Accelerated Examination 1 — Accelerated Examination

The USPTO has heard the concerns expressed about the length of time it takes to process applications in certain technology areas and the fact that these processing timeframes do not always lend themselves to the customer's business requirements. Currently, new patent applications are normally taken up for examination in the order of their effective U.S. filing date. In order to respond to these concerns, the USPTO is considering an accelerated examination option. Applicants choosing the accelerated examination option must reduce the effort needed to examine the application by conducting a preexamination search covering the claimed invention and providing the USPTO with an information disclosure statement containing the referenced deemed most closely related to the subject matter of the claimed invention. In return, the applicant will be guaranteed 12-month pendency from the date of filing to patent issuance, rejection or abandonment. Current funding is used for contractor resources to modify and maintain the electronic filing and office action and correspondence systems to allow for multiple prosecution paths. No further funding is necessary for implementation of this initiative.

GOAL 2 —BUDGET AND PERFORMANCE

Improve quality of trademark products and services and optimize trademark processing time

The core process under Goal 2 is the examination of applications for trademark registration. As part of that examination, examining attorneys make determinations of registrability under the provisions of the Trademark Act of 1946, as amended, including searching the electronic databases for any pending or registered marks to determine if a mark in the subject application is confusingly similar to an existing mark, prepare letters informing applicants of the attorney's findings, approve applications to be published for opposition, and examine Statements of Use in applications filed under the Intent to Use provisions of the Trademark Act. At the requested application filing and funding level in fiscal year 2007, Trademarks will be able to hire sufficient numbers of additional examining attorneys to achieve a trademark first action pendency of 3.7 months and a total pendency of 17.3 months.

Activities under this goal also include initiatives aimed at improving the quality of trademark products and services. The Trademark Organization has implemented several of the quality initiatives of *The 21st Century Strategic Plan.* Trademark quality initiatives have focused on the development and implementation of training modules to address practice and procedural deficiencies identified through the quality review program. A key component of the approach was the implementation of an extensive quality review program geared towards in-process applications. The "in-process" review program has been designed to determine the quality of examiner's first and final office actions as "excellent" and "deficient" to better reflect more meaningful and rigorous standards of quality. Information from these reviews has been used to identify and focus training to enhance overall product quality and to improve the consistency of examination. A number of training modules, related to specific topics and sections of the Trademark Act have been developed in an e-learning environment to ensure content is timely, consistent, and available when needed by an employee. Other initiatives put in place to improve quality of the work product include the development of Policy Papers to reinforce proper practice in a wide range of examination activities and the expansion of the review program to assess the quality of work performed by paralegals and other non-attorney personnel. Continuing these programs through fiscal year 2007 will focus improvements in quality by setting an in-process review for first and final action deficiency rate of 6.0 percent.

The Trademark Organization is optimizing processing time by taking greater advantage of its success in implementing electronic processing and systems. In fiscal year 2005, enhancements were added to number of TEAS forms that automated transactions for filing petitions and extension requests, and a new filing option was introduced to applicants. The TEAS Plus electronic filing application offers a reduced fee to applicants that adhere to the TEAS Plus electronic filing requirements. Electronic processing will be used more extensively in the future to completely automate all transactions that will eliminate manual processing and directly route applications for processing. Electronic processing reduces the time and costs associated with the examination and registration of marks. TEAS was recognized in fiscal year 2005 as one of five winners at the Excellence.Gov Awards ceremony in Washington, D.C. as an example of a best practice in federal e-Government implementation.

Goal 2: Improve quality of trademark products and services and optimize trademark processing time

Dollars in thousands	FY 2005 Actual	FY 2006 Enacted	FY 2007 Budget	FY 2008 Est	FY 2009 Est	FY 2010 Est	FY 2011 Est
Initial Examination	$10,734	$7,520	$6,697	$6,692	$6,897	$7,294	$7,429
Examination	$57,993	$57,657	$61,769	$65,917	$69,649	$74,445	$78,853
Publication and Registration	$2,217	$2,889	$3,719	$4,091	$4,299	$4,056	$4,416
Post Registration	$2,399	$3,163	$3,338	$3,418	$3,498	$3,580	$3,663
Appeals and Inter Partes Proceedings	$8,408	$8,835	$9,908	$10,324	$10,513	$10,708	$10,908
SUBTOTAL EXAMINATION	**$81,751**	**$80,064**	**$85,431**	**$90,442**	**$94,856**	**$100,083**	**$105,269**
Management, Policy and Administrative Support	$10,096	$9,734	$10,219	$10,274	$10,521	$10,734	$10,980
Automation Support	$11,849	$11,139	$9,725	$10,933	$11,057	$9,359	$9,188
SUBTOTAL DIRECT SUPPORT	**$21,945**	**$20,873**	**$19,944**	**$21,207**	**$21,578**	**$20,093**	**$20,168**
Other Contributing Resources (Indirect Costs-for Support Functions)	$37,909	$41,839	$42,889	$42,093	$42,476	$43,342	$44,260
TOTAL FOR GOAL 2	**$141,605**	**$142,776**	**$148,264**	**$153,742**	**$158,910**	**$163,518**	**$169,697**
First Action Deficiency Rate	4.7%	6.5%	6.0%	5.5%	5.0%	4.5%	4.0%
Final Action Deficiency Rate	5.9%	6.5%	6.0%	5.5%	5.0%	4.5%	4.0%
Applications Filed - Classes	323,501	348,000	376,000	399,000	423,000	448,000	475,000
Applications Filed Percent Change Over Previous FY	8.4%	8.0%	8.0%	6.0%	6.0%	6.0%	6.0%
Total Units of Production (Examiner Action Points thru 2005/Balanced Disposals 2006 - 2011)	666,687	706,900	787,200	820,500	850,000	888,500	932,700
Average First Action Pendency (Months)	6.3	5.3	3.7	3.0	3.0	3.0	3.0
Average Total Pendency (Months)	19.6	18.8	17.3	16.6	15.9	15.3	14.6

Strategic Initiatives Under Goal 2

The Trademark Organization completed initial implementation of quality programs described as initiatives of *The 21st Century Strategic Plan* in fiscal year 2004. The costs associated with the continuation of the established quality programs in fiscal year 2007 and outyears are included in the cost of operations above.

Following successful results of a multi-year pilot program, the Trademark Organization plans to adopt *The 21st Century Strategic Plan* initiative to have non-attorney examiners handle subsequent examination to approve marks for registration once use has been demonstrated. This request includes funding to hire fifteen paralegals to conduct examination of statements of use, work that currently is handled by examining attorneys.

GOAL 3 — BUDGET AND PERFORMANCE

Create a more flexible organization through transitioning patent and trademark operations to an e-Government environment and advancing IP development worldwide

The USPTO has made significant strides toward achieving the milestones and goals of the e-government initiatives of *The 21st Century Strategic Plan.* The completion of the IFW phase of e-government -- an image-based electronic version of the former paper patent application file wrapper -- provides instant and concurrent access to a patent application, eliminates examiner interruption for paper entry, and eliminates the loss or damage experienced with paper files. In fiscal year 2005 Patents began an initiative, Trilateral Document Access (TDA) to facilitate access by patent examiners to the content of patent applications stored in participating foreign intellectual property offices' application document image systems. The continued implementation of e-government initiatives will result in additional functionalities that are described under corresponding e-government initiatives below.

Additionally, this goal includes multilateral and bilateral agreements, which form an integral part of USPTO's goal of advancing IP development worldwide. The USPTO continues to work with other IP offices in structuring new agreements in order to streamline IP protection and enforcement systems. This includes PCT reform efforts, focusing on the USPTO's proposal for simplified processing; developing a universal electronic patent application by leveraging USPTO's experience in trademarks and the EPO's experience with patent filings; and promoting IP law harmonization to strengthen the rights of American IP holders, making it easier for them to obtain international protection for their inventions and creations.

Goal 3: Create a more flexible organization through transitioning patent and trademark applications to e-government operations and advancing IP development worldwide

Dollars in thousands	2005 Actual	2006 Enacted	2007 Budget	2008 Est	2009 Est	2010 Est	2011 Est
E-Government Initiatives	$67,013	$110,292	$120,231	$133,787	$135,460	$144,067	$149,757
IP Development and Enforcement - Operations	$17,529	$8,478	$11,181	$11,257	$11,763	$11,672	$11,888
IP Development and Enforcement – Strategic Initiatives	$0	$16,063	$18,790	$22,488	$25,333	$28,879	$31,986
SUBTOTAL E-GOVERNMENT AND IP ADVANCEMENT	**$84,542**	**$134,833**	**$150,202**	**$167,532**	**$172,556**	**$184,618**	**$193,631**
Automation Support	$2,200	$3,902	$3,902	$3,521	$3,329	$3,432	$3,315
Other Contributing Resources (Indirect Costs for Support Functions)	$66,883	$66,451	$68,119	$66,853	$67,460	$68,838	$70,297
TOTAL FOR GOAL 3	**$153,625**	**$205,186**	**$222,223**	**$237,906**	**$243,345**	**$256,888**	**$267,243**
Patents Applications Filed Electronically	2.2%	10.0%	20.0%	30.0%	40.0%	50.0%	60.0%
Patents Applications Managed Electronically	96.7%	99.0%	99.0%	99.0%	99.0%	99.0%	99.0%
Trademark Applications Filed Electronically	88.0%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%
Trademark Applications Managed Electronically	99.9%	99.0%	99.0%	99.0%	99.0%	99.0%	99.0%
Technical Assistance Activities Completed (Activities/Countries)	59/142	82/77	84/79	84/79	84/79	84/79	84/79

Strategic Initiatives Under Goal 3

Agility/E-Government 1 — Trademark E-Government

In fiscal year 2005, the full contents of the trademark pending application file inventory became available to the public as electronic file records through the TDR system, which contain the complete contents of all pending trademark files including the initial application, subsequent correspondence, and office actions that examiners use to conduct examination.

Subsequently, over a multi-year period, the Office will include the file contents for all active U.S. registrations through TDR. The USPTO intends to deploy the Trademark Information System (TIS) and complete its transition to full electronic workflow and examination in fiscal year 2008.

In fiscal year 2006, the USPTO will enhance the TEAS system to support the use of PDF and additional forms for improved electronic communications with customers. Simultaneously, the Madrid Forms submission system will be expanded to support additional forms. We will deploy a Trademark status web service that will enable customers to view and print the content and status of a registration certificate. As electronic communications with our customers increase, it becomes critical to enhance electronic workflow systems for managing applications. This includes enhancement of our electronic records management system and Trademark Image Capture and Retrieval System (TICRS) to support higher volumes of electronic applications, improved search capability, and enhanced color images.

Dollars in thousands	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Amount	$7,716	$7,365	$7,544	$7,729	$7,918

Agility/E-Government 2 — Patent E-Government

In fiscal year 2006, the USPTO began development of the initial stage of full text-based processing aimed at providing examiners access to text generated from IFW images in the Patent examination pipeline. Concurrent enhancement of the PAIR system will provide the applicants with secure private access to their unpublished application documents via the Internet as soon as the application is internally processed. The first phase of integration of workflow tools with IFW will provide examiners with enhanced access to IFW information and prosecution support, facilitating more efficient patent examination. In order to increase the number of applications filed electronically and gain greater user acceptance of electronic filing, the USPTO is implementing a web-based e-Filing initiative. This solution is a hardware/software-independent e-Filing system for patent applications and documents to incorporate the use of PDF files. Deployment occurred in December 2005 with a full production target of March 2006. The Electronic Filing System-Web (EFS-WEB) incorporates the electronic submission of new applications and follow-on papers (such as amendments) in conjunction with the means for transmitting outgoing USPTO generated correspondence to applicants.

Completion of the operational system for processing patent applications electronically has facilitated applications processing and reduced costs of handling paper application file wrappers. When complete, the text-based system will allow for full-text searching of application file technical content and supporting documents, automation of amendment processing, and content validation (formalities checking) of applications in the pre-examination process. Additionally, text-based processing will better support Federal electronic records management and paper elimination requirements and meet USPTO international agreements with the other trilateral offices (EPO and JPO) and WIPO in supporting the "author once, file many" concept. In fiscal year 2007, the USPTO plans to begin integrating dissemination and other processes into a text-based pipeline.

In fiscal year 2006, the USPTO set in motion the second phase of development for the Patents system text-based process to allow the Office to deliver more automation of manual processes and improve

accuracy and reliability of information. In order to increase the number of electronically filed applications, the USPTO will use a PDF format as an alternative to the earlier XML solution. PDF as the format for electronic filing has multiple benefits, which can be converted to the current paper scanning process. In this phase, the USPTO plans to accomplish a major reengineering of the IFW system components into PFW in fiscal years 2006 and 2007 to provide the functionality to capture and process application text data as well as image data; reduce the manual steps required to index and scan application papers; provide the functionality to capture color and grayscale images; consolidate the data capture and interaction with the publications contractor to reduce cost and redundant efforts; migrate to a more robust storage architecture for a combined text and image file structure using PDF technology; migrate to evolutionary, stable retrieval architecture to support increased examiner staffing and application volumes; strengthen the user access and authentication controls to sensitive application content; and increase the integration of the business process support Automated Information Systems (AIS)s to improve efficiency and eliminate manual processing wherever possible. Electronic PDF Text and scanned PDF image plus text is expected to provide examiners with use of text in office actions, search capabilities within applications, as well as interference searching.

The USPTO will ultimately complete implementation of an e-government strategy that includes electronic receipt, processing, reporting and publication through the entire application process lifecycle. The funding will be used for systems development, integration, enhancement as well as the scanning of incoming, outgoing paper documents and new applications filed. The critical milestones in fiscal year 2007 include; (a) reengineering of application storage to create a PDF repository and application text, (b) integration of color and grayscale image capture and storage into the patent process, and (c) implementation of automated workflow integration with the patent process. Phase two of the workflow applications integration process will further enhance workflow tools and products through fiscal year 2010.

Dollars in thousands	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Amount	$71,073	$79,217	$79,923	$85,316	$88,017

Agility/E-Government 3 — Post-Grant Patent Review E-Processing (See Shared Responsibility 2 — Post-Grant Review of Patent Claims)

In support of legislation that will be submitted in early 2006 for post-grant patent review of claims, the USPTO will develop an automated information system that will provide an electronic file from which APJs can retrieve documents in connection with contested patent review proceedings. The new system, which would also support existing inter partes proceedings, will enable APJs to receive, store, search, and process records electronically, and is an extension of the USPTO's move to a fully electronic work environment for all phases of the patent process. This system will also increase operational efficiency and accuracy, as well as enhance system security through the availability of application data and support documentation electronically. The funding identified below will be used for systems development, integration, and maintenance.

Development of the system in support of this strategic initiative began late in fiscal year 2005. The funding identified below will be used to define user requirements for system development, acquisition of hardware and software for the system, and implementation of electronic processing for existing procedures in fiscal year 2007. That deployment will include processing for Post-Grant review if legislation is enacted and corresponding rule changes are adopted or permit rapid expansion once Post-Grant review is enacted.

Dollars in thousands	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Amount	$1,851	$2,291	$2,370	$2,394	$2,364

Agility/E-Government 4 — Information Technology Security Program

As guardians of U.S. intellectual property, USPTO information security is of critical importance to inventor confidence. The growth of Internet based vulnerabilities requires a commensurate response in technical controls and counter-measures. As the USPTO implements e-government, its AIS are increasingly exposed to external systems. Consequently, security risk factors increase geometrically as a result of operating system security flaws and a growing community of sophisticated hackers. The IT Security Program provides the infrastructure security systems and standards that protect the USPTO systems and safeguard public trust.

The funding requested below will support the development of an infrastructure of technologies and methodology to address security issues across all systems, both those planned and in use. This will facilitate efficiency in maintaining full accreditation status for all USPTO AISs, as mandated by Clinger-Cohen and the Financial Information System Management Act (FISMA).

Dollars in thousands	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Amount	$4,255	$6,148	$5,813	$4,741	$3,588

Agility/E-Government 5 — Data Replication for High Availability and Disaster Recovery

The USPTO Business Continuity Program is committed to ensuring protection of USPTO data from damage in the event of a disaster. The goal of this investment is to guarantee the availability of patent and trademark data to patent examiners, trademark examining attorneys, the general public, and foreign patent and trademark offices in the event of a disaster resulting in the complete or partial destruction of the USPTO's single data center. The USPTO is operating both the patent and trademark production pipelines in a predominantly electronic environment and is dependent on automated systems to support the end-to-end processing of patent and trademark applications. As such, the continuing operations of the USPTO are at an increased risk should catastrophe strike the single data center prior to the full deployment of disaster recovery services. The USPTO is proposing a phased implementation for deploying dual, load-balanced data centers that would enable the USPTO to start protecting its mission critical patent and trademark data. Through an evolutionary process, this phased implementation will provide recovery capabilities in the event of a disaster at the USPTO primary data center.

The USPTO's Business Continuity Program completion timeline will occur in seven major phases between fiscal years 2003 and 2010. In Phase One (fiscal years 2003-2004), critical services and the associated applications were identified and assessed for criticality, sensitivity, and support to core business functions. In fiscal year 2006 disaster recovery capabilities for five of the twenty mission critical applications will be implemented during Phase Two by establishing network connectivity from a recovery location to the USPTO. In fiscal year 2007 Phase Three will provide recovery capabilities for an additional ten mission critical applications. Phases Four through Seven will provide recovery capabilities for the remaining mission critical applications and to essential business applications, will focus on server load balancing for mission critical and business essential applications, and will fine-tune load balancing to maximize availability to users.

Dollars in thousands	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Amount	$12,143	$12,145	$12,147	$12,150	$12,152

Agility/ Other E-Government Initiatives — Customer Deposit Accounts and Increased Use of Electronic Payments

The USPTO currently maintains an Internet accessible system that applicants and USPTO employees use to record electronic payments for a variety of patent and trademark fees. The system accommodates credit card transactions; electronic funds transfer from an applicant's bank account; and replenishment and debit of funds from customer deposit accounts, which the USPTO maintains on behalf of its customers. The USPTO currently processes approximately 3.5 million payments each year, 30.0 percent are received electronically. The USPTO's commitment to implementing e-government and the public's growing acceptance of this venue for conducting business will create demands the existing system is unable to support. One aspect of the e-government automation plan is modernization of our current fee collection system to accommodate increased demand for electronic fee collection no later than September 30, 2008.

The funding identified below will be used for contractor resources to automate a wider range of patent and trademark fee payments so that they can be made electronically, as well as increase marketing of this functionality. In fiscal year 2006, the USPTO will complete identification of expanded electronic fee collection requirements and begin development of the modernized system in fiscal year 2007. It is estimated that the new system will be deployed in fiscal year 2008.

Dollars in thousands	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Amount	$3,241	$3,461	$482	$8	$8

Agility/ Work-at-Home — Trademark Work-at-Home

The Trademark Work-at-Home program is a nationally recognized telecommuting program. It began as a pilot in March of 1997 and expanded to include 220 total positions in fiscal year 2005. Initially, each examining attorney in the program worked at home three days per week and shared an office at the USPTO work site with another attorney who also participated in the Work-at-Home program. A "hoteling" program has been implemented to provide even greater telecommuting opportunities while making the program more efficient and effective. Under this program, Work-at-Home participants spend nearly all of their workweek at home and are at the USPTO work site less than two to four hours per week. Hoteling participants are not assigned a personal office, but reserve an office to use when they must come in the work site. As a result, the Trademark organization has been able to reduce its total space requirements and expand examiner staffing without increasing office space requirements. The funds requested below will provide hardware and software to accommodate an additional 40 users in fiscal year 2006 and 20 users in fiscal year 2007.

Also, USPTO currently has a number of TTAB users in the TTAB Work-at-Home program accessing the Trademark Trial and Appeal Board Information System (TTABIS) and PTOnet e-mail from home using laptops. The project is migrating current users to Citrix servers with a planning strategy to expand the program to add new users. Funding is required for contractor support for configuration and development of Citrix servers and for the maintenance of the TTAB Work-at-Home program.

Dollars in thousands	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Amount	$2,149	$1,318	$1,343	$1,230	$1,291

Agility/ Telecommuting — Patents Hoteling Program

In fiscal year 2005, Patents launched a hoteling program pilot providing participants the ability to work at home fully supported with complete access to on-line USPTO provided resources for conducting their assigned duties. The pilot program incorporates the concept of hoteling where telecommuting participants reserve time in designated shared hotel offices at the Alexandria Campus to conduct activities such as personal interviews with applicants and attending meetings or training classes. Pilot participants received special training to enable them to work as effectively at home as in the office. The Patents Hoteling Program is designed to comply with Congressional direction and build upon the lessons learned from the very successful Trademark Work-at-Home program. The Patents Hoteling Program provides patent examiners the ability to work from home with complete on-line access to USPTO resources. This concept allows participants to reserve time in designated shared "hotel" offices at the Carlyle Campus in Alexandria, Virginia. 'Hoteling' allows telecommuting participants to conduct on-campus activities such as personal interviews, training requirements, meetings and access to other on-sites resources. A critical component of the Patents Hoteling Program is the use of IT to provide necessary remote access for collaboration capabilities. This program is designed to ensure participants have the ability to perform their jobs when either at or away from the main Carlyle campus. Feedback from pilot participants and reviews of the technologies were used to finalize designs for a vastly expanded telework program that could potentially allow virtually any USPTO employee to participate. Implementation started in fiscal year 2006.

The long term goal is to have a substantial number of patent examiners working at home consistent with the law, and at the same time achieving productivity and quality performance targets, at a reasonable cost. If successfully implemented, this program also has the potential to assist in the recruitment, hiring, and retention of examiners. The funds requested below will be used for the continued implementation of a hoteling program which began in fiscal year 2006.

Dollars in thousands	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Amount	$17,802	$21,841	$25,837	$30,500	$34,420

Agility/ Global Development 1 — Pursuit of Substantive Patent Law Harmonization

The USPTO is currently engaged in Substantive Patent Law Treaty discussions with the Standing Committee on the Law of Patents (SCP) at the WIPO. There are a number of major issues in discussion that have significant implications for the USPTO and the U.S. intellectual property community, such as global prior art definition and methodologies for determining novelty and non-obviousness. The funding identified below covers the salaries of specialized staff devoted to holding discussions and pursuing substantive Patent Law Harmonization both within and outside of the SCP in support of the *21st Century Strategic Plan* goals and objectives.

Dollars in thousands	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Amount	$398	$405	$412	$418	$423

Agility/ Global Development 2 — Other Bilateral/Multilateral Agreements

The USPTO will pursue bilateral and/or multilateral arrangements to share search and examination results among offices. This is critical to assisting the USPTO in managing projected significant workload increases (considering the fact that approximately 45.0 percent of new applications come from foreign countries) and implementing the changes to the patent processes identified in *The 21st Century Strategic Plan.* Agreements are currently being negotiated based on the results of the trilateral pilot projects that started in fiscal year 2003. The funding identified below covers specialized staff devoted to continuing multilateral discussions leading to agreements on behalf of the U.S.

Dollars in thousands	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Amount	$1,003	$1,019	$1,053	$1,069	$1,083

Agility/ Global Development 3 — Patent Cooperation Treaty Reform

The U.S. has been at the forefront of PCT reform efforts since 1999. While some important changes have taken place, further streamlining and simplification are required. In fiscal year 2003, first stage reforms were completed and the revised guidelines for PCT search and examination were adopted effective January 1, 2004. Continued reform to PCT provisions will have a number of benefits for the USPTO, including improved international patent application filings, integration of national and international processing in the USPTO, and enhanced reliance on PCT work products by other authorities and offices. The funding identified below covers the salaries of specialized staff devoted to continuing negotiations for PCT reform, as well as contractor resources to complete systems modifications needed to implement the resulting business process and rule changes.

Dollars in thousands	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Amount	$511	$473	$487	$498	$507

Agility/ Intellectual Development and Intellectual Property Enforcement (Operations and Strategic Initiatives)

With increased demands for countries to implement effective systems for IPR enforcement to meet their WTO TRIPs obligations and to comply with existing and new bilateral/multilateral trade agreement commitments, the Office of Enforcement is focused on providing practical technical training and capacity-building programs in the areas of IPR enforcement, judicial and prosecutorial education, public education and awareness efforts, and capacity-building programs that meet the needs of developing and least developed countries. While the USPTO has long provided such assistance and training, the Office of Enforcement has developed a flexible team approach to meet the challenges of IPR enforcement in today's global economy. This is done by carrying out existing obligations to assist nations in implementing accessible and effective IPR enforcement systems; partnering with others to provide useful programs and training; and working to increase the accessibility, efficiency, and effectiveness of civil, administrative, and criminal enforcement mechanisms in global trade, foreign markets, and electronic commerce.

The New Enforcement Initiative (NEI) is designed to allow the USPTO to address Inspector General recommendations to strengthen efforts to protect U.S. intellectual property rights overseas and to improve the effectiveness of U.S. Government-sponsored IP technical assistance and training. The NEI would allow the Office of Enforcement to hire expert attorney-advisors, which will contribute to the Office's ability and capacity to organize, conduct, and coordinate additional IPR enforcement training and technical assistance activities and capacity-building programs internationally. Such additional legal staff will permit expanded technical assistance and training programs in countries identified as critical to U.S. commercial, economic, and political interests.

A full-time, permanent Global IPR Academy program has been established. The academy expands existing training, provides technical assistance and capacity-building programs, and activities carried out by the Office of Enforcement and Office of International Relations. This newly established training academy provides the capacity to train more than four times the number of individuals that are currently able to be involved in existing training programs.

Dollars in thousands	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Amount	$28,059	$31,849	$35,144	$38,566	$41,861

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EXHIBIT 3A

U.S. Patent and Trademark Office
USPTO TOTAL RESOURCE REQUIREMENTS

Dollars in thousands USPTO TOTAL	FY 2005 Actual	FY 2006 Enacted	FY 2007 Base	Increase/ (Decrease)	FY 2007 President's Budget	FY 2008 Estimate	FY 2009 Estimate	FY 2010 Estimate	FY 2011 Estimate
TOTAL FUNDING	$1,513,930	$1,688,286	$1,758,512	$88,954	$1,847,466	$1,999,497	$2,164,401	$2,400,349	$2,639,568
↳ Direct Obligations	$1,508,392	$1,683,086	$1,753,312	$89,654	$1,842,966	$1,994,997	$2,159,901	$2,395,849	$2,635,068
↳ Reimbursable	$5,538	$5,200	$5,200	$(700)	$4,500	$4,500	$4,500	$4,500	$4,500
IT FUNDING (included above)	$312,951	$311,378	$315,900	($21,671)	$294,229	$312,591	$301,338	$299,304	$302,740
FULL-TIME EQUIVALENT (FTE) TOTALS	6,825	7,875	8,157	400	8,557	9,191	9,801	10,414	10,972

This Exhibit represents a summary of USPTO's total obligations by performance goal. USPTO Information Technology (IT) funding and FTE resources shown in the above table are also reported using the Agency IT Investment Portfolio (FY 2007 Budget Exhibit 53) reporting format.

RESOURCE REQUIREMENTS, TARGETS AND PERFORMANCE SUMMARY

GOAL ONE: Improve the quality of patent products and services and optimize patent processing time

Dollars in thousands USPTO GOAL 1	FY 2005 Actual	FY 2006 Enacted	FY 2007 Base	Increase/ Decrease	FY 2007 President's Budget	FY 2008 Estimate	FY 2009 Estimate	FY 2010 Estimate	FY 2011 Estimate
TOTAL FUNDING	$1,218,046	$1,339,710	$1,393,950	$82,498	$1,476,448	$1,607,318	$1,761,615	$1,979,352	$2,202,097
↳ Direct Obligations	$1,213,162	$1,335,124	$1,389,364	$83,115	$1,472,479	$1,603,349	$1,757,646	$1,975,383	$2,198,128
↳ Reimbursable	$4,884	$4,586	$4,586	$617	$3,969	$3,969	$3,969	$3,969	$3,969
IT FUNDING (included above)	$244,978	$243,747	$247,290	($16,967)	$230,323	$244,696	$235,887	$234,295	$236985
FULL-TIME EQUIVALENT (FTE) TOTALS	6,202	6,954	7,184	365	7,549	8,197	8,809	9,408	9,942

Allowance Error Rate	4.6%	4.0%	—	—	4.0%	4.0%	4.0%	4.0%	4.0%
In-Process Examination Compliance Rate	84.0%	86.0%	—	—	88.0%	89.0%	90.0%	91.0%	92.0%
Average First Action Pendency (months)	21.1	22.0	—	—	23.0	23.7	23.9	23.8	23.5
Average Total Pendency (months)	29.1	31.3	—	—	32.0	33.0	33.7	33.9	33.8

Rationale of Performance Goal: This performance goal was established as a result of USPTO's strategic planning process. The *21st Century Strategic Plan* recognized quality and processing time (pendency) as the two measures most significant for our patent user community and other external stakeholders. In particular, the inability to hire new personnel at a rate necessary to keep up with growth in electronic technologies has meant increased pendency in those technologies for which the value of patents depends most on prompt issuance. Additionally, improving the quality of patents through implementation of the quality initiatives in the *21st Century Strategic Plan* are paramount to achieving the targets set forth under this goal.

External Factors and Mitigation Strategies: The key variables impacting performance under this goal are incoming workloads and requested resources to improving quality and reducing pendency. The patent incoming workloads are dependent upon many factors, including economic activity around the world, and especially in the United States. Growth of science and technology has had considerable impact on intellectual property protection in the United States. For the USPTO, this growth has meant increases in application filings, and receipt of significantly more complex patent applications supporting the latest technologies. Achievement of the outyear (fiscal years 2008 to 2011) performance targets set forth in this exhibit assume permanent authorization of the revised fee schedule that was set forth in the Consolidated Appropriations Act, 2005 (P.L. 108-447). Funding at the fiscal year 2007 budget level will allow the USPTO to continue implementation of it's strategic planning initiatives and ultimately result in enhanced quality throughout the Patent examination process.

Program Increases for Performance Goal One: + 365 FTE and + $83.1 million: The increases requested for fiscal year 2007 are for hiring patent examiners to implement the strategic initiatives that contribute to achieving the quality and pendency targets shown above

Performance Monitoring and Program Evaluations: The patent examination program is evaluated for quality of examination decisions through in-process and allowance reviews. The focus of the review for patent applications is threefold: (1) to identify patentability errors; (2) to assess adequacy of the field of search and proper classification; and (3) to assess proper examination practice and procedures. The information gathered from the review of these examination program activities help business units identify necessary training with the goal of enhancing overall product quality and improving the consistency of examination. The results of the reviews provide analysis in the form of reports to Patent management. In addition to reporting specific errors, the analysis provides information on recurring problems and trends that may warrant changes in the examination program.

The patent examination program is also monitored for production through tracking and analysis of production counts recorded in the Patent Application Locator Monitoring (PALM) system. Production reports, containing detailed information on time spent examining and actions performed by each patent examiner, are provided to Patent management on a biweekly basis. Like the quality review tools, production monitoring identifies recurring problems and trends that may warrant changes in the examination program.

Crosscutting Activities: None other than intra-USPTO.

RESOURCE REQUIREMENTS, TARGETS AND PERFORMANCE SUMMARY

GOAL 2: Improve the quality of trademark products and services and optimize trademark processing time

Dollars in thousands USPTO GOAL 2	FY 2005 Actual	FY 2006 Enacted	FY 2007 Base	Increase/ (Decrease)	FY 2007 President's Budget	FY 2008 Estimate	FY 2009 Estimate	FY 2010 Estimate	FY 2011 Estimate
TOTAL FUNDING	$142,259	$143,390	$144,575	$4,220	$148,795	$154,273	$159,441	$164,049	$170,228
↳ Direct Obligations	$141,605	$142,776	$143,961	$4,303	$148,264	$153,742	$158,910	$163,518	$169,697
↳ Reimbursable	$654	$614	$614	$-83	$531	$531	$531	$531	$531
IT FUNDING (included above)	$25,881	$25,751	$26,120	($1,787)	$24,333	$25,851	$24,921	$24,752	$25,037
FULL-TIME EQUIVALENT (FTE) TOTALS	737	844	896	19	915	898	896	910	934

Final Action Deficiency Rate	5.9%	6.5%	—	—	6.0%	5.5%	5.0%	4.5%	4.0%
First Action Deficiency Rate	4.7%	6.5%	—	—	6.0%	5.5%	5.0%	4.5%	4.0%
Average First Action Pendency (months)	6.3	5.3	—	—	3.7	3.0	3.0	3.0	3.0
Average Total Pendency (months)	19.6	18.8	—	—	17.3	16.6	15.9	15.3	14.6

Rationale of Performance Goal: As in Goal One, this performance goal was also established as a result of USPTO's strategic planning process. The *21st Century Strategic Plan* recognized quality and processing time (pendency) as the two measures most significant for our trademark user community and other external stakeholders. In particular, the inability to hire new personnel at a rate necessary to keep up with growth in filings has meant increased pendency. Additionally, improving the quality of trademark products and services through continuation of the quality initiatives in the *21st Century Strategic Plan* are paramount to achieving the targets set forth under this goal.

External Factors and Mitigation Strategies: The key variables impacting performance under this goal are incoming workloads and resources allotted to improving quality and reducing pendency. The trademark incoming workloads are dependent upon many factors, including economic growth in the United States.

Program Increases for Performance Goal Two: + 19 FTE and + $4.3 million: The increases requested for fiscal year 2007 are for hiring trademark examining attorneys for implementing the strategic initiatives that contribute to achieving the quality and pendency targets shown above.

Performance Monitoring and Program Evaluations: The trademark examination program is evaluated for quality of examination decisions through in-process and final action reviews. The focus of the trademark review program is to identify practice and procedural deficiencies and develop training modules to address those deficiencies. The review of trademark applications is centered on addressing the appropriateness or omission of substantive refusals outlined in Section 2 of the Trademark Act. Section 2 of the Trademark Act provides the statutory bases for which the Office refuses marks for registration. The results of the reviews provide analysis in the form of reports to Trademark management. In addition to reporting specific types of errors, the analysis provides information on recurring problems and trends that may warrant changes in the examination program. The information gathered from the review of these examination program activities are also used to develop and implement quality-driven training modules as well as Policy Papers aimed at reinforcing the proper practice in a wide range of examination activities.

The trademark examination program is also monitored for production through tracking and analysis of production counts recorded in the Trademark Reporting and Monitoring (TRAM) system. Production reports, containing detailed information on time spent examining and actions performed by each examining attorneys, are provided to Trademark management on a biweekly basis. Like the quality review tools, production monitoring identifies recurring problems and trends that may warrant changes in the examination program.

Crosscutting Activities: None other than intra-USPTO.

RESOURCE REQUIREMENTS, TARGETS AND PERFORMANCE SUMMARY

GOAL 3: Create a more flexible organization through transitioning patent and trademark applications to e-Government operations and participating in IP development worldwide

Dollars in thousands USPTO GOAL 3	FY 2005 Actual	FY 2006 Enacted	FY 2007 Base	Increase/ (Decrease)	FY 2007 President's Budget	FY 2008 Estimate	FY 2009 Estimate	FY 2010 Estimate	FY 2011 Estimate
TOTAL FUNDING	$153,625	$205,186	$219,987	$2,236	$222,223	$237,906	$243,345	$256,888	$267,243
↳ Direct Obligations	$153,625	$205,186	$219,987	$2,236	$222,223	$237,906	$243,345	$256,888	$267,243
↳ Reimbursable	$0	$0	$0	$0	$0	$0	$0	$0	$0
IT FUNDING (included above)	$42,092	$41,880	$42,490	($2,916)	$39,574	$42,044	$40,530	$40,256	$40,719
FULL-TIME EQUIVALENT (FTE) TOTALS	68	77	77	16	93	96	96	96	96

Patent Applications filed electronically	2.2%	10.0%	—	—	20.0%	30.0%	40.0%	50.0%	60.0%
Patent applications managed electronically	96.7%	99.0%	—	—	99.0%	99.0%	99.0%	99.0%	99.0%
Trademark Applications filed electronically	88.0%	80.0%	—	—	80.0%	80.0%	80.0%	80.0%	80.0%
Trademark applications managed electronically	99.9%	99.0%	—	—	99.0%	99.0%	99.0%	99.0%	99.0%
Technical assistance activities completed (activities/countries)	59/142	82/77			84/79	84/79	84/79	84/79	84/79

Rationale of Performance Goal: The goal of creating a flexible organization through e-government incorporates initiatives that enhance and maintain electronic end-to-end processing of patent and trademark applications. This performance goal was established as a result of USPTO's strategic planning process and for the targeted implementation of the President's Management Agenda initiatives. The second part of this performance goal also is an integral part of the *21st Century Strategic Plan* and is achieved through worldwide technical assistance programs designed to address civil, criminal and border enforcement of intellectual property rights. Under this goal, the USPTO provides

foreign governments with the tools to encourage economic development through robust protection of intellectual property rights, combat health and safety risks associated with counterfeit and pirated products, and combat growing criminal activity involving intellectual property theft. To maximize resources, these programs are developed and implemented in coordination with national and international intellectual property organizations, Federal agencies and rights owners.

External Factors and Mitigation Strategies: The key variables impacting performance under this goal are passage of the fee legislation and funding at the fiscal year 2007 budget level.

Program Increases for Performance Goal Three: + 16 FTE and - $2.2 million: The funding increase reflected above assumes that implementation of e-government strategic initiatives will peak in fiscal year 2006 and will gradually move into maintenance mode at a relatively lower cost. The USPTO will see some increases in the later years as Patent E-Government Phase two of the workflow applications integration process will further enhance workflow tools and products through fiscal year 2010.

Program Evaluations: Evaluations or proofs of concept have been incorporated into the implementation plans of many strategic initiatives. Completed pilot projects or new ones to be initiated will be tested, as necessary. Evaluations will assess the consistency of pilot program components with the intent of the *United States Patent and Trademark Fee Modernization Act of 2004*, where appropriate, and will incorporate analyses of pilot results against baseline data, critical success factors, and recommendations for full implementation.

Crosscutting Activities: Within the Department of Commerce, the USPTO provides support to the International Trade Administration (ITA) at international negotiations on intellectual property rights and advises ITA on patent and trademark issues. The USPTO also works with the Department of State and U.S. Missions abroad in the implementation of IP-focused programs.

Exhibit 5

DEPARTMENT OF COMMERCE
United States Patent and Trademark Office
Salaries and Expenses
SUMMARY OF RESOURCE REQUIREMENTS
(Dollar amounts in thousands)

2006 Enacted	Full-Time Permanent Positions	FTE	Direct Obligations
Total Obligations	8,198	7,875	$1,688,286
Less: Reimbursable Obligations	0	0	(5,200)
2006 Enacted Direct Obligations	8,198	7,875	$1,683,086
Plus: 2007 Adjustments to base	0	282	70,226
2007 Base Request	8,198	8,157	$1,753,312
Less or plus: 2007 Program Changes	799	400	89,654
2007 Presidents Budget	8,997	8,557	$1,842,966

Exhibit 5

DEPARTMENT OF COMMERCE
United States Patent and Trademark Office
Salaries and Expenses
SUMMARY OF REQUIREMENTS BY BUSINESS AREAS
(Dollar amounts in thousands)

Business Areas:		2005 Actuals Personnel	2005 Actuals Amount	2006 Enacted Personnel	2006 Enacted Amount	2007 Base Personnel	2007 Base Amount	2007 President's Budget Personnel	2007 President's Budget Amount	Increase / (Decrease) From 2007 Base Personnel	Increase / (Decrease) From 2007 Base Amount
Patents	Pos./BA	6,501	$1,324,025	7,273	$1,493,674	7,273	$1,556,393	7,982	$1,640,421	709	$84,028
	FTE/Obl	6,020	1,319,017	6,996	1,510,699	7,207		7,582		375	
Trademarks	Pos./BA	870	190,095	925	189,412	925	196,919	1,015	202,545	90	5,626
	FTE/Obl	805	189,375	879	190,315	950		975		25	
Total United States Patent and Trademark Office	Pos./BA	7,371	$1,514,120	8,198	$1,683,086	8,198	$1,753,312	8,997	$1,842,966	799	$89,654
	FTE/Obl	6,825	1,508,392	7,875	1,701,014	8,157		8,557		400	
	BA		1,514,120		1,683,086		1,753,312		1,842,966		89,654
Less: Financing from Offsetting Collections	Obl.		1,508,392		1,701,014		0				
	BA		0		0		0		0		0
Less: Rescission of Unobligated Balances	Obl.		0		0						
	BA		0		0		0		0		0
Less: Portion not Available for Obligation CY (limitation on obligations)	Obl.		0		0						
	BA		0		0		0		0		0
Less: Prior Year Unobligated Balance Brought Forward	Obl.		2,363		5,728						
	BA		0		0		0		0		0
Less: Estimated Recoveries of Prior Year Obligations	Obl.		7,543		12,200						
	BA		0		0		0		0		0
Financing from Direct Appropriated Funds	Obl.		0		0						
	BA		0		0		0		0		0
Total Appropriation	Obl.		0		0						
	BA		0		0		0		0		0
Plus/Less: Change in Offsetting Collections (unavailable balances)	Obl.		0		0						
Total Budget Authority	BA		$0		$0		$0		$0		$0

Exhibit 6

DEPARTMENT OF COMMERCE
United States Patent and Trademark Office
Salaries and Expenses
SUMMARY OF REIMBURSABLE OBLIGATIONS
(Dollar amounts in thousands)

Business Areas:		2005 Actuals FTE	2005 Actuals Amount	2006 Enacted FTE	2006 Enacted Amount	2007 Base FTE	2007 Base Amount	2007 President's Budget FTE	2007 President's Budget Amount	Increase / (Decrease) From 2007 Base FTE	Increase / (Decrease) From 2007 Base Amount
Patents	BA	0	$4,884	0	$4,586	0	$4,586	0	$3,969	0	(617)
	Obl.	0	0	0							
Trademarks	BA	0	$654	0	$614	0	$614	0	$531	0	(83)
	Obl.	0	0	0							
Total United States Patent and Trademark Office	BA	0	$5,538	0	$5,200	0	$5,200	0	$4,500	0	(700)
	Obl.	0	0	0							

Exhibit 7

DEPARTMENT OF COMMERCE
United States Patent and Trademark Office
Salaries and Expenses
SUMMARY OF FINANCING
(Dollar amounts in thousands)

	2005 Actuals	2006 Enacted	2007 Base Amount	2007 Presidents Budget	Increase/ (Decrease) From 2007 Base
Obligations:					
Total direct obligations	$1,508,392	$1,683,086	$1,753,312	$1,842,966	$89,654
Total reimbursable obligations	5,538	5,200	5,200	4,500	(700)
Total obligations:	$1,513,930	$1,688,286	$1,758,512	$1,847,466	$88,954
Financing:					
Offsetting collections from:					
Reimbursable obligations	(5,538)	(5,200)	(5,200)	(4,500)	700
Non-Federal sources/User fee collections	(1,514,120)	(1,683,086)	(1,753,312)	(1,842,966)	(89,654)
Subtotal	($1,519,658)	($1,688,286)	($1,758,512)	($1,847,466)	($88,954)
Recoveries:					
Prior year obligations	(7,543)	0	0	0	0
Unobligated balance, start of year	(2,363)	0	0	0	0
Unobligated balance, end of year	2,764	0	0	0	0
Unavailable offsetting collections (limitations on obligations)	2,965	0	0	0	0
Net change	($4,177)	0	0	0	0
Financing from direct appropriated funds	($9,905)	$0	0	0	0
Total net appropriation	($9,905)	$0	0	0	0

Exhibit 8

DEPARTMENT OF COMMERCE
United States Patent and Trademark Office
Salaries and Expenses
ADJUSTMENTS TO BASE
(Dollar amounts in thousands)

	FTE	Amount
OTHER COST CHANGES		
2006 Pay Raise		5,611
2007 Pay Raise		13,517
Full-year cost in 2007 for positions financed for part-year in 2006	282	20,731
Within-grade step increases		8,646
Civil Service Retirement System (CSRS)		(822)
Federal Employees Retirement System (FERS)		4,192
Thrift Savings Plan		235
Federal Insurance Contribution Act (FICA) - OASDI		1,311
Health insurance		3,547
Travel		1
Rental payments to GSA		1,561
Printing and reproduction		1,679
General Pricing Level Adjustment		10,017
TOTAL ADJUSTMENTS TO BASE	282	70,226

Exhibit 9

DEPARTMENT OF COMMERCE
United States Patent and Trademark Office
Salaries and Expenses
JUSTIFICATION OF ADJUSTMENTS TO BASE
(Dollars in thousands)

	FTE	Amount
2006 Pay Raise		5,611

Full Year of 2006 pay increase and related costs

A pay raise of 3.44% is to be effective January 1, 2006.

Total cost in 2006 of 2006 pay increase	22,442,560
Less amount funded in 2006	-16,831,920
Less amount absorbed	0
Amount requested in 2007 to provide full-year cost of 2006 pay increase	5,610,640
Total cost of Working Capital Find increase	0
Less amount funded in 2006	0
Total, adjustment for 2006 pay increase	5,610,640

2007 Pay Raise		13,517

A general pay raise of 2.3% is assumed to be effective January 1, 2007.

Total cost in 2007 of pay increase	13,517,000
Less amount absorbed in FY 2006	0
Amount requested for 2007 pay increase	13,517,000
Payment to Working Capital Fund	0
Total, adjustment for 2007 pay increase	13,517,000

Exhibit 9

DEPARTMENT OF COMMERCE
United States Patent and Trademark Office
Salaries and Expenses
JUSTIFICATION OF ADJUSTMENTS TO BASE
(Dollars in thousands)

	FTE	Amount
Full-year cost in 2007 of positions financed for part-year in 2006	282	20,731

An increase of $20,730,860 is required to fund the full-year cost in 2007 of positions financed for part-year in 2006. The computation follows:

Annual salary of new positions in 2006	588	33,015,330
2006 Pay Raise	0	1,135,727
Less 5 percent lapse	-29	-1,688,734
Full-year cost of personnel compensation	559	32,462,323
Less personnel compensation in 2006	-277	-16,122,741
Cost of personnel compensation in 2007	282	16,339,582
Adjustment for 2006 pay raise (3.44% x .75 x $15,963,207)	0	411,851
Amount required for personnel compensation	0	16,751,433
Benefits	0	3,979,427
Total adjustment-to-base	282	20,730,860

Exhibit 9

DEPARTMENT OF COMMERCE
United States Patent and Trademark Office
Salaries and Expenses
JUSTIFICATION OF ADJUSTMENTS TO BASE
(Dollars in thousands)

	FTE	Amount
Within-grade step increases		8,646

An increase of $8,646,350 is required to cover the cost of within-grade step increases. This estimate reflects the net cost of step increases including merit pay increases which will be earned in 2007.

Estimated number of within-grade step increases	3,610
Step increases not earned due to turnover (6.7% x 3,610)	242
Average step above step 1 per separation	3
Average cost per within-grade step increase	2,507
Gross cost of scheduled step increase (3,610 x $2,507)	9,050,270
Less savings due to separations ($2,507 x 242 x 3)	-1,820,082
Subtotal, personnel compensation	7,230,188
Benefits	1,416,162
Total adjustment-to-base	8,646,350

Exhibit 9

DEPARTMENT OF COMMERCE
United States Patent and Trademark Office
Salaries and Expenses
JUSTIFICATION OF ADJUSTMENTS TO BASE
(Dollars in thousands)

	FTE	Amount
Civil Service Retirement System (CSRS)		(822)

The number of employees covered by the Civil Service Retirement System (CSRS) continues to drop as positions become vacant and are filled by employees who are covered by the Federal Employees Retirement System (FERS). The estimated percentage of payroll for employees covered by CSRS will drop from 11.80% in 2006 to 10.00% in 2007 for regular employees. The contribution rate of 7.0% will remain the same from FY 2006 to FY 2007 for regular employees.

Regular:	
2007 $652,400,000 x .100 x .070	4,566,800
2006 $652,400,000 x .118 x .070	-5,388,824
Total adjustment-to-base	-822,024

Exhibit 9

DEPARTMENT OF COMMERCE
United States Patent and Trademark Office
Salaries and Expenses
JUSTIFICATION OF ADJUSTMENTS TO BASE
(Dollars in thousands)

	FTE	Amount
Federal Employees Retirement System (FERS)		4,192

The number of employees covered by FERS continues to rise as employees covered by CSRS leave and are replaced by employees covered by FERS. The estimated percentage of payroll for employees covered by FERS will rise from 88.20% in 2006 to 90.00% in 2007 for regular employees. The contribution rate will rise from 10.7% in 2006 to 11.20% in 2007 for regular employees.

Regular:	
2007 $652,400,000 x .900 x .112	65,761,920
2006 $652,400,000 x .882 x .107	-61,569,598
Total adjustment-to-base	4,192,322

Thrift Savings Plan (TSP)		235

The cost of agency contributions to the Thrift Savings Plan will also rise as FERS participation increases. The contribution rate is expected to remain at 2.0% from 2006 to 2007.

Regular:	
2007 $652,400,000 x .900 x .02	11,743,200
2006 $652,400,000 x .882 x .02	-11,508,336
Total adjustment-to-base	234,864

Exhibit 9

DEPARTMENT OF COMMERCE
United States Patent and Trademark Office
Salaries and Expenses
JUSTIFICATION OF ADJUSTMENTS TO BASE
(Dollars in thousands)

	FTE	Amount
Federal Insurance Contribution Act (FICA)		1,311

As the percentage of payroll covered by FERS rises, the cost of OASDI contributions will increase. In addition, the maximum salary subject to OASDI will be raised from $92,175 in 2006 to $96,150 in 2007. The OASDI tax rate will remain 6.2% in 2007.

Regular:	
2007 $652,400,000 x .900 x .962 x .062	34,947,763
2006 $652,400,000 x .882 x .946 x .062	-33,749,346
Subtotal	1,198,417
Other:	
2007 $61,257,000 x .900 x .962 x .062	3,281,415
2006 $61,257,000 x .882 x .946 x .062	-3,168,890
Subtotal	112,525
Total adjustment-to-base	1,310,942

Health Insurance		3,547

Effective January 2005, PTO's contribution to Federal employees' health insurance premiums increased by 9.0%. Applied against the 2006 estimate of $39,416,000 the amount of increase is $3,547,440.

Exhibit 9

DEPARTMENT OF COMMERCE
United States Patent and Trademark Office
Salaries and Expenses
JUSTIFICATION OF ADJUSTMENTS TO BASE
(Dollars in thousands)

	FTE	Amount
Travel		1
Effective February 4, 2005, changes to the federal travel regulations increased the reimbursement rate for privately owned vehicles from 37.5 cents to 40.5 cents. This percentage increase of 8% was applied to the 2006 estimate of $12,000 to arrive at a increase of $960.		
Rental Payments to GSA		1,561
GSA rates are projected to increase 1.5% in 2007. This percentage was applied to the 2006 estimate of $104,057,000 to arrive at an increase of $1,560,855.		
GPO Printing		1,679
GPO has provided an estimated rate increase of 1.80%. This percentage was applied as follows.		
Other GPO Printing: The percentage was applied to the 2006 estimate of $812,000 to arrive at an increase of $14,616		14,616
Trademark GPO Printing: The percentage was applied to the 2006 estimate of $1,170,000 to arrive at an increase of $21,060		21,060
Patent GPO Printing: The percentage was applied to the 2006 estimate of $91,316,000 to arrive at an increase of $1,643,688		1,643,688
Total GPO Printing adjustments-to-base		1,679,364

Exhibit 9

DEPARTMENT OF COMMERCE
United States Patent and Trademark Office
Salaries and Expenses
JUSTIFICATION OF ADJUSTMENTS TO BASE
(Dollars in thousands)

	FTE	Amount
General Pricing Level Adjustment		10,017
This request applies to OMB economic assumptions for 2007 to sub-object classes where the prices that the Government pays are established through the market system. Factors are applied to transportation of things ($14,922) rental paymemnts to others ($131,274); communications, utilities, miscellaneous charges (excluding postage) ($506,268); other services (excluding NARA) ($7,674,030); supplies and materials ($300,546); and equipment ($1,389,492).		
Total, adjustments-to-base	282	70,226

Object Class Title:	FY 2006 Approp Budget	FY 2006 Enacted Budget	FY 2007 Adjust. To Base	FY 2007 Base	FY 2007 Program Changes	FY 2007 Budget Estimate	FY 2007 Increase (Decrease)
Full-Time Equivalent Employment:							
Full-Time Permanent	7,777	7,777	282	8,059	400	8,459	400
Other Than Full-Time Permanent	98	98	0	98	0	98	0
Total Full-Time Equivalent Employment	7,875	7,875	282	8,157	400	8,557	400
Authorized Positions:							
Full-Time Permanent	8,038	8,038	0	8,038	799	8,837	799
Other Than Full-Time Permanent	160	160	0	160	0	160	0
Total Authorized Positions	8,198	8,198	0	8,198	799	8,997	799

Object Class	Object Class Title:		FY 2005 Actual	FY 2006 Enacted Budget	FY 2007 Adjust. To Base	FY 2007 Base	FY 2007 Program Changes	FY 2007 Budget Estimate	FY 2007 Increase (Decrease)
	Personnel Compensation:								
11.1	Full-Time Permanent Compensation		559,947	629,043	39,474	668,517	44,821	713,338	44,821
11.3	Other Than Full-Time Permanent Compensation		6,416	6,286	216	6,502	0	6,502	0
11.5	Other Personnel Compensation		41,416	58,462	0	58,462	7,318	65,780	7,318
	Total Personnel Compensation		607,779	693,791	39,690	733,481	52,139	785,620	52,139
12.0	Personnel Benefits		192,796	211,055	17,278	228,333	12,191	240,524	12,191
13.0	Benefits for Former Personnel		165	1,000	0	1,000	(1,000)	0	(1,000)
14.0	Salary Payments from Imprest			0	0	0	0	0	0
21.0	Travel and Transportation of Persons		6,922	11,268	1	11,269	1,262	12,531	1,262
22.0	Transportation of Things		620	829	15	844	(49)	795	(49)
23.1	Rental Payments to GSA		95,647	104,057	1,561	105,618	(6,081)	99,537	(6,081)
23.2	Rental Payments to Others	0	8,600	7,293	131	7,424	0	7,424	0
23.3	Communications, Utilities, and Misc. Charges		29,479	40,069	506	40,575	(9,721)	30,854	(9,721)
24.0	Printing and Reproduction		73,390	93,298	1,679	94,977	(21,331)	73,646	(21,331)
25.1	Advisory and Assistance Services		13,253	11,192	201	11,393	0	11,393	0
25.2	Other Services		362,768	409,501	7,452	416,953	64,201	481,154	64,201
25.3	Purchase of Goods and Services from Gov't Accounts		24,559	5,842	21	5,863	1,883	7,746	1,883
26.0	Supplies and Materials		11,475	16,697	301	16,998	(2,529)	14,469	(2,529)
31.0	Equipment		80,932	77,194	1,390	78,584	(1,311)	77,273	(1,311)
32.0	Lands and Structures			0	0	0	0	0	0
42.0	Insurance Claims and Indemnities			0	0	0	0	0	0
43.0	Interest and Dividends			0	0	0	0	0	0
	Total Direct Obligations	0	1,508,392	1,683,086	70,226	1,753,312	89,654	1,842,966	89,654
	Less: Financing from Offsetting Collections	0	0	0	70,226	1,753,312	0	1,842,966	89,654
	Less: Portion not Available for Obligation (limitation on obligations)	7	0	0	0	0	0	0	0
	Less: Unobligated balance, EOY		0	0	0	0	0	0	0
	Less: Prior Year Unobligated Balance Brought Forward		0	0	0	0	0	0	0
	Less: Recoveries of Prior Year Obligations/Parking Fee Reimb		0	0	0	0	0	0	0
	Financing/(Rescission) from Direct Appropriated Funds		1,508,392	1,683,086	0	0	89,654	0	0
	Total Appropriation		1,508,392	1,683,086	0	0	89,654	0	0
	Total Budget Authority		1,508,392	1,683,086	0	0	89,654	0	0

Object Class	Object Class Title:	FY 2006 Approp Budget	FY 2006 Enacted Budget	FY 2007 Adjust. To Base	FY 2007 Base	FY 2007 Program Changes	FY 2007 Budget Estimate	FY 2007 Increase (Decrease)
11	Personnel Compensation:							
11.1	Full-Time Permanent Positions:							
	Executive Level	152	152	7	159	0	159	0
	Senior Executive Service	7,664	7,664	396	8,060	0	8,060	0
	General Schedule	627,577	607,363	38,491	645,854	44,187	690,041	44,187
	Wage Board	0	0	0	0	0	0	0
	Patent Appeals Examiners (P.L. 82-593)	11,387	11,387	476	11,863	532	12,395	532
	Trademark Appeals Examiners (P.L. 98-622)	2,477	2,477	104	2,581	102	2,683	102
	Total, Full-Time Permanent Positions	649,257	629,043	39,474	668,517	44,821	713,338	44,821
11.3	Positions Other Than Full-Time Permanent:							
	General Schedule	5,980	5,980	205	6,185	0	6,185	0
	Wage Board	256	256	9	265	0	265	0
	Intermittent	50	50	2	52	0	52	0
	Total, Positions Other Than FT Permanent	6,286	6,286	216	6,502	0	6,502	0
11.5	Other Personnel Compensation:							
	Overtime	24,778	24,778	0	24,778	4,153	28,931	4,153
	Night Differential - Premium Pay	15	15	0	15	0	15	0
	Awards	33,669	33,669	0	33,669	3,165	36,834	3,165
	Total, Other Personnel Compensation	58,462	58,462	0	58,462	7,318	65,780	7,318
11.9	Total Personnel Compensation	714,005	693,791	39,690	733,481	52,139	785,620	52,139
12.0	Civilian Personnel Benefits:							
	Civil Servica Retirement	8,052	8,052	(665)	7,387	0	7,387	0
	Federal Employee Retirement System (FERS)	56,086	56,086	8,189	64,275	4,313	68,588	4,313
	Thrift Plan Contributions	21,738	21,738	965	22,703	1,524	24,227	1,524
	Federal Insurance Contributions Act (FICA)	31,092	31,092	3,413	34,505	2,316	36,821	2,316
	Medicare	10,395	10,395	538	10,933	734	11,667	734
	Health Insurance	39,416	39,416	4,752	44,168	2,964	47,132	2,964
	Life Insurance	1,303	1,303	73	1,376	92	1,468	92
	Post-retirement life and health benefits	39,000	39,000	0	39,000	0	39,000	0
	OWC Payments	(77)	(77)	0	(77)	0	(77)	0
	Flexible Spending Account		0	0	0	0	0	0
	Prof Liability Insurance		3	0	3	0	3	0
	Prompt Payment Act Interest		0	0	0	0	0	0
	Transportation Subsidy	3,695	3,695	12	3,707	248	3,955	248
	Recruitment Allowance 0	341	341	1	342	0	342	0
	Retention Allowance 3	11	11	0	11	0	11	0
	Total, Civilian Personnel Benefits 0	211,055	211,055	17,278	228,333	12,191	240,524	12,191
13.0	Benefits for Former Personnel	1,000	1,000	0	1,000	(1,000)	0	(1,000)

Object Class	Object Class Title:	FY 2006 Approp Budget	FY 2006 Enacted Budget	FY 2007 Adjust. To Base	FY 2007 Base	FY 2007 Program Changes	FY 2007 Budget Estimate	FY 2007 Increase (Decrease)
21.0	Travel and Transportation of Persons:							
	Transportation - Domestic	1,257	1,257	0	1,257	0	1,257	0
	Transportation - International	3,219	3,219	0	3,219	1,262	4,481	1,262
	Local Travel	6,309	6,309	0	6,309	0	6,309	0
	Relocation Travel	288	288	0	288	0	288	0
	Per Diem Allowances		0	0	0	0	0	0
	Examiner Educstion - Domestic	12	12	0	12	0	12	0
	Examiner Educstion - International		6	0	6	0	6	0
	Rental Car Expenses	43	43	0	43	0	43	0
	Privately-Owned Automobiles	12	12	1	13	0	13	0
	Rental of GSA Vehicles	122	122	0	122	0	122	0
	Total, Travel and Transportation of Persons	11,268	11,268	1	11,269	1,262	12,531	1,262
22.0	Transportation of Things:							
	Freight Charges	51	51	1	52	(22)	30	(22)
	Transportation of Household Goods		0	0	0	0	0	0
	Parcel Post	751	751	14	765	0	765	0
	Other	27	27	0	27	(27)	0	(27)
	Total, Transportation of Things	829	829	15	844	(49)	795	(49)
23.1	Rental Payments to GSA	104,057	104,057	1,561	105,618	(6,081)	99,537	(6,081)
23.2	Rental Payments to Others	7,293	7,293	131	7,424	0	7,424	0
23.3	Communications, Utilities, and Misc. Charges:							
	Rental of IT Equipment	18,813	18,813	339	19,152	(4,816)	14,336	(4,816)
	Rental of Office Copying Equipment	136	136	1	137	(75)	62	(75)
	Other Equipment Rental	84	84	2	86	(47)	39	(47)
	Federal Telecommunications Systems	2,722	2,722	0	2,722	(2,572)	150	(2,572)
	Telecommunications Systems	6,343	6,343	114	6,457	(2,845)	3,612	(2,845)
	Postal Services by USPS	9,221	9,221	0	9,221	(2,900)	6,321	(2,900)
	Utilities Services	2,750	2,750	50	2,800	3,534	6,334	3,534
	Total, Comm, Utilities, and Misc. Charges	40,069	40,069	506	40,575	(9,721)	30,854	(9,721)

Object Class	Object Class Title:	FY 2006 Approp Budget	FY 2006 Enacted Budget	FY 2007 Adjust. To Base	FY 2007 Base	FY 2007 Program Changes	FY 2007 Budget Estimate	FY 2007 Increase (Decrease)
24.0	Printing and Reproduction:							
	Patent Printing	91,316	91,316	1,644	92,960	(21,331)	71,629	(21,331)
	Trademark Printing	1,170	1,170	21	1,191	0	1,191	0
	General Printing	413	413	0	413	0	413	0
	Publications	78	78	0	78	0	78	0
	Binding-OPS	71	71	0	71	0	71	0
	Other Printing	250	250	14	264	0	264	0
	Total, Printing and Reproduction	93,298	93,298	1,679	94,977	(21,331)	73,646	(21,331)
25.1	Advisory and Assistance Services:							
	Management & Professional Support Services	11,192	11,192	201	11,393	0	11,393	0
	Studies, Analyses, & Evaluation		0	0	0	0	0	0
	Engineering & Technical Services		0	0	0	0	0	0
	Subtotal	11,192	11,192	201	11,393	0	11,393	0
25.2	Other Services:							
	Training:							
	University	4,240	4,240	76	4,316	1,073	5,389	1,073
	Other	9,736	9,736	175	9,911	2,465	12,376	2,465
	Exhibits and Displays	0	0	0	0	0	0	0
	Install/Reconfigure Existing Systems	2,169	2,169	39	2,208	549	2,757	549
	Non-IT Maintenance and Repair Services	2,892	2,892	52	2,944	732	3,676	732
	Operation and Maintenance of Facilities	1,366	1,366	25	1,391	346	1,737	346
	IT Maintenance and Repair Services	11,947	11,947	215	12,162	3,025	15,187	3,025
	Building Repairs & Alterations - NonCapitalized	1,204	1,204	22	1,226	305	1,531	305
	IT Operation Support Services	109,094	109,094	1,964	111,058	17,620	128,678	17,620
	IT Timesharing Services	29,117	29,117	524	29,641	5,472	35,113	5,472
	Other Contractual Services	1,462	1,462	26	1,488	370	1,858	370
	Miscellaneous Goods and Services Non-IT	17,679	17,679	318	17,997	2,476	20,473	2,476
	Non-IT Operation Support Services	218,595	218,595	4,016	222,611	29,768	252,379	29,768
	Subtotal	409,501	409,501	7,452	416,953	64,201	481,154	64,201

Object Class	Object Class Title:	FY 2006 Approp Budget	FY 2006 Enacted Budget	FY 2007 Adjust. To Base	FY 2007 Base	FY 2007 Program Changes	FY 2007 Budget Estimate	FY 2007 Increase (Decrease)
25.3	Purchase of Goods and Services from Gov't Accounts:							
	Office of Personnel Management Training	54	54	1	55	0	55	0
	Government Services	834	834	15	849	1,883	2,732	1,883
	Executive Development and Leadership Training	254	254	5	259	0	259	0
	National Archives and Records Administration (NARA)	400	400	0	400	0	400	0
	Payment to GA, WCF	4,300	4,300	0	4,300	0	4,300	0
	Subtotal	5,842	5,842	21	5,863	1,883	7,746	1,883
26.0	Supplies and Materials:							
	Office Supplies	253	253	5	258	(38)	220	(38)
	GSA Supplies	764	764	14	778	(116)	662	(116)
	IT Supplies	905	905	16	921	(137)	784	(137)
	Toner Supplies	2,226	2,226	40	2,266	(337)	1,929	(337)
	Other Supplies	4,107	4,107	74	4,181	(622)	3,559	(622)
	Books and Periodicals	5,878	5,878	106	5,984	(890)	5,094	(890)
	Copier Paper	2,564	2,564	46	2,610	(389)	2,221	(389)
	Total, Supplies and Materials	16,697	16,697	301	16,998	(2,529)	14,469	(2,529)
31.0	Equipment:							
	Capital Leases	2,357	2,357	42	2,399	(40)	2,359	(40)
	Internal Use Software in Progress (Capitalized)	5,817	5,817	105	5,922	(100)	5,822	(100)
	Hardware for Internal Use Software in Progress (Non-Capitalized)	13,137	13,137	236	13,373	(223)	13,150	(223)
	IT Equipment (Capitalized)	0	0	0	0	0	0	0
	IT Equipment (Non-Capitalized)	26,617	26,617	479	27,096	(452)	26,644	(452)
	Internal Use Software (Capitalized)	1,680	1,680	30	1,710	(29)	1,681	(29)
	IT Software (Non-Capitalized)	17,751	17,751	320	18,071	(301)	17,770	(301)
	IT Software (Expensed)	104	104	2	106	(2)	104	(2)
	Furniture and Fixtures (Capitalized)	6,442	6,442	116	6,558	(109)	6,449	(109)
	Furniture and Fixtures (Non-Capitalized)	1,439	1,439	26	1,465	(24)	1,441	(24)
	Office Equipment/Telecommunications (Capitalized)	654	654	12	666	(11)	655	(11)
	Office Equipment/Telecommunications (Non-Capitalized)	1,196	1,196	22	1,218	(20)	1,198	(20)
	Total, Equipment	77,194	77,194	1,390	78,584	(1,311)	77,273	(1,311)
32.0	Leasehold Improvements Capitalized		0	0	0	0	0	0
42.0	Insurance Claims and Indemnities	0	0	0	0	0	0	0
43.0	Interest and Dividends		0	0	0	0	0	0
	Total Direct Obligations	1,703,300	1,683,086	70,226	1,753,312	89,654	1,842,966	89,654

UNITED STATES PATENT AND TRADEMARK OFFICE

OFFICE OF THE GENERAL COUNSEL

Dear Sir/Madam:

Your Freedom of Information Act (FOIA) request was received by the Freedom of Information Officer (FOIA) on **9/13/06**.

Your request has been docketed as "**FOIA/PA Request No. 06-359.** Any further inquiries regarding your request should include that number. A copy of your request is attached for reference.

In the event your original request was incorrectly addressed, please address all inquiries regarding your request to:

FREEDOM OF INFORMATION ACT (FOIA) OFFICER
United States Patent and Trademark Office
P.O. Box 1450
Alexandria, VA 22313-1450

Sincerely,

Robert Fawcett
FOIA Officer

EFOIA

06-354

From: Boundy, David [dboundy@willkie.com]
Sent: Tuesday, September 12, 2006 1:44 PM
To: EFOIA
Subject: rulemaking files

I would like the files for these three rulemaking proceedings. In order to reduce page burden, please exclude the public comments that are posted on the PTO web site -

RIN 0651-AB93 "Changes to Practice for Continuing Applications, Requests for Continued Examination Practice, and Applications Containing Patentably Indistinct Claims" (71 Fed. Reg. 48, January 3, 2006) and

RIN 0651-AB94 "Changes to Practice for the Examination of Claims in Patent Applications" (71 Fed. Reg. 61, January 3, 2006)

RIN 0651-AB95 "Changes to Information Disclosure Statement Requirements and Other Related Matters" (71 Fed. Reg. 38808, July 10, 2006)

David Boundy
Willkie Farr & Gallagher LLP
787 Seventh Avenue
New York, NY 10019
(212) 728 8757
(212) 728 9757 (FAX)

UNITED STATES PATENT AND TRADEMARK OFFICE

GENERAL COUNSEL

OCT 12 2006

Mr. David Boundy
Willkie Farr & Gallagher, LLP
787 Seventh Avenue
New York, NY 10019

Re: Freedom of Information Act (FOIA) Request No. 06-359

Dear Mr. Boundy:

The Office of the General Counsel received your e-mail dated September 12, 2006, requesting, under the Freedom of Information Act (5 U.S.C. § 552) a copy of:

"the files for [RIN 0651-AB93, 0651-AB94, 0651-AB95]."

The United States Patent and Trademark Office (USPTO) identified 114 pages of documents that are responsive to your request and are releasable. A copy of the material is enclosed.

Since the processing costs of this request were less than $20.00 applicable fees are hereby waived.

Sincerely,

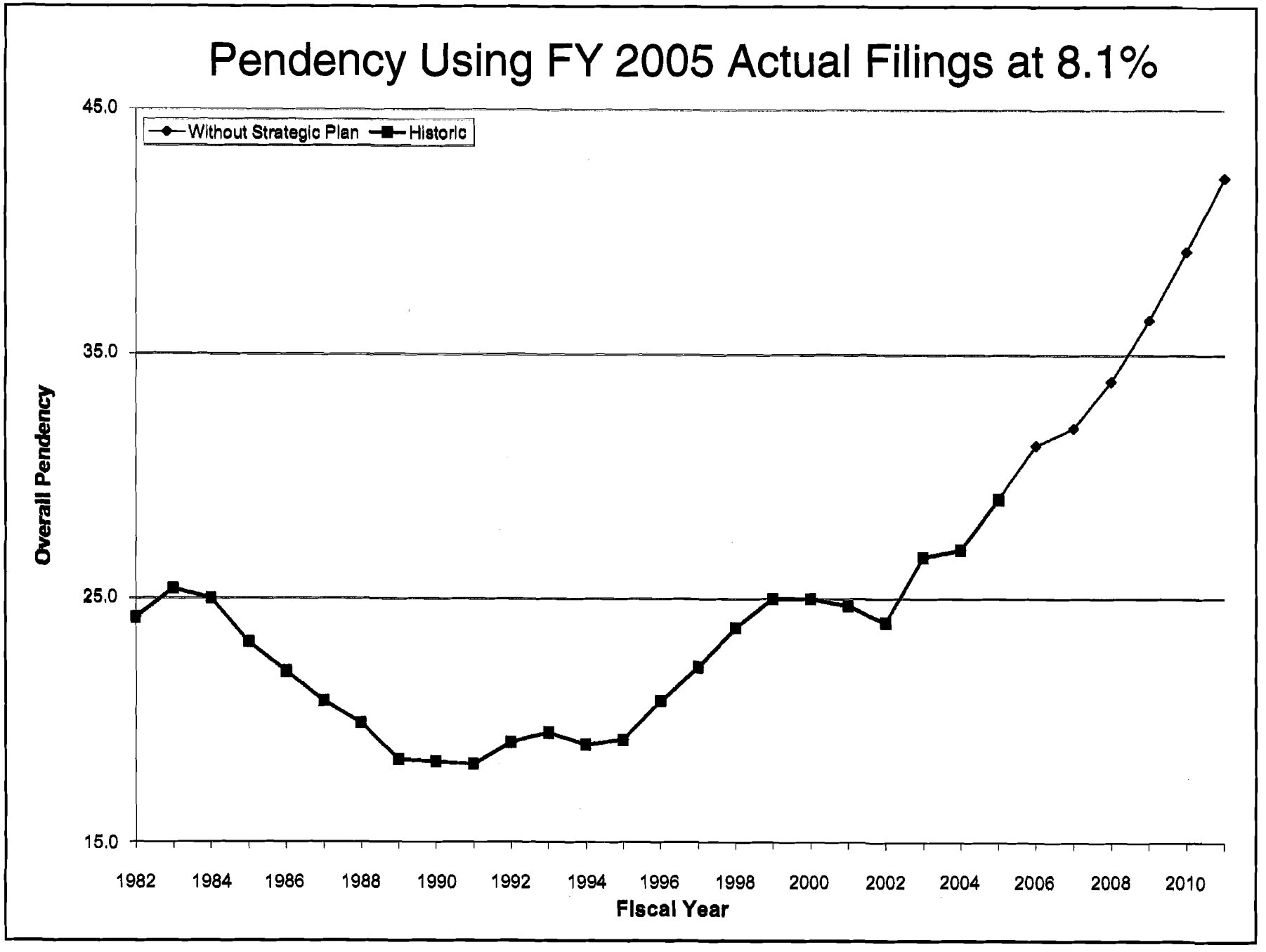
Robert Fawcett
FOIA Officer

Enclosure

John Doll – Commissioner for Patents

February 1, 2006

Pendency Projections


Pendency Using FY 2005 Actual Filings at 8.1%
Without Strategic Plan
Historic
45.0
35.0
25.0
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Overall Pendency
1982
1984
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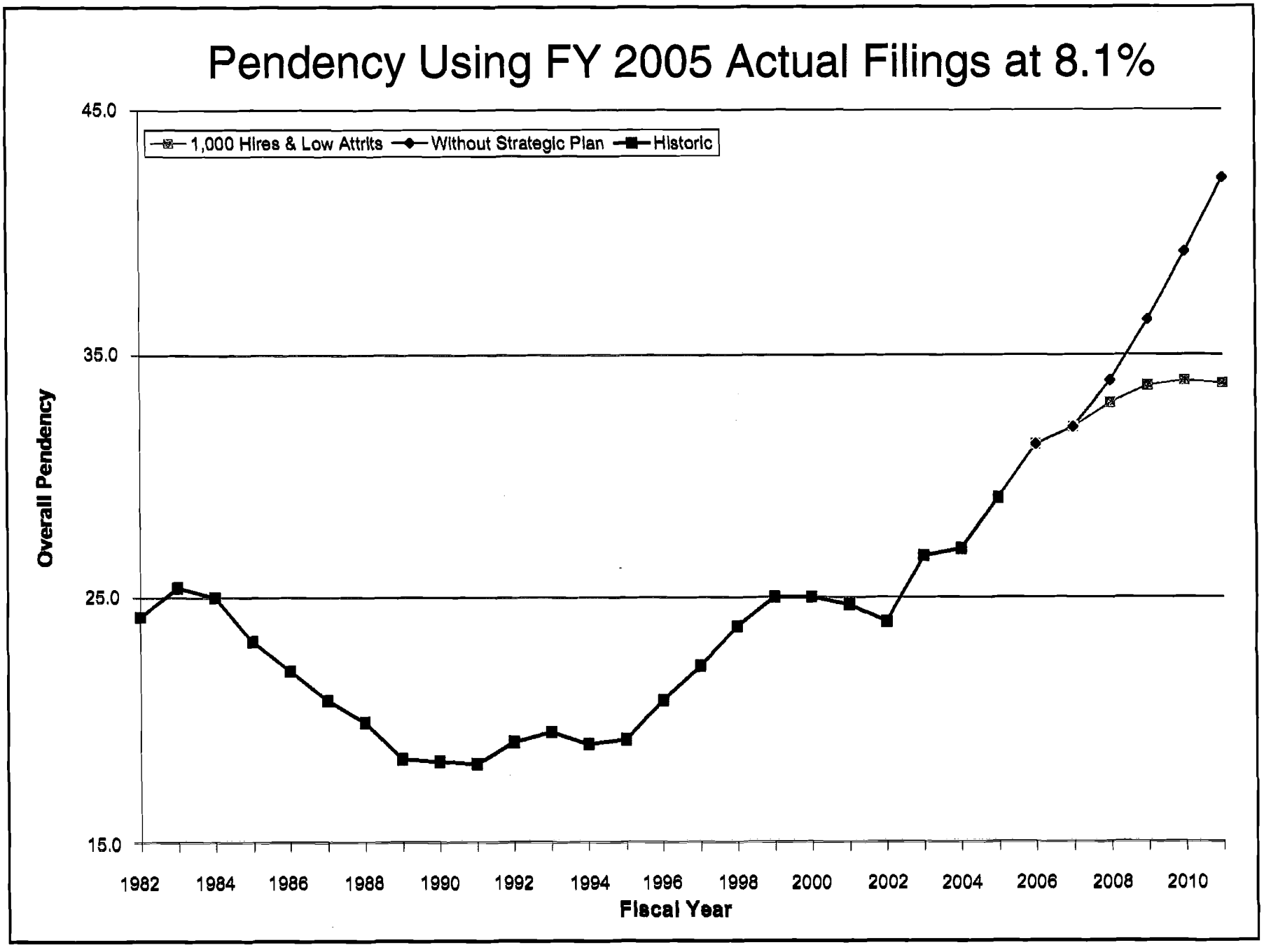
2006
2008
2010
Fiscal Year


Pendency Using FY 2005 Actual Filings at 8.1%
45.0
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Without Strategic Plan
Historic
Overall Pendency
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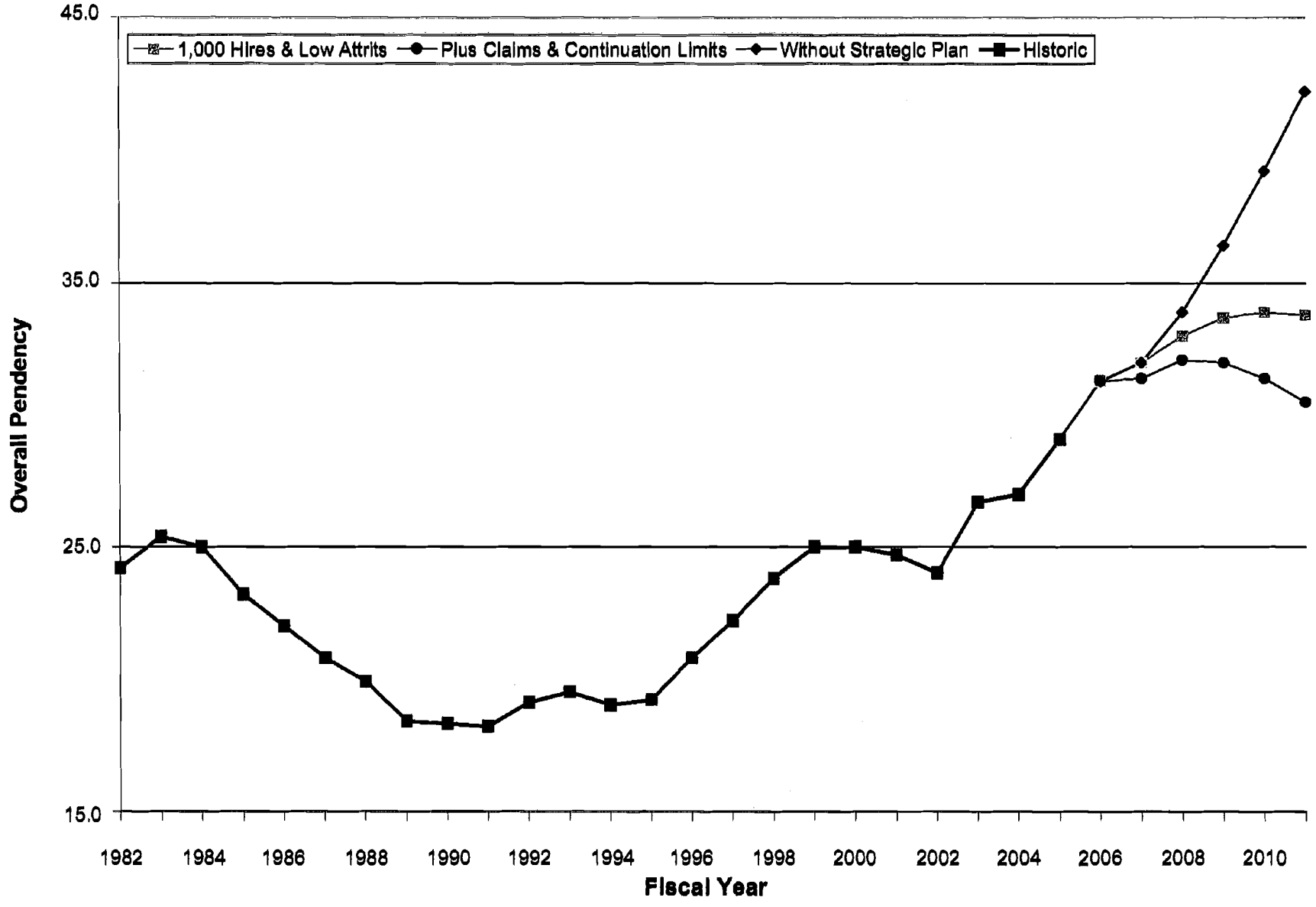
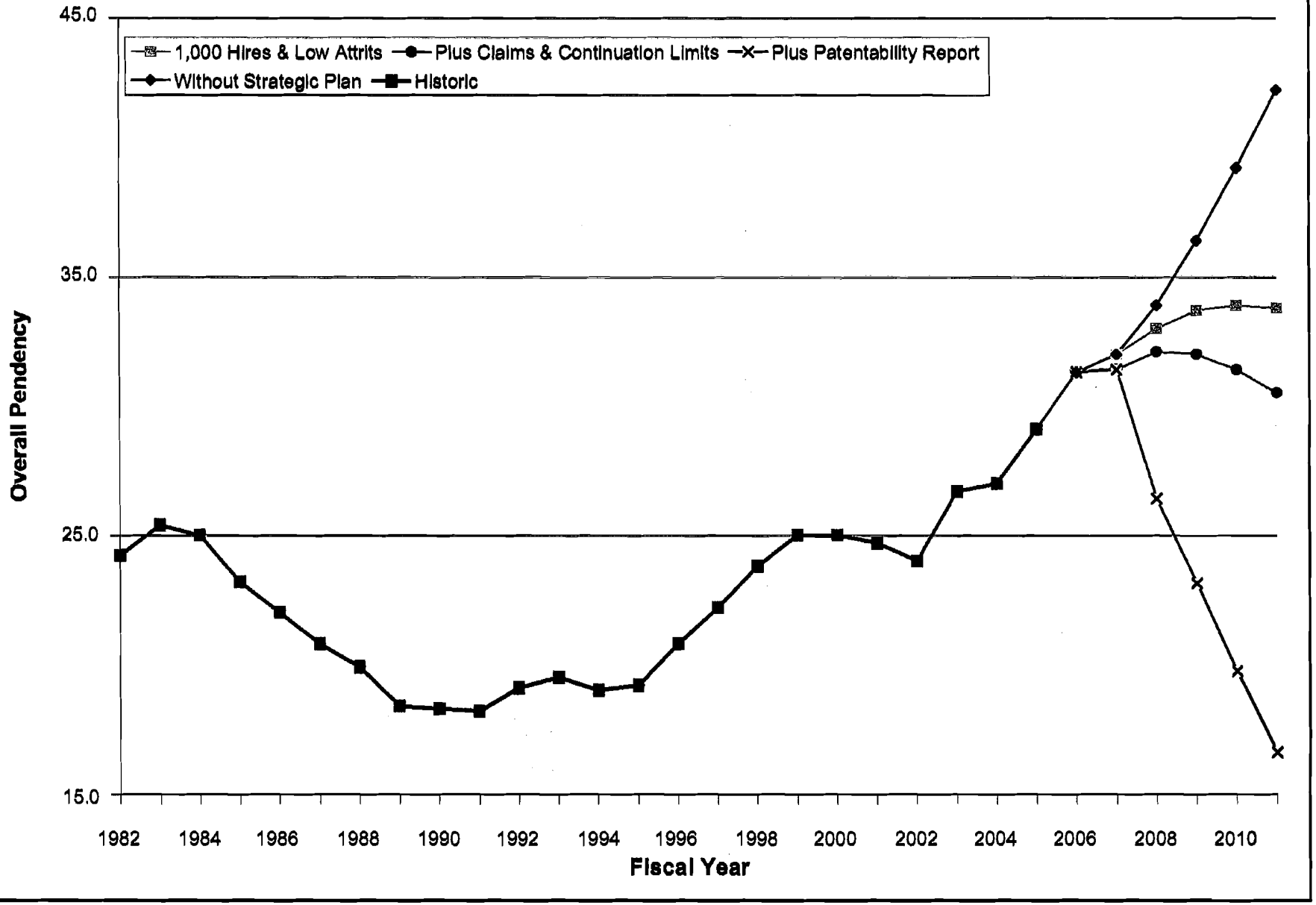
Fiscal Year

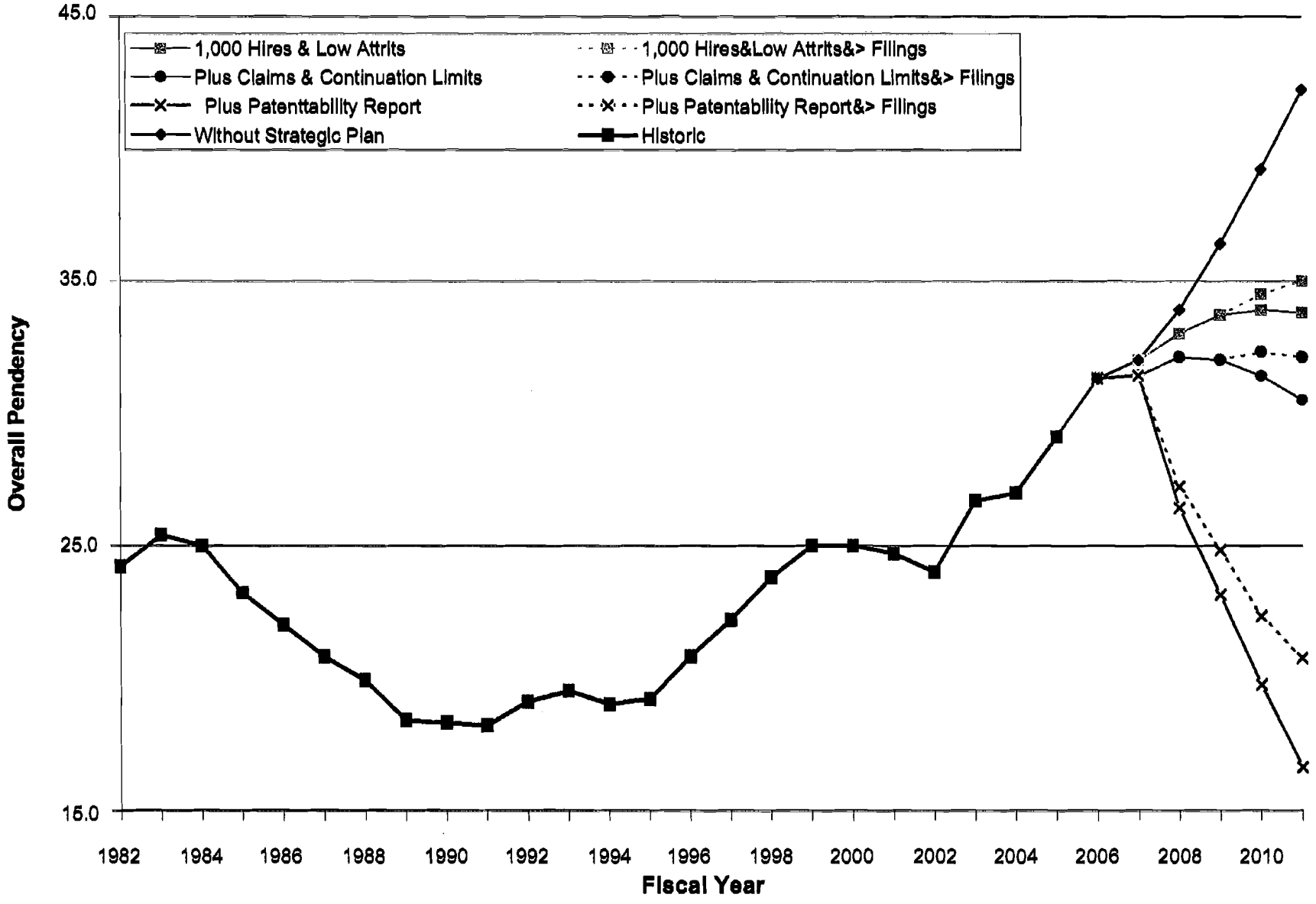
Pendency Using FY 2005 Actual Filings at 8.1%



Pendency Using FY 2005 Actual Filings at 8.1%

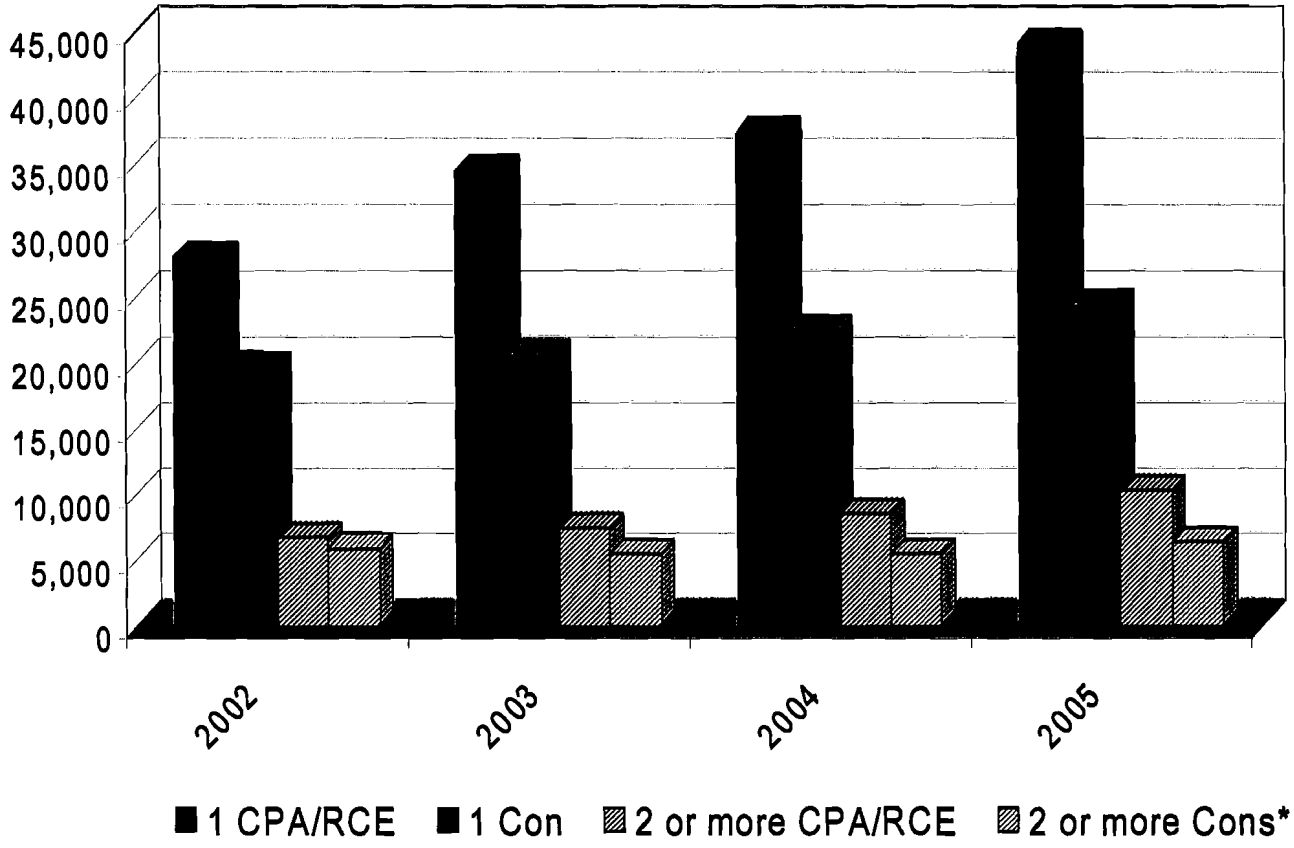


Pendency Using FY 2005 Actual Filings at 8.1%



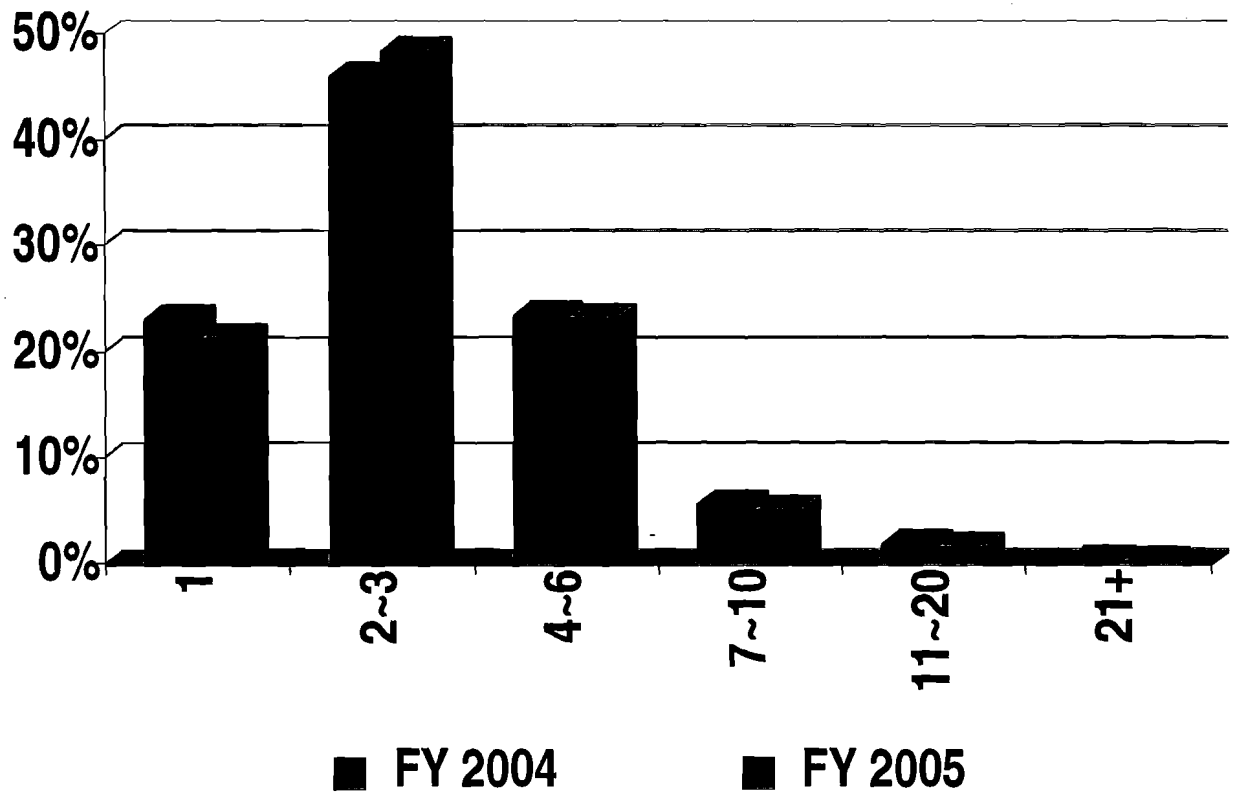
Stats and Stuff

Total Continuation Filing Rates

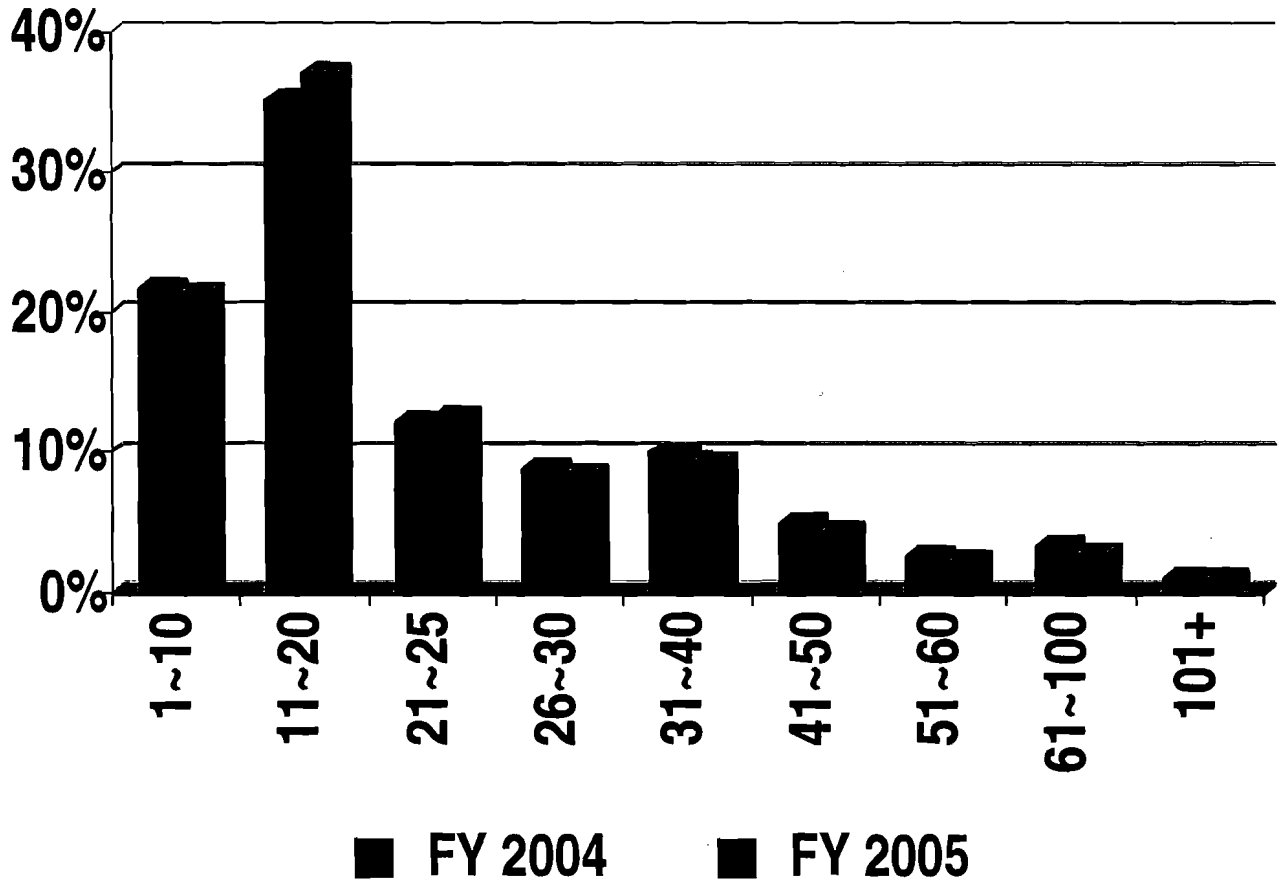


*Straight Continuations 37 CFR §1.53 (b)(1) – No Divisionals or CIPs – as of 1/17/06

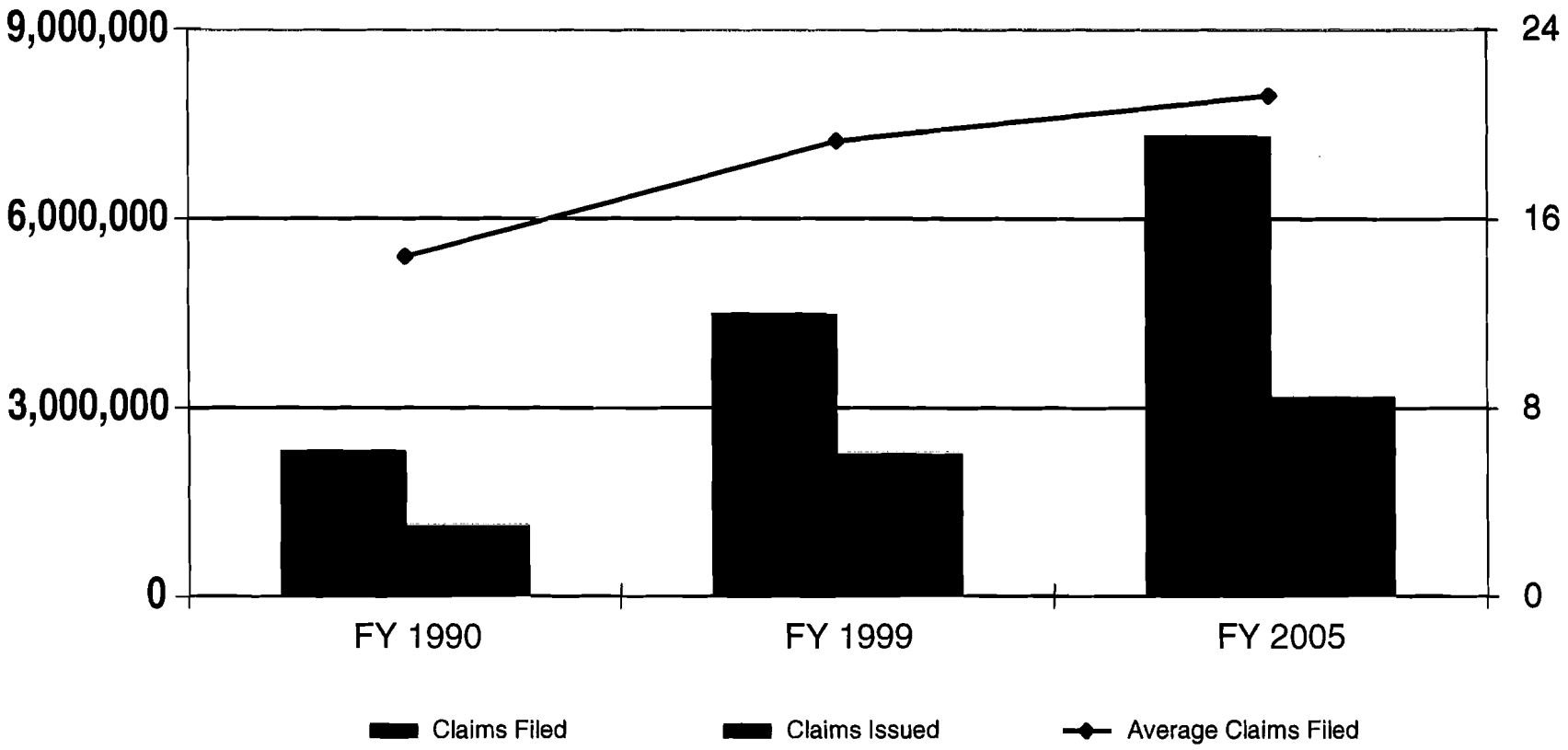
Distribution of Independent Claims at Filing



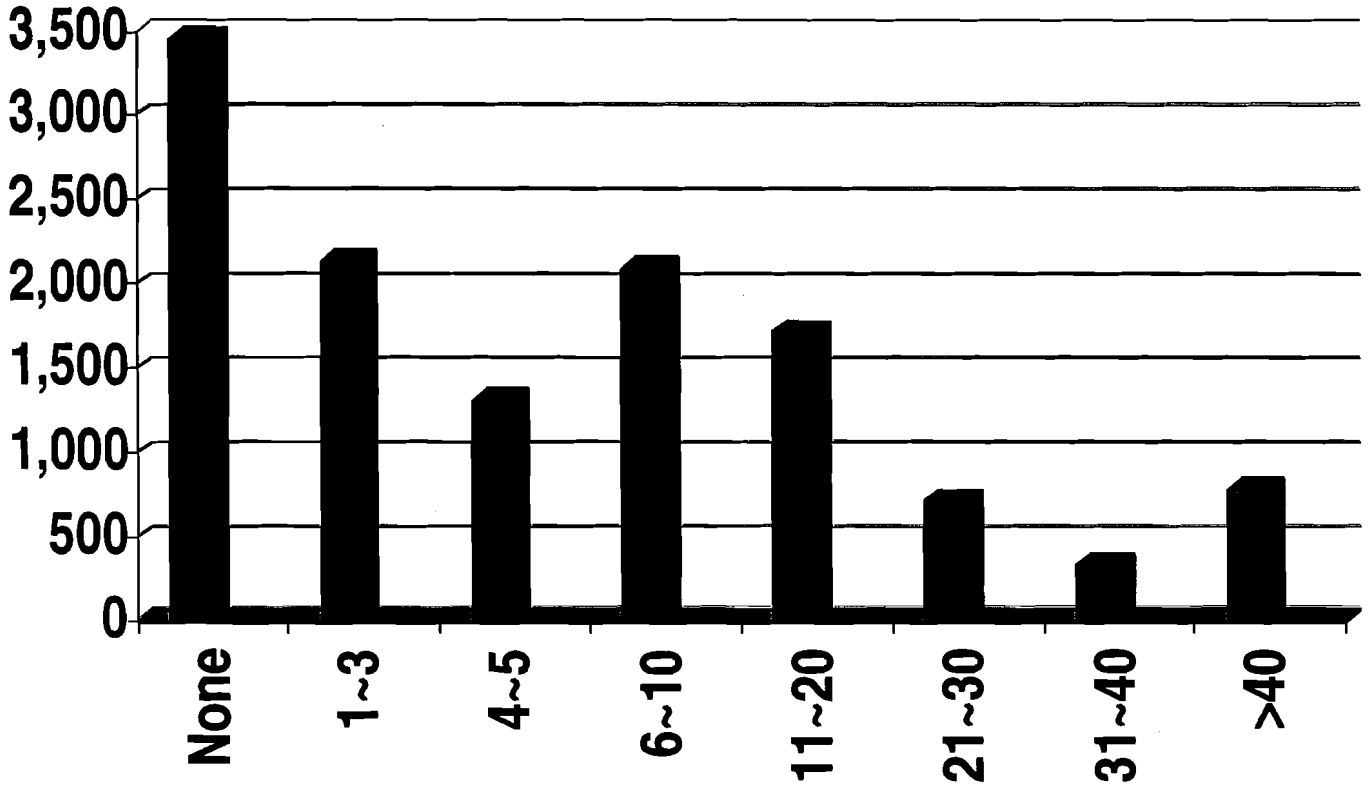
Distribution of Total Claims at Filing



Total Claims at Filing and Issue



Distribution of the Number of References Cited in Applications

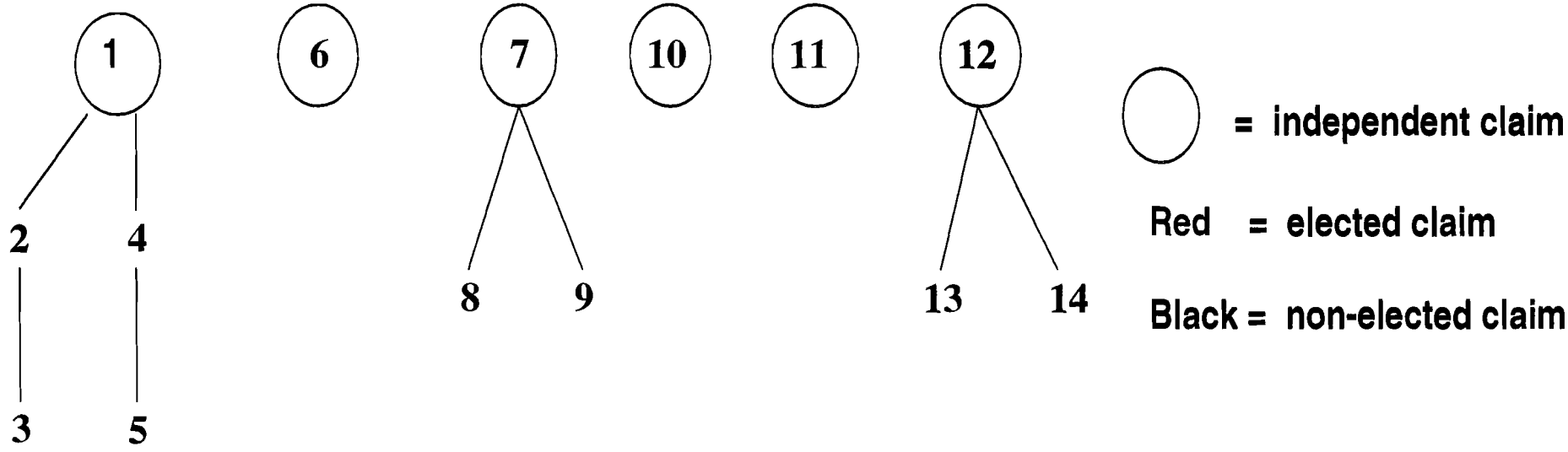


Sampling done April-June 2005

Changes to Practice for the Examination of Claims in Patent Applications

Examples

Election of Claims – Example 1



- All independent claims must be elected.

- The election of claim 3 is improper. An elected dependent claim must depend from another elected claim. Applicant can choose to re-write claim 3 to depend from 1, or also elect claim 2 to be examined.

Election of Claims – Example 2

Claims

1. An apparatus comprising....

...

...

7. The method of using the apparatus of claim 1 to .....

Claim 7 is an independent method claim and will be treated as such for the purposes of claim election. Therefore, it must be elected to be examined.

Election of Claims – Example 3

Claims:

1. An apparatus comprising....

...

...

4. An apparatus as claimed in one of claims 1-3 further comprising....

For the purposes of election, proper multiply dependent claim 4 will be treated as 3 separate claims. Thus, 3 claims will be counted to determine whether the applicant has exceeded the 10 claim limit to avoid submission of an examiner support document.

Election of Claims – Example 4

Applicant files an application with claims to a single invention. The application is filed with 10 total claims: 3 independent claims and 7 dependent claims.

For examination purposes:

- If the applicant designates all 7 dependent claims for initial examination, the Office will give initial examination to all 10 claims.
- If the applicant does not designate any dependent claims for initial examination, the Office will give initial examination only to the 3 independent claims.

Election of claims – Example 5

Applicant files an application with claims to a single invention. The application is filed with 10 total claims: 3 independent claims and 7 dependent claims. The applicant designates all dependent claims, in addition to the independent claims, as representative claims for initial examination.

Applicant files an amendment which (a) cancels 3 claims (1 independent and 2 dependent) and (b) adds 11 claims (4 independent and 7 dependent). The application, as amended, now contains 18 claims: 6 independent claims and 12 dependent claims.

- If the applicant does not change the original designation of dependent claims,*
  - the applicant must submit an examination support document covering the 11 representative claims, or
  - reduce the number of representative claims to 10 or fewer by canceling independent claims, rescinding the designating of dependent claims for initial examination, or a combination of thereof.

*In this instance, there are now 11 designated representative claims: 6 independent claims and 5 dependent claims.

Election of claims – Example 6

Applicant files an application with claims to a single invention. The application is filed with 20 total claims: 3 independent claims and 17 dependent claims.

- If applicant does not designate any dependent claims for initial examination, the Office will give initial examination only to the 3 independent claims.
- If applicant designates 7 dependent claims for initial examination, the Office will give initial examination to 10 claims; 3 independent claims and 7 designated dependent claims.

Election of Claims – Example 7

Applicant files an application with claims to a single invention. The application is filed with 20 total claims: 3 independent claims and 17 dependent claims.

If applicant designates all 17 dependent claims for initial examination, the application will have 20 representative claims. Applicant must:

- submit an examination support document covering the 20 representative claims, or
- reduce the number of representative claims to 10 or fewer by canceling independent claims, rescinding the designating of dependent claims for initial examination, or a combination thereof.

Election of Claims – Example 8

Example 1: An applicant files an application with claims to 3 distinct inventions. The application is filed with 30 claims: 3 independent claims and 27 dependent claims.

If applicant does not designate any dependent claims for initial examination:

- The Office give initial examination only to the 3 independent claims.
- The Office may still restrict the application to a single

Election of Claims – Example 9

An applicant files an application with claims to 3 distinct inventions. The application is filed with 30 claims: 3 independent claims and 27 dependent claims

If the applicant designates 7 dependent claims for initial examination:

- The Office will give initial examination to 10 claims: 3 independent claims and 7 designated dependent claims.
- The Office may still restrict the application to a single invention.

Election of Claims – Example 10

An applicant files an application with claims to 3 distinct inventions. The application is filed with 30 claims: 3 independent claims and 27 dependent claims.

If applicant designates all 27 dependent claims for initial examination, the application will have 30 representative claims. The applicant must:

- submit an examination support document covering the 30 representative claims;
- reduce the number of representative claims to 10 or fewer by canceling independent claims, rescinding the designating of dependent claims for initial examination, or a combination thereof; and/or
- reduce the number of representative claims to 10 or fewer by suggesting a requirement for restriction and election w/out traverse of such representative claims.

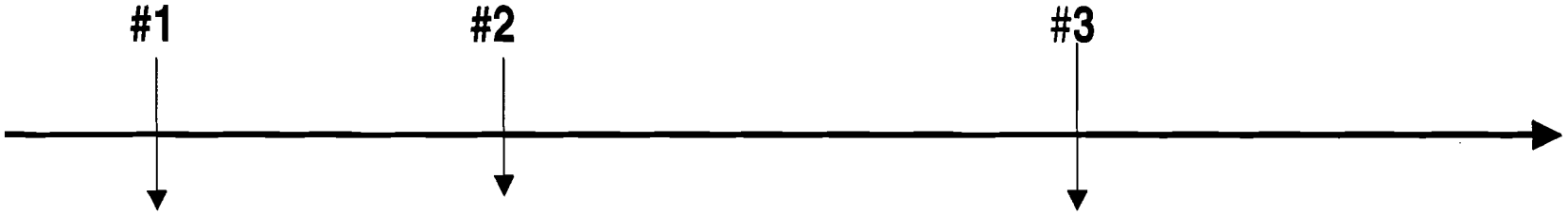
Changes to Practice for Continuing Applications

Examples

Continuations

Benefit Claims under 35 USC 120, 121, or 365(c)

One RCE, Continuation, or CIP Permitted



Provisional Application

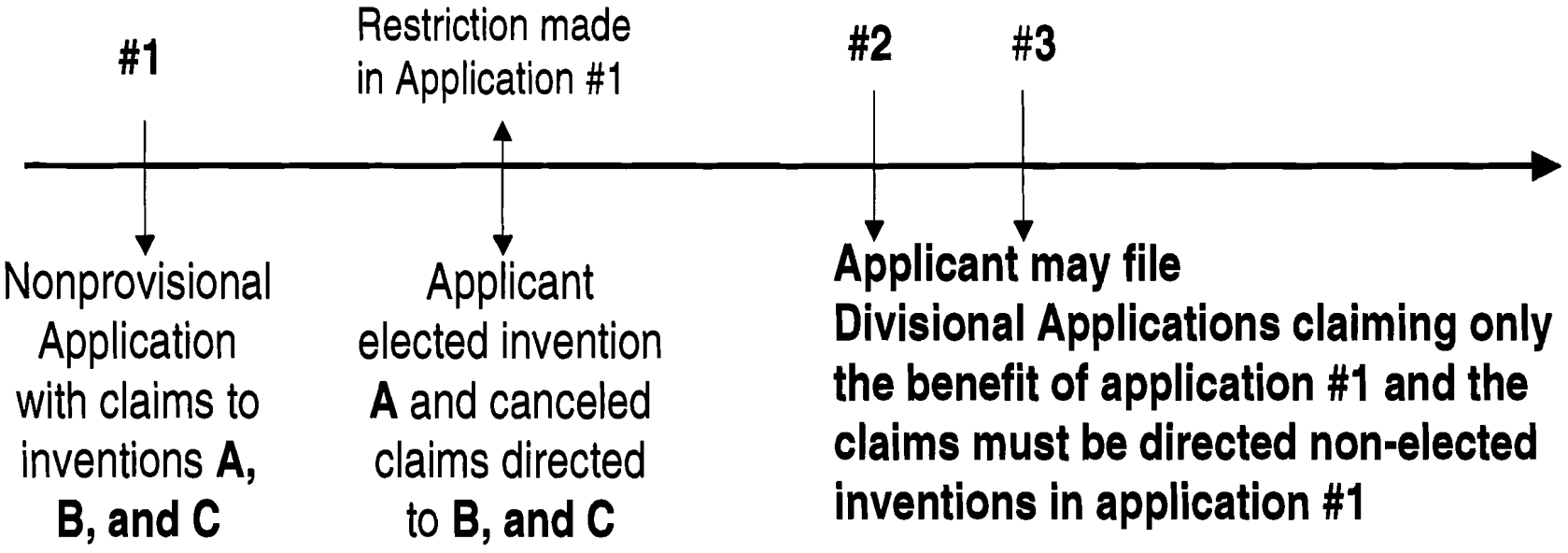
Nonprovisional Application claiming the benefit of the provisional application, 35 USC 119(e)

Applicant may file:
an RCE, or
a continuation or a CIP application, claiming a benefit under 35 USC 120, 121 or 365(c)

Continuations

Benefit Claims under 35 USC 120, 121, or 365(c)

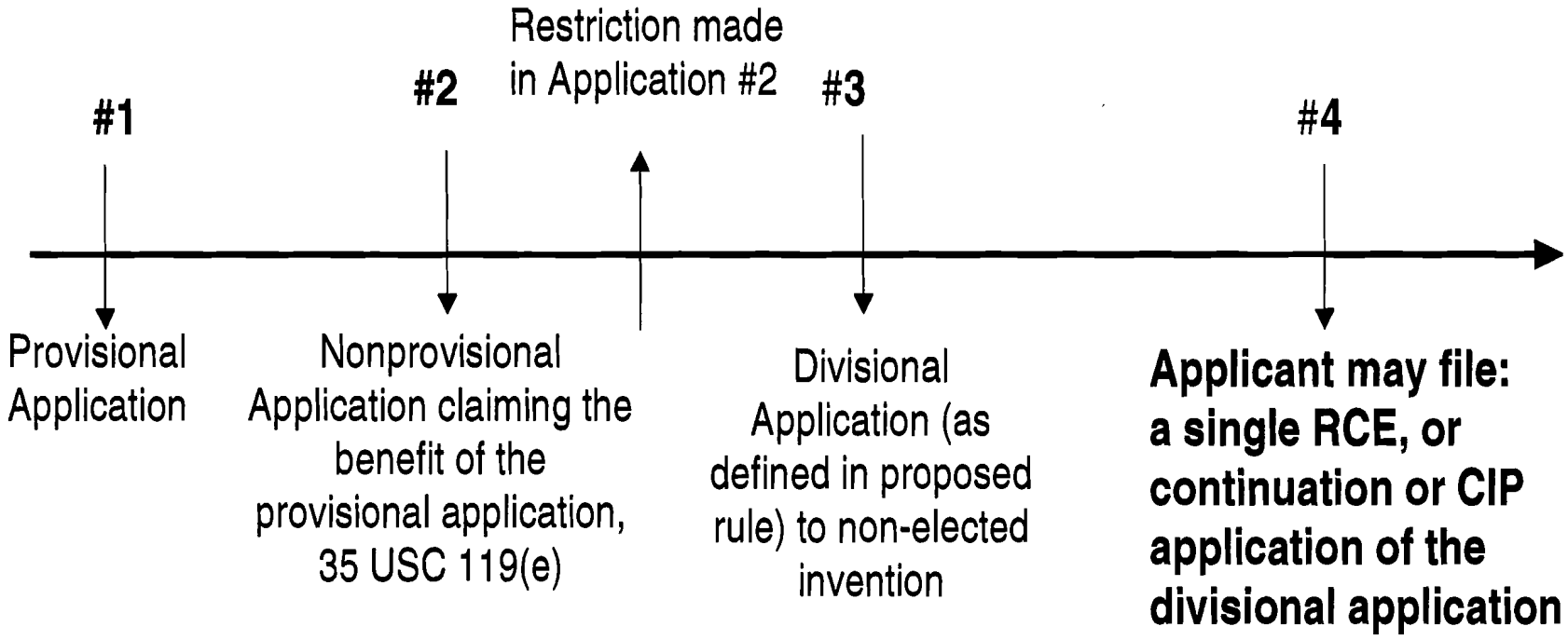
Divisional Applications Can Only Claim Benefit of One Prior Nonprovisional Application That Was Subject to a Restriction or Unity of Invention Requirement



Continuations

Benefit Claims under 35 USC 120, 121, or 365(c)

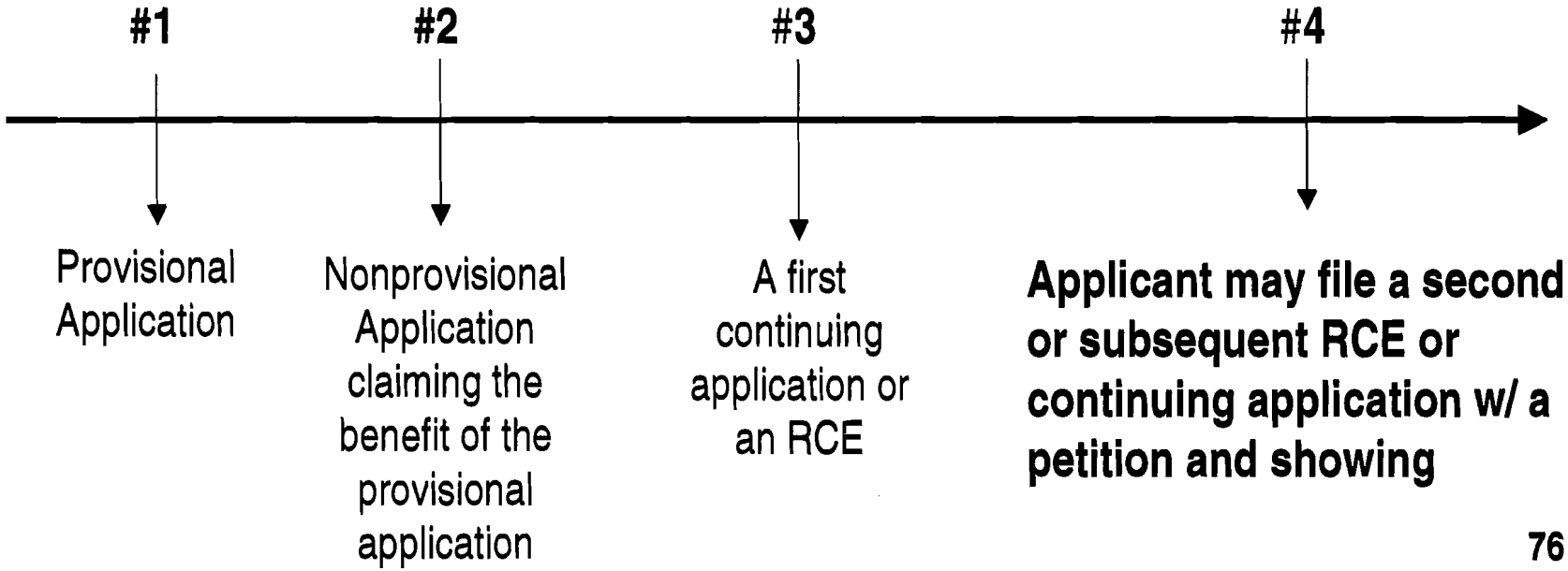
One Continuing Filing after a Divisional Permitted



Continuations

Benefit Claims under 35 USC 120, 121, or 365(c)

Second Continuing Filing Requires Petition & Showing That the Amendment, Argument, or Evidence Could Not Have Been Earlier Submitted



Continuations – Example 1

Scenario: Applicant files application #1 with 65 claims. The USPTO requires restriction between the following groups:

I. Invention 1 - 15 claims; 3 independent + 12 dependent claims

II. Invention 2 - 30 claims; 5 independent + 25 dependent claims

III. Invention 3 - 20 claims; 1 independent + 19 dependent claims

Applicant may file two divisional applications, one each for inventions 2 and 3.

- But, both will need to be filed during the pendency of application #1 in order to be entitled to claim the benefit of application #1's filing date. If divisional #3 is filed during the pendency of divisional #2, but not during pendency of application #1, it will only be entitled to the filing date of divisional #2.

Continuations – Example 2

Scenario: Applicant files application #1 claiming only 1 invention. Later, applicant files application #2 with the same disclosure but claims direction to a different invention. In application #2, the applicant claims the priority of application #1's filing date.

This is permitted, but application #2 will be treated as the one continuation of application #1 allowed as a matter of right.

- Therefore, neither applications #1 or #2 can have any additional RCEs or continuations absent a petition.
- Also, as both applications have the same effective filing date, there will be rebuttable presumption of double patenting. The applicant will need to file a terminal disclaimer or argue persuasively that the claims are patentably distinct.

Examples of a Showing for Filing a Second Continuing Application

Example 1: In a continuation application,

- An interference is declared in an application containing both claims corresponding to the count(s) and claims not corresponding to the count(s), and
- The APJ suggests that the claims not corresponding to the count(s) be canceled from the application in interference and pursued in a separate application.

Examples of a Showing for Filing a Second Continuing Application

Example 2: In a continuation application,

- Data necessary to support a showing of unexpected results just became available to overcome a final rejection under 35 U.S.C. 103, and
- The data is the result of a lengthy experimentation that was started after applicant received the rejection for the first time.

Examples of a Showing for Filing a Second Continuing Application

Example 3: In a continuation application,

- The final rejection contains a new ground of rejection that could not have been anticipated by the applicant, and
- The applicant seeks to submit evidence which could not have been submitted earlier to overcome this new rejection.

Examples of Unacceptable Showing for Filing a Second Continuing Application

Example 1:

- An argument that a final rejection in one of the prior applications was premature.
- Applicant should address the propriety of the final rejection during prosecution of the prior application, and not collaterally in a petition for a continuation application.

Examples of Unacceptable Showing for Filing a Second Continuing Application

Example 2:

- An argument that an amendment after final rejection should have been entered in the prior application.
- Applicant should address the non-entry in the prior application, and not collaterally in a petition for a continuation application.

To Submit Comments:

Comments should be sent by electronic mail to the following addresses:

- Continuations – AB93Comments@uspto.gov
- Claims – AB94Comments@uspto.gov

Contact Information

- **John Doll**

  Commissioner for Patents

  e-mail: john.doll@uspto.gov

  Phone: 571 272 8250

John Doll – Commissioner for Patents

February 1, 2006

USPTO Request for Public Input: Strategic Planning

- Agency developing new strategic plan
  - Part of budget process
  - Planning for at least six-year period
  - Anticipate, plan for USPTO role in changing environment
  - Seeking broad perspective:
    - input from interested persons, stakeholders, including
    - Industries (large and small business), inventors, employees, practitioners
- Please send ideas/thoughts/suggestions to StrategicPlanning1@uspto.gov

EFS-Web: Newly Improved On-Line Solution For Patent Filers

- EFS-Web will allow patent filers, anywhere, anytime, to submit patent applications, related documents, and pay fees online.
- Currently in Beta-testing
- Rollout to all comers expected mid-March 2006

EFS-Web Advantages to Patent Filers

- File applications and related documents using existing technologies and workflows.
- Submit applications and related documents by simply attaching PDF files.
- Staff may transmit filing on behalf of patent practitioners.
- Verifies and validates files before submission.
- Automatic electronic acknowledgement receipt confirming submission.
- Rapid access to PAIR to view submission and status and to confirm documents safely and accurately received.

EFS-Web Schedule and Support

- Electronic Business Center (EBC)
  support available from 6 a.m. to 12 Midnight Eastern Monday-Friday
- *EBC Contact Numbers:*
  - *1-866-217-9197*
  - *571-272-4100*
  - *571-273-0177 (fax)*
- *E-mail: ebc@uspto.gov*
- *Online Training Available*

Questions

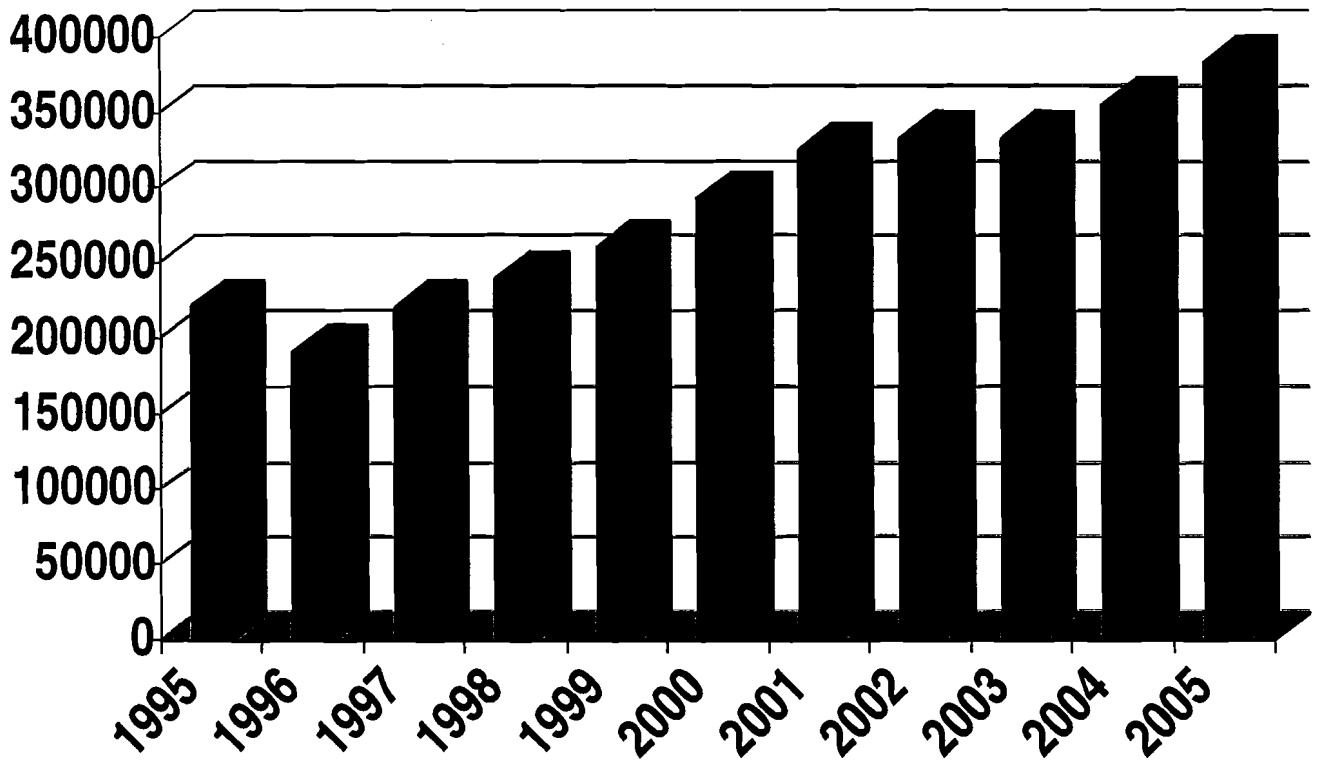
- EFS Web receipt time or filing date is based on USPTO East Coast time as defined by Statute.
- What can be filed in EFS-Web?
  - New Applications: Utility, Provisional, Design with Color Drawings, 371 National Stage
  - Follow-on submission associated with an Application
  - Over 80 document descriptions - Amendments, Petitions, Board of Appeals Documents, Non-Patent Literature, Foreign References Cited etc etc
  - Numerous Fees
    - Filing Fees
    - Extensions of Time
    - Petition Fees

Newly Proposed 12 Month Accelerated Examination Procedure

- Goal: A final disposition of an application can be reached within 12 months from the filing date of the application.
  - Final disposition: allowance, abandonment, or appeal.
- An OG notice will soon be published.
  - Revising the requirements and procedures for petitions to make special under the accelerated examination program, and 37 CFR 1.102(c)(2), set forth in MPEP 708.02.

Application Filings and Examiner Production

UPR Applications Filed



- FY 05 plan 375,080 (5.5% above FY 04)
- FY 05 actual 384,228 (8.1% above FY04)
- 2.6% over plan

Production

	FY 04	FY 05 Target	FY 05
UPR[1] FAOM[2]	288,315	297,614	297,287
UPR Disposals[3]	287,188	295,456	279,345
UPR Production Units[4]	287,752	296,535	288,316
PCT Production Units[5]	16,882	22,916	15,147

[1] "UPR" = Utility, Plant, and Reissue Applications.

[2] "FAOM" = First Action on the Merits – first action count by an examiner after the filing of an application (does not include restrictions or other miscellaneous actions).

[3] "Disposal" = An examiner allowance, abandonment, or disposals following a board decision.

[4] "Production Unit" = First action count plus disposal count divided by 2.

[5] "PCT" = Patent Cooperation Treaty. PCT applications are processed differently and tracked separately from US National stage applications. For FY 05, 15,147 PU's is 35,389 processed applications.

PENDENCY

. . . vs the Backlog

First Action Pendency by Art Areas

High Pendency Art Areas	Pendency[1] (months)	Low Pendency Art Areas	Pendency[1] (months)
1640 – Immunology, Receptor/ Ligands, Cytokines, Recombinant Hormones, and Molecular Biology	27.7	1620 – Heterocyclic Compounds and Uses	16.9
1743 – Analytic Chemistry & Wave Energy	30.8	1752 – Radiation Imagery	12.1
2123 – Simulation and Modeling, Emulation of Computer Components	39.7	2125 – Manufacturing Control Systems and Chemical/ Mechanical/Electrical Control	20.0
2617 – Interactive Video Distribution	50.4	2651 – Dynamic Information Storage & Retrieval	16.1
2836 – Control Circuits	24.3	2833 – Electrical Connectors	8.8
3628 – Finance & Banking, Accounting	52.1	3612 – Land Vehicles	12.0
3731 – Surgery: Cutting, Clamping, Suturing	30.9	3723 – Tools & Metal Working	10.9

[1] "Average 1st action pendency" is the average age from filing to first action for a newly filed application, completed during October-December 2005.

Inventory by Art Examples

High Inventory Art Areas	Months of Inventory*	Low Inventory Art Areas	Months of Inventory*
1614, 1615, and 1617 – Drugs, Bio-affecting and Body Treatment	38-51	1620 – Organic Chemistry	15
1753 – Radiation Imagery	34	1734 – Adhesive Bonding and Coating Apparatus	10
2127 – Computer Task Management	46	2125 – Manufacturing Control Systems and Chemical/ Mechanical/Electrical Control	10
2611 – Interactive Video Distribution	111	2651, 2653 – Information Storage and Retrieval	12
2836 – Control Circuits	22	2831 – Electrical Conductors	8
3620 – Business Methods	25-130	3651 – Conveying	12
3731 and 3737 – Medical Instruments, Diagnostic Equipment	38-47	3742 – Thermal and Combustion Technology	8

*The number of months it would take to reach a first action on the merits (e.g., an action addressing patentability issues) on a new application filed in July 2005 at today's production rate. Today's production rate means that there are no changes in production due to hiring, attrition, changes to examination processing or examination efficiencies, and that applications are taken up in the order of filing in the given art unit/area. Of course, USPTO is taking aggressive steps to ensure changes that will significantly lower the inventory rates in high-inventory art areas.

TC Application Inventory

	1600	1700	2100	2600	2800	3600	3700	Total*	Design
New Applications[1] 9/30/2004	55,402	63,923	71,778	97,380	77,651	56,738	65,005	508,878	18,451
New Applications[1] 9/30/2005	62,644	72,697	76,529	115,585	94,425	70,354	83,225	586,580	24,534
Overall Pending Applications[2] 9/30/2004	95,006	105,447	102,440	138,822	137,458	101,097	108,039	809,323	27,599
Overall Pending Applications[2] 9/30/2005	107,647	120,767	117,728	167,721	159,687	117,045	130,168	932,300	38,104

[1] "New Application inventory" is the number of new applications designated or assigned to a technology center awaiting a first action.

[2] "Overall Pending Application inventory" is the total number of applications designated or assigned to a technology center in an active status. Includes new applications; rejected awaiting response; amended; under appeal or interference; suspended; reexams and allowed applications awaiting grant publication.

*Total inventory includes applications not assigned to a particular TC, awaiting processing either pre- or post-examination.

Patent Quality

(Shared Responsibility)

Quality of Products – FY 05

		Fiscal Year 2005								
	FY 04	1600	1700	2100	2600	2800	3600	3700	Design	FY 05
Patent In-Process Examination Compliance Rate[1*]	82.0%	81.7%	82.9%	88.1%	84.7%	90.9%	84.4%	86.6%	94.3%	86.2%
Patent Allowance Error Rate[2*]	5.32%	4.88%	6.46%	3.56%	2.25%	4.43%	4.94%	6.43%	1.6%	4.55%

***Compliance and error rates as measured by OPQA.**

[1]Compliance is the percent of office actions reviewed and found to be free of any in-process examination deficiency (an error that has significant adverse impact on patent prosecution).

[2]Patent allowance error rate is the percent of allowed applications reviewed having at least one claim which is considered unpatentable on a basis for which a court would hold a patent invalid. "Allowance" occurs before a patent is issued, so these errors are caught before any patent is actually granted.

Re-Work

Technology Centers Rework* Statistics

	FY 2002	FY 2003	FY 2004	FY 2005
TC Summary	% FAOM Rework	% FAOM Rework	% FAOM Rework	% FAOM Rework
1600	36.4%	39.7%	40.3%	42.4%
1700	25.2%	26.9%	27.1%	28.0%
2100	23.9%	24.0%	24.6%	28.2%
2600	24.8%	24.2%	24.3%	25.4%
2800	19.1%	22.0%	24.9%	24.1%
3600	17.7%	21.2%	23.2%	28.5%
3700	22.2%	25.1%	24.0%	28.1%
UPR	**23.2%**	**25.3%**	**26.1%**	**28.3%**

* Rework first actions are those actions that are in a Continuing (CONs and CIPs), RCE, CPA or 129(a) applications (excludes Divisionals).

Hiring and Retention

Hires and Attritions

	1600	1700	2100	2600	2800	3600	3700	Corps	Design
FY 04 Hires	75	35	115	116	31	26	45	443	15
FY 04 Attritions	30	26	58	82	58	43	39	336	4
FY 05 BOY Examiner Staff	417	440	563	658	742	422	439	3681	72
FY 05 Hiring	101	58	225	169	184	91	131	959	19
FY 05 Attrits	42	39	93	92	54	55	50	425	10
FY 06 Hiring Goal	75	35	256	256	178	100	100	1000	20
FY 06 hires (1/25/06)	30	19	75	62	40	22	21	269	0
FY05 Hires as a Percent of Examiner Staffing in the TC	24%	13%	40%	26%	25%	22%	30%	26%	26%

Markush Practice

Markusch Practice

1. A cell adhesion protein of formula (1),

$$A\text{-}(B)\text{-}(C)\text{-}(D)_n\text{-}E$$

or a pharmaceutically acceptable derivative thereof , wherein . . .

1. A composition comprising molecules for use as tags or tag complements wherein each molecule comprises an oligonucleotide selected from a set of oligonucleotides based on a following group of sequences:

1	4	6	6	1	3
2	4	5	5	2	3
1	8	1	2	3	4
1	7	1	9	8	4
1	1	9	2	6	9
1	2	4	3	9	6
9	8	9	8	10	9
9	1	2	3	8	10
8	8	7	4	3	1
1	1	1	1	1	2
2	1	3	3	2	2
3	1	2	2	3	2
4	1	4	4	4	2
1	2	3	3	1	1
1	3	2	2	1	4
3	3	3	3	3	4
4	3	1	1	4	4
3	4	1	1	3	3
3	6	6	6	3	5
6	6	1	1	6	5
7	6	7	7	7	5
8	7	5	5	8	8
2	1	7	7	1	1
2	3	2	3	1	3
2	6	5	6	1	6
4	8	1	1	3	8
5	3	1	1	6	3
5	6	8	8	6	6
8	3	6	5	7	3
1	2	3	1	4	6
1	5	7	5	4	3
2	1	6	7	3	6
2	6	1	3	3	1
2	7	6	8	3	1
3	4	3	1	2	5
3	5	6	1	2	7
3	6	1	7	2	7
4	6	3	5	1	7
5	4	6	3	8	6

-continued

6	8	2	3	7	1
7	1	7	8	6	3
7	3	4	1	6	8
4	7	7	1	2	4
3	6	5	2	6	3
1	4	1	4	6	1
3	3	1	4	8	1
8	3	3	5	3	8
1	3	6	6	3	7
7	3	8	6	4	7
3	1	3	7	8	6
10	9	5	5	10	10
7	10	10	10	7	9
9	9	7	7	10	9
9	3	10	3	10	3
9	6	3	4	10	6
10	4	10	3	9	4
3	9	3	10	4	9
9	10	5	9	4	8
3	9	4	9	10	7
3	5	9	4	10	8
4	10	5	4	9	3
5	3	3	9	8	10
6	8	6	9	7	10
4	6	10	9	6	4
4	9	8	10	8	3
7	7	9	10	5	3
8	8	9	3	9	10
8	10	2	9	5	9
9	6	2	2	7	10
9	7	5	3	10	6
10	3	6	8	9	2
10	9	3	2	7	3
8	9	10	3	6	2
3	2	5	10	8	9
8	2	3	10	2	9
6	3	9	8	2	10
3	7	3	9	9	10
9	10	1	1	9	4
10	1	9	1	4	1
7	1	10	9	8	1
9	1	10	1	10	6
9	6	9	1	3	10
3	10	8	8	9	1
3	8	1	9	10	3

-continued

9	10	1	3	6	9
1	9	1	10	3	1
1	4	9	6	8	10
3	3	9	6	1	10
5	3	1	6	9	10
6	1	8	10	9	6
5	9	9	4	10	3
2	10	9	1	9	5
10	10	7	2	1	9
10	9	9	1	8	2
1	8	6	8	9	10
1	9	1	3	8	10
9	6	1	10	1	2
1	10	8	9	9	2
1	9	6	7	2	9
4	3	9	3	8	1
5	11	10	14	12	1
7	12	4	13	3	2
8	8	4	4	12	9
2	13	13	11	13	13
10	2	5	4	12	7
11	7	4	11	6	4
12	12	1	9	11	11
12	9	4	14	12	6
12	7	13	3	9	11
9	11	3	4	1	3
10	5	12	11	4	4
4	13	7	12	3	5
9	13	10	11	11	6
10	14	14	10	1	3
2	14	1	10	4	8
10	12	12	7	11	10
9	11	2	12	8	11
2	8	8	2	12	14
1	8	13	3	7	8
9	4	7	8	4	2
13	2	12	7	1	12
11	10	9	7	8	11
8	12	2	2	12	7
8	2	14	3	4	13
1	8	8	1	8	9
14	8	11	10	13	3
14	1	4	13	2	4
4	4	8	11	3	10
10	9	2	3	3	11
11	6	8	14	3	4
8	1	14	8	11	2
14	3	11	6	12	8
13	4	4	1	10	1
6	10	11	6	8	1
8	8	12	8	1	7
4	8	9	6	9	2
13	2	4	4	2	3
11	2	2	8	9	3
8	1	10	12	2	8
12	7	9	11	4	1
12	1	4	14	3	13
11	2	7	10	4	1
3	4	12	11	11	11
8	3	4	2	12	11
1	8	9	4	2	1
6	1	12	2	10	8
10	8	1	12	2	14
2	11	7	9	4	11
7	6	4	8	14	12
12	8	2	1	10	12
8	9	2	11	6	1
12	14	3	9	1	14
8	9	11	10	1	4
2	8	12	14	10	10
4	8	4	4	8	9
10	12	4	6	12	8
4	2	1	13	6	8
9	10	10	14	8	3
6	14	10	11	3	3
2	9	10	12	8	7

-continued

13	3	7	10	5	12
6	4	1	2	8	13
6	1	13	4	14	13
2	12	1	14	1	9
4	11	13	2	6	10
1	10	7	4	8	8
7	2	2	10	13	4
8	2	11	4	6	14
4	8	2	6	2	3
7	1	12	11	2	9
5	6	10	4	13	4
5	10	4	11	9	3
3	11	9	3	2	3
8	15	6	20	17	19
21	10	15	3	7	11
11	7	17	20	14	9
16	6	17	13	21	21
10	15	22	6	17	21
15	7	17	10	22	22
3	20	8	15	20	16
17	21	10	16	6	22
6	21	14	14	14	16
7	17	3	20	10	7
16	19	14	17	7	21
20	16	7	15	22	10
20	10	18	11	22	18
18	7	19	15	7	22
21	18	7	21	16	3
14	13	7	22	17	13
19	7	8	12	10	17
15	3	21	14	9	7
19	6	15	7	14	14
4	17	10	15	19	19
21	6	18	4	20	16
2	19	8	17	6	13
12	12	6	17	4	20
16	21	12	10	19	16
14	14	15	2	7	21
8	16	21	6	22	16
14	17	22	14	17	20
10	21	7	15	21	18
16	13	20	18	21	12
15	7	4	22	14	13
7	19	14	8	15	4
4	5	3	20	7	16
22	18	6	18	13	20
19	6	16	3	13	3
18	6	22	7	20	18
10	17	11	21	8	13
7	10	17	19	10	14

wherein:

(A) each of 1 to 22 is a 4mer selected from the group of 4mers consisting of WWWW, WWWX, WWWY, WWXW, WWXX, WWXY, WWYW, WWYX, WWYY, WXWW, WXWX, WXWY, WXXW, WXXX, WXXY, WXYW, WXYX, WXYY, WYWW, WYWX, WYWY, WYXW, WYXX, WYXY, WYYW, WYYX, WYYY, XWWW, XWWX, XWWY, XWXW, XWXX, XWXY, XWYW, XWYX, XWYY, XXWW, XXWX, XXWY, XXXW, XXXX, XXXY, XXYW, XXYX, XXYY, XYWW, XYWX, XYWY, XYXW, XYXX, XYXY, XYYW, XYYX, XYYY, YWWW, YWWX, YWWY, YWXW, YWXX, YWXY, YWYW, YWYX, YWYY, YXWW, YXWX, YXWY, YXXW, YXXX, YXXY, YXYW, YXYX, YXYY, YYWW, YYWX, YYWY, YYXW, YYXX, YYXY, YYYW, YYYX, and YYYY, and

(B) each of 1 to 22 is selected so as to be different from all of the others of 1 to 22;

(C) each of W, X and Y is a base in which:

(i) (a) W=one of A, T/U, G, and C,

X=one of A, T/U, G, and C,

Y=one of A, T/U, G, and C,

and each of W, X and Y is selected so as to be different from all of the others of W, X and Y,

(b) an unselected said base of (i)(a) can be substituted any number of times for any one of W, X and Y, or

(ii) (a) W=G or C,

X=A or T/U,

Y=A or T/U,

and X≠Y, and

(b) a base not selected in (ii)(a) can be inserted into each sequence at one or more locations, the location of each insertion being the same in all the sequences;

(D) up to three bases can be inserted at any location of any of the sequences or up to three bases can be deleted from any of the sequences;

(E) all of the sequences of a said group of oligonucleotides are read 5' to 3' or are read 3' to 5'; and

wherein each oligonucleotide of a said set has a sequence of at least ten contiguous bases of the sequence on which it is based, provided that:

(F) (I) the quotient of the sum of G and C divided by the sum of A, T/U, G and C for all combined sequences of the set is between about 0.1 and 0.40 and said quotient for each sequence of the set does not vary from the quotient for the combined sequences by more than 0.2; and

(II) for any phantom sequence generated from any pair of first and second sequences of the set L_1 and L_2 in length, respectively, by selection from the first and second sequences of identical bases in identical sequence with each other:

(i) any consecutive sequence of bases in the phantom sequence which is identical to a consecutive sequence of bases in each of the first and second sequences from which it is generated is less than $((¾\times L)-1)$ bases in length;

(ii) the phantom sequence, if greater than or equal to $(⅝\times L)$ in length, contains at least three insertions/deletions or mismatches when compared to the first and second sequences from which it is generated; and

(iii) the phantom sequence is not greater than or equal to $(1\frac{1}{12}\times L)$ in length;

where $L=L_1$, or if $L_1 \neq L_2$, where L is the greater of L_1 and L_2; and

wherein any base present may be substituted by an analogue thereof.

We claim:

1. A penetrating peptide comprising at least one amino acid sequence selected from the group consisting of:

a) $(BX)_4Z(BX)_2ZXB$;

b) $ZBXB_2XBXB_2XBX_3BXB_2X_2B_2$;

c) $ZBZX_2B_4XB_3ZXB_4Z_2B_2$;

d) $ZB_6XBX_2B_2ZBXZBX_2$;

e) $BZB_8XB_6X_2ZXB$;

f) $B_2ZXZB_8XB_2XB_2X_2BZXB_2$;

g) $XB_6XBXB_6X_3B$;

h) $X_2B_3XB_4ZBXB_4XB_6XB$;

i) $XB_2XZBXZB_2ZXBX_3BZXBX_3B$;

j) $BZXBXZX_2B_4XBX_2B_2XB_4X_2$;

k) $BZXBXZX_2B_4XBX_2B_2XB_4$;

l) $B_2XZ_2XB_4XBX_2B_5X_2B_2$;

m) $B_qX_tZB_mX_qB_4XBX_nB_mZB_2X_2B_2$;

n) $B_2ZX_3ZB_mX_qB_4XBX_nB_mZB_2X_2B_2$;

o) $X_3ZB_6XBX_3BZB_2X_2B_2$; and

p) at least 12 contiguous amino acids of any of peptides a) through o)

wherein

q is 0 or 1;

m is 1 or 2;

n is 2 or 3;

t is 1 or 2 or 3; and

X is any amino acid;

B is a hydrophobic amino acid; and

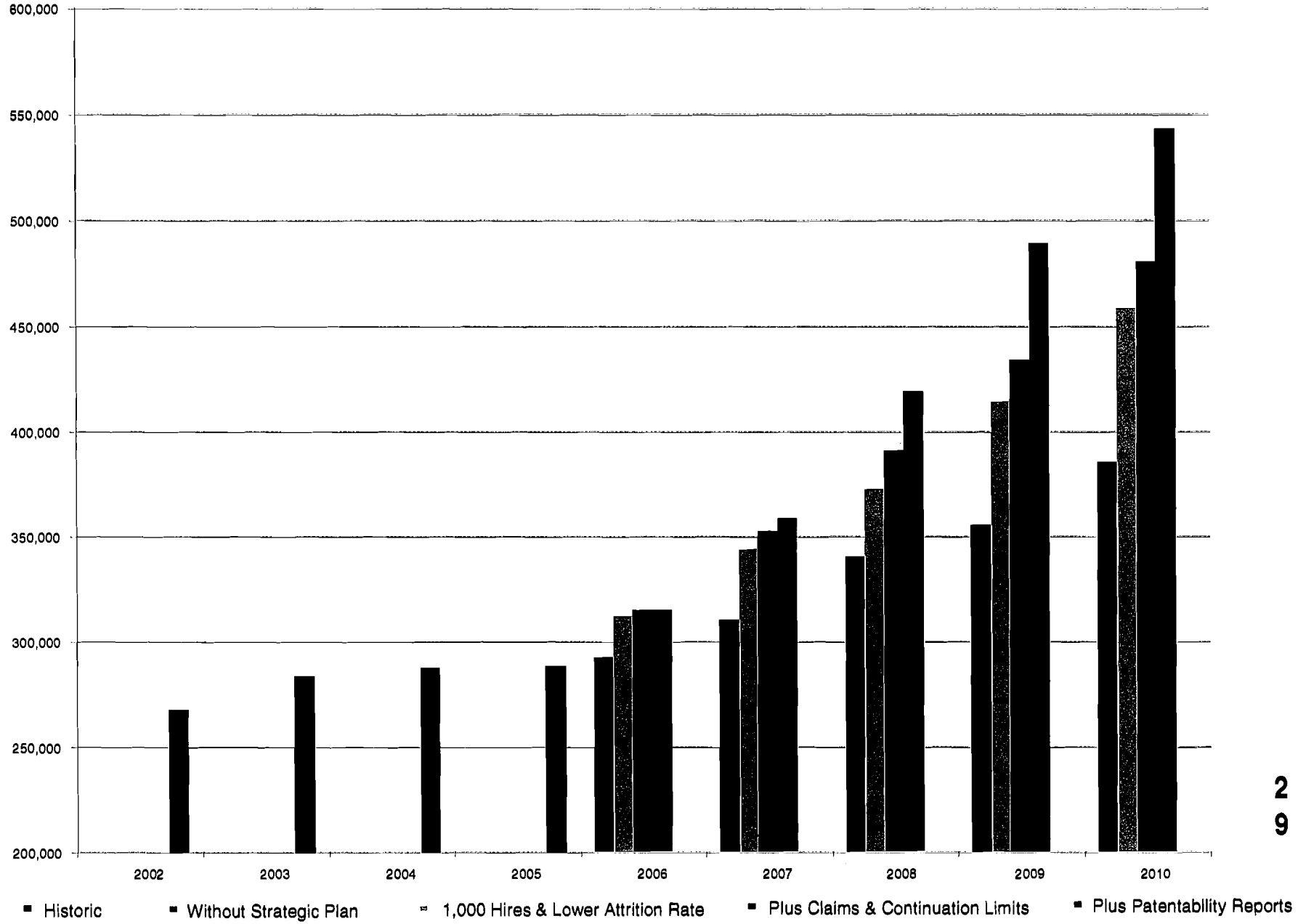
Z is a charged amino acid;

wherein said penetrating peptide is capable of translocating across a biological barrier.

Production

We Can Not Hire Our Way Out !!!

Production


600,000
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2002
2003
2004
2005
2006
2007
2008
2009
2010
Historic
Without Strategic Plan
1,000 Hires & Lower Attrition Rate
Plus Claims & Continuation Limits
Plus Patentability Reports

Contact Information

- **John Doll**

  Commissioner for Patents

  e-mail: john.doll@uspto.gov

  Phone: 571 272 8250

James Toupin – General Counsel

February 1, 2006

Summary of Proposed Rule Changes to Continuations, Double Patenting, and Claims

Continuations/Double Patenting Proposed Rulemaking

- Main objectives:
  - Assure adequate opportunity for prosecution to provide appropriate invention protection
  - Limit the "recycling" of old applications to permit the USPTO to focus examining resources on "new" applications
  - Create greater public certainty on scope of patent protection
  - Reduce the burden on the USPTO to review applications for double patenting

Central Provisions on Continuation Practice

- No change for the vast majority of applications
- One continuation (broadly defined) always available as of right, whether in the form of
  - continuation application, or a request for continued examination (RCE); but with
  - with special rules for divisionals and continuations-in-part (CIPs)
- Additional continuations available if applicant can show that the amendment, argument or evidence could not have been earlier submitted

Divisionals

- Only involuntary divisionals to be permitted:
  - Prior application subject to unity of invention (PCT Rule 13) requirement or restriction requirement (35 USC 121); and
  - Divisional contains only claims to inventions identified in the requirement and not elected in prior-filed application
- Divisional application may claim the benefit of only a single prior-filed nonprovisional application.

Continuations-in-Part

- Identify what claims are supported by the parent's disclosure
  - Identified claims (which are supported by parent's disclosure) are given the earlier filing date
  - Claims not identified are only entitled to the filing date of the CIP
- A continuation of the CIP is permitted but all claims only entitled to benefit of filing date of CIP
  - Practice consequence: Only include "new matter" claims in continuation from CIP

Identification of Related Applications and Double-Patenting

- Identify any other application or patent having:
  - Common inventor;
  - Common assignee, or those so treated under CREATE Act; and
  - Filed within two months (taking into account priority/benefit claims)
- A rebuttable presumption of double-patenting is established for identified applications/patents if have:
  - Same effective filing date
  - Substantially overlapping disclosure

Double-Patenting: Rebutting the Rebuttable Presumption

- Applicant must:
  - Show claims of application are patentably distinct from claims of other patent or application, or
  - Submit a terminal disclaimer and explanation of why patentably indistinct claims in two or more such applications should be maintained
- If USPTO finds claims patentably indistinct, it may merge or require cancellation of indistinct claims unless good and sufficient reason shown

Claims Proposed Rulemaking

- Main Purposes
  - Applicant Assistance to Improve Focus of Examination
    - Narrow scope of initial examination so the examiner is addressing discrete number of issues
    - Improve the quality of first Office actions
  - Addressing Disproportionate Burdens on Examination System Posed by Applications with Large Numbers of Claims

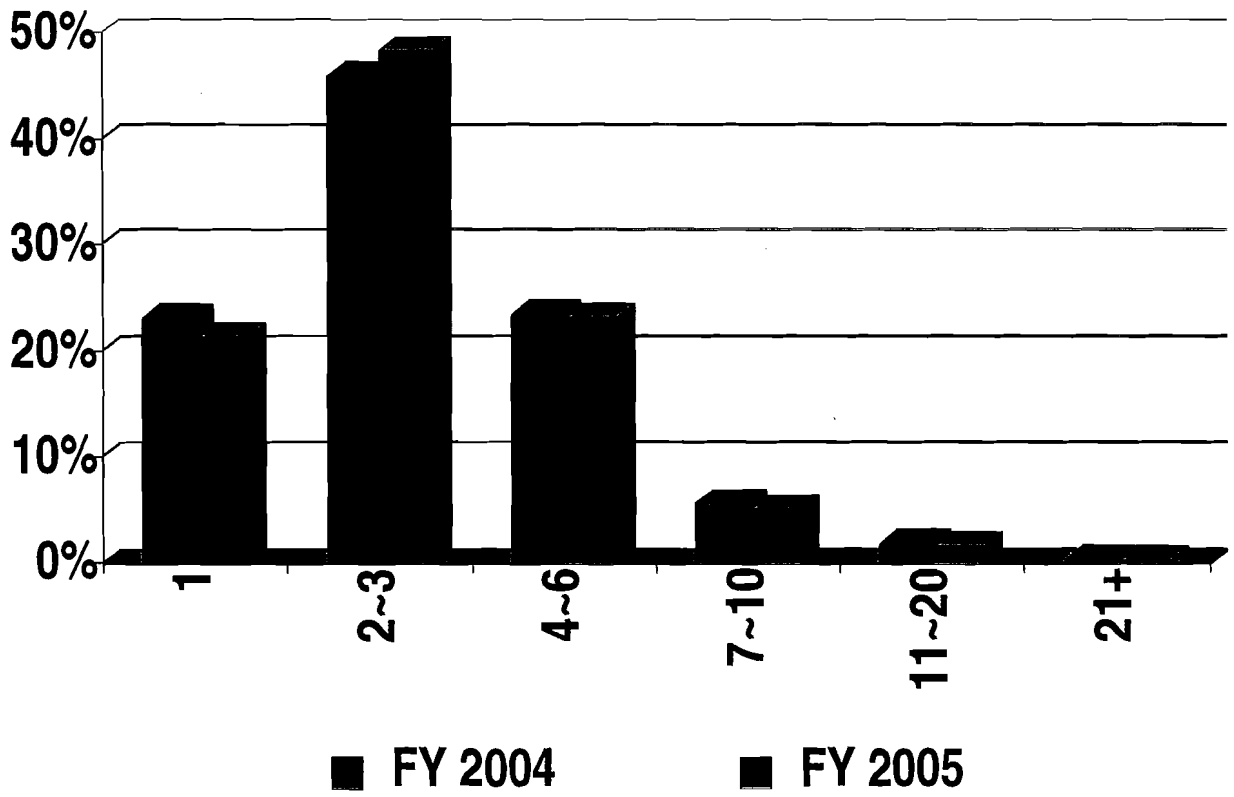
Central Provisions: Representative Claims

- Normal Pattern: Applicant to identify 10 representative claims for initial examination
  - Must include all independent claims
  - If independent claims fewer than 10, designate additional dependent claims until total of 10 reached
- Full initial examination of all designated representative claims
- No first action final

Non-Designated Dependent Claims

- If representative claim is allowed, all its non-designated dependent claims will be examined for compliance with 35 USC 101 and 112
- If representative claim is rejected, applicant may, for example:
  - Traverse rejection; or
  - Amend the claim, including adding subject matter from a non-designated dependent claim; or
  - Submit substitute representative claim

Distribution of Independent Claims at Filing



Beyond 10 Claims: When Initial Examination of 10 Isn't Enough

- Circumstance should arise rarely
- Circumstance may arise:
  - where Applicant needs more than 10 independent claims
  - if Applicant cannot prioritize dependent claims so that there are only 10 representative (all independent and designated dependent) claims

Beyond the 10 Claims: Assistance to Examination Document Required

- Applicant must:
  - Provide search report of all representative claims
  - Identify all limitations of representative claims that are disclosed by cited prior art references
  - Explain how all representative claims are patentable over the cited references

Strategic Choices: Before or During Prosecution

- Decision may be made in course of prosecution
  - Applicant may choose additional representative claims after first action. If total available representative claims exceeds 10, examination support document is req'd.
- Rather than provide the support for examination document if there are more than 10 representative claims, applicant may:
  - Cancel designated (or independent) claims
    - Excess Claim fees paid on/after December 8, 2004 refunded
  - Remove designation of dependent claims to bring total representative claims to 10 or less

Comments Appreciated

- Proposed Rules published in January 3, 2006, Federal Register
  - Continuations: 71 *Fed. Reg.* 48
  - Claims: 71 *Fed. Reg.* 61
- 120-day comment period
  - Comments due May 3, 2006
  - File by fax, e-mail, mail or Internet

Contact Information

- James Toupin

  General Counsel

  e-mail: james.toupin@uspto.gov

  Phone: 571 272 7000

Background

The U.S. Patent and Trademark Office (USPTO) continues to propose new initiatives to make its operations more efficient, to ensure that the patent application process promotes innovation, and to improve the quality of issued patents. These pages have been developed to provide full transparency to the public about these ongoing efforts.

On July 10, 2006, the USPTO proposed new rule changes related to Information Disclosure Statements. Applicants list information for the examiner to consider in a communication called an Information Disclosure Statement (IDS). These proposed IDS rule changes are designed to encourage patent applicants to provide the USPTO the most relevant information related to their inventions in the early stages of the review process.

On June 26, 2006, the USPTO published new procedures for accelerated examination, offering filers a final decision by the examiner within 12 months on whether their application for a patent will be granted or denied. The accelerated examination procedure is designed to give applicants quality patents in less time.

The USPTO inaugurated these pages with information about rule changes proposed on January 3, 2006 related to claims practice and continuation practice. These proposed rule changes will make the patent examination process more effective and efficient by reducing the amount of rework by the USPTO and reducing the time it takes for the patent review process.

The information below includes an explanation of the challenges the USPTO faces, the reasons why proposed rule changes are necessary, the proposed rule changes, and supporting material. Additionally, the information below includes a schedule of dates and places where USPTO representatives have made presentations concerning the proposed rule changes, and scheduling information for new presentations. These pages will be updated as new information or proposals are unveiled.

No rule change will be effective before October 1, 2006, and at least 30 days advance notice of the changes shall be given.

USPTO Requesting More Timely and Useful Information Disclosure Statements (IDSs)

As part of its ongoing efforts to promote investment in innovation and spur economic growth, the USPTO announced on July 10, 2006, new proposed IDS rule changes that would encourage patent applicants to provide the USPTO the most relevant information related to their inventions in the early stages of the review process. As a result, patent applications could be processed in a more streamlined and effective manner.

The USPTO has observed that applicants sometimes provide information in a way that hinders rather than helps timely, accurate examination. For example, some applicants send a very large number of documents to the examiner, without identifying why they have been submitted, thus tending to obscure the most relevant information. Additionally, some applicants send very long documents without pointing out what part of the document makes it relevant to the claimed invention. Sometimes applicants delay sending key information to the examiner. These practices make it extremely difficult for the patent examiner to find and properly consider the most relevant information in the limited time available for examination of an application.

The proposed IDS rule changes are designed to address the above-mentioned issues by encouraging early submission of relevant information, and discouraging submission of information that is unimportant or does not add something new for the examiner to consider. With the proposed IDS rule changes, patent examiners would not have to review documents that do not directly relate to the claimed invention, or that duplicate other information already

submitted.

USPTO to Give Patent Filers Accelerated Review Option

The USPTO published procedures on June 26, 2006, setting forth requirements for patent applicants who want, within 12 months, a final decision by the examiner on whether their application for a patent will be granted or denied. To be eligible for "accelerated examination," applicants who file under this procedure will be required to provide specific information so that review of the application can be completed rapidly and accurately.

Applicants have a duty to disclose to the USPTO material prior art of which they are aware, but are not required to search for prior art. Under the USPTO's accelerated examination procedure, applicants will be required to conduct a search of the prior art, to submit all prior art that is closest to their invention, and explain what the prior art teaches and how their invention is different.

In addition to providing and explaining any prior art references, applicants must explicitly state how their invention is useful and must show how the written description supports the claimed invention. The proposal also limits the number of claims allowed in each application and shortens the time periods for responding to most USPTO communications.

The accelerated examination procedure is designed to give applicants quality patents in less time. In exchange for quick examination, patent examiners will receive more focused and detailed information about the invention and the closest prior art from the applicants. This increased disclosure upfront by applicants will help examiners more quickly make the correct decision about whether a claimed invention deserves a patent.

USPTO Focused on New Rules on Claims and Continuations at Meetings Across the Nation

Between February 1 and the end of April at meetings around the country, representatives of the USPTO provided thousands of patent attorneys, patent agents, independent inventors and members of the small business community with background information regarding proposed rule changes related to claims and continuation. Additionally, USPTO convened three meetings on the topic. The USPTO meetings were held in Chicago on February 1st, in Berkeley on February 28th, and in Alexandria at the USPTO on April 25th.

Specifically, these initiatives will prioritize the claims reviewed during the examination process and better focus the agency's examination of patent applications by requiring applicants to identify the most important claims to the invention. Some continuations are necessary; however, an excessive number detracts from the agency's ability to examine new patent applications. Also, over 40% of new applications in FY 2004 had more than 20 claims. Although the initial examination of large numbers of claims may sometimes be necessary in certain complex applications, measures are needed to ensure they don't absorb a disproportionate amount of the limited time the USPTO has to review applications.

Complete slide set presented at the Chicago Town Hall Meeting (html version) (zip version)
For background and justification, see slides 8-30 and 48-60.
For proposals on continuations, see **slides 31-38 and 72-85**.
For proposals on claims, see slides **39-47 and 61-71**.

(top of page)

1. Claims Practice

Federal Register - 71 *Fed. Reg.* 61 (03 January 2006)

Official Gazette - 1302 OG 1329 (24 January 2006)

Topics: **Changes to Practice for the Examination of Claims in Patent Applications, Notice of proposed rule making** (03Jan2006) [PDF]

Examples

Comments from Public

(top of page)

2. Continuation Practice

Federal Register - 71 *Fed. Reg.* 48 (03 January 2006)

Official Gazette - 1302 OG 1318 (24 January 2006)

Topics: **Proposed Changes to Practice for Continuing Applications, Requests for Continued Examination Practice, and Applications Containing Patentably Indistinct Claims, Notice of proposed rulemaking** (03Jan2006) [PDF]

Examples

Comments from Public

(top of page)

3. Accelerated Examination

Federal Register - 71 *Fed. Reg.* 36323 (26 June 2006)

Official Gazette

Topics: **Changes to Practice for Petitions in Patent Applications To Make Special and for Accelerated Examination, Notice (26Jun2006)** [PDF]

Slides: **Revised Accelerated Examination Program and Petition to Make Special Procedures (html version)(zip version)**

Comments from Public

(top of page)

4. IDS Practice

Federal Register - 71 *Fed. Reg.* 38808 (10 July 2006)

Official Gazette

Topics: **Changes To Information Disclosure Statement Requirements and Other Related Matters (10 July 2006)** [PDF]

Executive Summary [PDF], **Detailed Summary** [PDF]

Slides: **IDS NPR (html version)(zip version)**
The Four Time Periods for Submitting an IDS and Their Corresponding Requirements (html version)(zip version)
Application Prosecution Timeline (html version)(zip version)

Comments from Public

(top of page)

Presentation Materials

In addition to the Chicago Town Hall slides described and available above, the following presentation materials are available:

Slides (25 January 2006 presentation by James Toupin regarding background and justification) (html version) **(zip version)**

Slides (25 January 2006 presentation by Robert Spar regarding Claims Practice) (html version) **(zip version)**

Slides (25 January 2006 presentation by Robert Spar regarding Continuation Practice) **(html version) (zip version)**

Slides (29 March 2006 presentation by Robert Spar regarding Claims Practice and Continuation Practice) **(html version) (zip version)**

(top of page)

Presentation Schedule

Additional Town Hall meetings sponsored by the USPTO. Check www.uspto.gov for additional information or contact the Office of Public Affairs at 571-272-8400.

02/28/2006 - Boalt Hall School of Law - Berkeley, CA
03/22/2006 - University of Houston Law Center - Houston, TX
04/25/2006 - USPTO - Alexandria, VA

The following is a list of events that are *not* sponsored by the USPTO, but USPTO representatives will make (or have made) presentations. For more information on these events, please contact the sponsor unless otherwise identified below.

02/11/2006 - ABA Counsel - Chicago, IL
02/13/2006 - Orange County Bar Assoc. - Newport Beach, CA
02/14/2006 - Century City Bar Assoc. - Century City, CA
02/17/2006 - Duke Law School - Durham, NC
02/23/2006 - Franklin Pierce Law School - Concord, NH (contact: 603-228-1541 ext 1150)
02/28/2006 - Federal Circuit Bar Assoc. - Washington, DC
03/09/2006 - Biotechnology Industry Org. - San Francisco, CA (contact: www.bio.org/ip/ipmeeting)
03/20/2006 - State Bar of Michigan Intellectual Property Law Section - East Lansing, MI (contact: 877-229-4350)
03/29/2006 - Connecticut Intellectual Property Law Asssoc. - New Haven, CT (contact: 860-286-2929)
04/05/2006 - Georgetown Law Center - Washington, DC
04/07/2006 - American Intellectual Property Law Assoc. - New York, NY (contact: www.aipla.org)
04/12/2006 - Biotechnology Industry Org. - Chicago, IL (contact: www.bio.org)
04/19/2006 - Patent Lawyers Club of Washington - Rosslyn, VA (contact: 202-478-5300)
04/28/2006 - Tennessee Bar Assoc. Intellectual Property Forum - Nashville, TN (contact: www.tba.org)
07/17/2006 - National Assoc. of Patent Practitioners - Alexandria, VA (contact: www.napp.org)
07/18/2006 - George Mason Univ. School of Law - Arlington, VA (contact: 202-824-3246)

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For questions concerning the proposals, please contact the Office of Patent Legal Administration at 571-272-7701 or **Patent.Practice@uspto.gov**.

Some contents linked to on this page require a plug-in for **ZIP**, **PDF** and **PowerPoint** Files.

KEY: =online business system =fees =forms =help =laws/regulations =definition (glossary)

The **Inventors Assistance Center** *is available to help you on patent matters.Send questions about USPTO programs and services to the* **USPTO Contact Center (UCC)**. *You can suggest USPTO webpages or material you would like featured on this section by E-mail to the* **webmaster@uspto.gov**. *While we cannot promise to accommodate all requests, your suggestions will be considered and may lead to other improvements on the website.*

THE STATE OF THE PATENT SYSTEM BACKGROUND FOR RULE PROPOSALS

Los Angeles Intellectual Property Law Association "Washington and the West" Conference January 25, 2006

UPR Applications Filed

FY 05 plan 375,080 (5.5% above FY 04)

FY 05 actual 384,228 (8.1% above FY04)

2.6% over plan

Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	
Numbers	221,304	191,116	220,773	240,090	261,041	293,244	326,081	333,688	333,452	3

TC Application Inventory

	1600	1700	2100	2600	2800	3600	3700	Total*	Design
New Applications[1] 9/30/2004	55,402	63,923	71,778	97,380	77,651	56,738	65,005	508,878	18,451
New Applications [1] 9/30/2005	62,644	72,697	76,529	115,585	94,425	70,354	83,225	586,580	24,534

1 "New Application inventory" is the number of new applications designated or assigned to a technology center aw assigned to a particular TC, awaiting processing either pre- or post-examination.

Patent Pendency (as of 1/1/2006)

Technology Center	Average 1st Action Pendency (months)[1]	Average Total Pendency (months)[2]
1600-Biotechnology and Organic Chemistry	23.3	33.5
1700- Chemical and Materials Engineering	20.6	29.8
2100-Computer Architecture Software and Information Security	33.1	44.8
2600-Communications	31.2	43.9
2800-Semiconductor, Electrical, Optical Systems	15.0	25.0
3600-Transportation, Construction, Electronic Commerce	19.8	27.5
3700-Mechanical Engineering, Manufacturing Products	18.6	26.6
UPR Total as of (10/01/2005)	21.8	30.6

1 "Average 1st action pendency" is the average age from filing to first action for a newly filed application, complete the average age from filing to issue or abandonment of a newly filed application, completed during October-Decem

First Action Pendency by Art Areas

High Pendency Art Areas	Pendency[1] (months)	Low Pendency Art Areas	Penden
1640-Immunology, Receptor/Ligands, Cytokines, Recombinant Hormones, and Molecular Biology	27.7	1620-Heterocyclic Compounds and Uses	16.9
1743-Analytic Chemistry & Wave Energy	30.8	1752-Radiation Imagery	12.1
2123-Simulation and Modeling, Emulation of Computer Components	39.7	2125-Manufacturing Control Systems and Chemical/Mechanical/Electrical Control	20.00
2617-Interactive Video Distribution	50.4	2651-Dynamic Information Storage & Retrieval	16.1
2836-Control Circuits	24.3	2833-Electrical Connectors	8.8
3628-Finance & Banking, Accounting	52.1	3612-Land Vehicles	12.0
3731-Surgery: Cutting, Clamping, Suturing	30.9	3723-Tools & Metal Working	10.9

1 "Average 1st action pendency" is the average age from filing to first action for a newly filed application, complete

Inventory by Art Examples

High Inventory Art Areas	Months of Inventory*	Low Inventory Art Areas	Mo
1614, 1615, and 1617-Drugs Bio-affecting and Body Treatment	38-51	1620-Organic Chemistry	15
1753-Radiation Imagery	34	1734-Adhesive Bonding and Coating Apparatus	10
2127-Computer Task Management	46	2125-Manufacturing Control Systems and Chemical/Mechanical/Electrical Control	10
2611-Interactive Video Distribution	114	2651,2653-Information Storage and Retrieval	12
2836-Control Circuits	22	2831-Electrical Conductors	8
3620-Business Methods	22-136	3651-Conveying	12
3731 and 3737-Medical Instruments, Diagnostic Equipment	38-47	3742-Thermal and Combustion Technology	8

***The number of months it would take to reach a first action on the merits (e.g., an action addressing patentability is production rate. Today's production rate means that there are no changes in production due to hiring, attrition, cha that applications are taken up in the order of filing in the given art unit/area. Of course, USPTO is taking aggressive inventory rates in high-inventory art areas.**

Quality of Products – FY 05

	FY 04	1600	1700	2100	2600	2800	3600	3700	Design	FY05	FY05 Target
Patent In-Process Examination Compliance Rate[1]*	82.0%	81.7%	82.9%	84.7%	90.9%	84.4%	86.6%	94.3%	86.2%	86.2%	84.0%
Patent Allowance Error Rate[2]*	5.32%	4.88%	6.46%	3.56%	2.25%	4.43%	4.9.4%	6.43%	1.6%	4.55%	4.0%

*Compliance and error rates as measured by OPQA.

[1] Compliance is the percent of office actions reviewed and found to be free of any in-process examination deficiency (an error tha
[2] Patent allowance error rate is the percent of allowed applications reviewed having at least one claim which is considered unpate
"Allowance" occurs before a patent is issued, so these errors are caught before any patent is actually granted.

Technology Centers Rework* Statistics

	FY 2002	FY 2003	FY 2004	FY 2005
TC Summary	% FAOM Rework	% FAOM Rework	% FAOM Rework	% FAOM Rework
1600	36.4%	39.7%	40.3%	42.4%
1700	25.2%	26.9%	27.1%	28.0%
2100	23.9%	24.0%	24.6%	28.2%
2600	24.8%	24.1%	24.3%	25.4%
2800	19.1%	22.0%	24.9%	24.1%
3600	17.7%	21.2%	23.1%	28.5%
3700	22.2%	25.1%	24.0%	28.1%
UPR	23.2%	25.3%	26.1%	28.3%

* Rework first actions are those actions that are in a Continuing (CONs and CIPs), RCE, CPA or 129(a) applications (excludes Di

Continuation Filing Rates

Fiscal Year	FY80	FY81	FY82	FY83	FY84	FY85	FY86	FY87	FY88	FY89	FY90	FY91	FY92	FY93	FY94	FY95
Continuations (CON, CPA/RCE)	6,022	6764	9097	6764	9509	11882	14036	15466	16923	19184	19962	22346	26086	28067	31750	39175
CIPs	8,192	5743	5871	5023	5903	6648	7383	7745	8432	9282	10222	10980	11968	12690	13753	15881

Continuation Filing Percentage

Fiscal Year	FY80	FY82	FY84	FY86	FY88	FY90	FY92	FY94	FY96	FY98	
% Continuations (CON, CPA/RCE) of Total Filings	6.42%	7.79%	8.68%	11.54%	12.35%	12.20%	15.12%	17.06%	15.05%	14.09%	17

Alternative: Appeal

	FY01	FY02	FY03	FY04	FY05
Inventory Reduction Measure	11.8	7.7	6	3.5	3.8
Time to Renew from Docketing			14.5	9.9	4.8

Appeal Conference Initiatives

- Pre-Brief Appeal Conference Pilot Program
  - 1296 Off. Gaz. Pat. Office 67 (July 12, 2005)
  - The USPTO is extending the program until further notice.
- Appeal Conferee Specialists Pilot Program

Average Number of Claims at Filing

Rule Makings on Representative Claims and Continuing Applications

- Rule Makings on Representative Claims and Continuing Applications
  - Better focused examination – help us get it right the first time
  - Create greater finality in examination:
    - To help the Office turn to new inventions and create public certainty on patent protection

Pendency Reduction Action Plan

KEY: =online business system $ =fees =forms =help =laws/regulations =definition (glossary)

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Last Modified: 03/31/2006 15:59:01

John Doll – Commissioner for Patents

February 1, 2006

Agency developing new strategic plan

- Part of budget process
- Planning for at least six-year period
- Anticipate, plan for USPTO role in changing environment
- Seeking broad perspective:
  - input from interested persons, stakeholders, including
  - Industries (large and small business), inventors, employees, practitioners

Please send ideas/thoughts/suggestions to StrategicPlanning1@uspto.gov

EFS-Web: Newly Improved On-Line Solution For Patent Filers

- EFS-Web will allow patent filers, anywhere, anytime, to submit patent applications, related documents, and pay fees onlin
- Currently in Beta-testing
- Rollout to all comers expected mid-March 2006

EFS-Web Advantages to Patent Filers

- File applications and related documents using existing technologies and workflows.
- Submit applications and related documents by simply attaching PDF files.
- Staff may transmit filing on behalf of patent practitioners.
- Verifies and validates files before submission.
- Automatic electronic acknowledgement receipt confirming submission.
- Rapid access to PAIR to view submission and status and to confirm documents safely and accurately received.

EFS-Web Schedule and Support

- Electronic Business Center (EBC) support available from 6 a.m. to 12 Midnight Eastern Monday-Friday
- EBC Contact Numbers:
  - 1-866-217-9197
  - 571-272-4100
  - 571-273-0177 (fax)
- E-mail: ebc@uspto.gov
- Online Training Available

Questions

- EFS Web receipt time or filing date is based on USPTO East Coast time as defined by Statute.
- What can be filed in EFS-Web?
  - New Applications: Utility, Provisional, Design with Color Drawings, 371 National Stage
  - Follow-on submission associated with an Application
  - Over 80 document descriptions - Amendments, Petitions, Board of Appeals Documents, Non-Patent Literature, For References Cited etc etc
- Numerous Fees
  - Filing Fees
  - Extensions of Time
  - Petition Fees

Newly Proposed 12 Month Accelerated Examination Procedure

- Goal: A final disposition of an application can be reached within 12 months from the filing date of the application.

- Final disposition: allowance, abandonment, or appeal.
- An OG notice will soon be published.
  - Revising the requirements and procedures for petitions to make special under the accelerated examination progran CFR 1.102(c)(2), set forth in MPEP 708.02.

Application Filings and Examiner Production

UPR Applications Filed

[x] UPR Application Filed Graph [D]

- FY 05 plan 375,080 (5.5% above FY 04)
- FY 05 actual 384,228 (8.1% above FY04)
- 2.6% over plan

Production

	FY 04	FY 05 Target	FY 05
UPR[1] FAOM[2]	288,315	297,614	297,287
UPR Disposals[3]	287,188	295,456	279,345
UPR Production Units[4]	287,752	296,535	288,316
PCT Production Units[5]	16,882	22,916	15,147

[1] "UPR" = Utility, Plant, and Reissue Applications.
[2] "FAOM" = First Action on the Merits – first action count by an examiner after the filing of an application (does not include restricl other miscellaneous actions).
[3] "Disposal" = An examiner allowance, abandonment, or disposals following a board decision.
[4] "Production Unit" = First action count plus disposal count divided by 2.
[5] "PCT" = Patent Cooperation Treaty. PCT applications are processed differently and tracked separately from US National stage applications. For FY 05, 15,147 PU's is 35,389 processed applications.

PENDENCY. . . vs the Backlog

First Action Pendency by Art Areas

High Pendency Art Areas	Pendency[1] (months)	Low Pendency Art Areas	Pendency[1] (months)
1640 – Immunology, Receptor/ Ligands, Cytokines, Recombinant Hormones, and Molecular Biology	27.7	1620 – Heterocyclic Compounds and Uses	16.9
1743 – Analytic Chemistry & Wave Energy	30.8	1752 – Radiation Imagery	12.1
2123 – Simulation and Modeling, Emulation of Computer Components	39.7	2125 – Manufacturing Control Systems and Chemical/ Mechanical/Electrical Control	20.0
2617 – Interactive Video Distribution	50.4	2651 – Dynamic Information Storage & Retrieval	16.1
2836 – Control Circuits	24.3	2651 – Dynamic Information Storage & Retrieval	8.8
3628 – Finance & Banking, Accounting	52.1	3612 – Land Vehicles	12.0

3731 – Surgery: Cutting, Clamping, Suturing	30.9	3723 – Tools & Metal Working	10.9

[1] "Average 1st action pendency" is the average age from filing to first action for a newly filed application, completed during Octob December 2005.

Inventory by Art Examples

High Inventory Art Areas	Months of Inventory*	Low Inventory Art Areas	Months of Inventory*
1614, 1615, and 1617 – Drugs, Bio-affecting and Body Treatment	38-51	1620 – Organic Chemistry	15
1753 – Radiation Imagery	34	1734 – Adhesive Bonding and Coating Apparatus	10
2127 – Computer Task Management	46	2125 – Manufacturing Control Systems and Chemical/ Mechanical/Electrical Control	10
2611 – Interactive Video Distribution	114	2651, 2653 – Information Storage and Retrieval	12
2836 – Control Circuits	22	2831 – Electrical Conductors	8
3620 – Business Methods	22-136	3651 – Conveying	12
3731 and 3737 – Medical Instruments, Diagnostic Equipment	38-47	3742 – Thermal and Combustion Technology	8

*The number of months it would take to reach a first action on the merits (e.g., an action addressing patentability issues) on a ne application filed in July 2005 at today's production rate. Today's production rate means that there are no changes in production d hiring, attrition, changes to examination processing or examination efficiencies, and that applications are taken up in the order of given art unit/area. Of course, USPTO is taking aggressive steps to ensure changes that will significantly lower the inventory rate inventory art areas.

TC Application Inventory

	1600	1700	2100	2600	2800	3600	3700	Total*	Design
New Applications[1] 9/30/2004	55,402	63,923	71,778	97,380	77,651	56,738	65,005	508,878	18,451
New Applications [1] 9/30/2005	62,644	72,697	76,529	115,585	94,425	70,354	83,225	586,580	24,534
Overall Pending Applications[2] 9/30/2004	95,006	105,447	102,440	138,822	137,458	101,097	108,039	809,323	27,599
Overall Pending Applications[2] 9/30/2005	107,647	120,767	117,728	167,721	159,687	117,045	130,168	932,300	38,104

[1] "New Application inventory" is the number of new applications designated or assigned to a technology center awaiting a first act
[2] "Overall Pending Application inventory" is the total number of applications designated or assigned to a technology center in an a status. Includes new applications; rejected awaiting response; amended; under appeal or interference; suspended; reexams and applications awaiting grant publication.
*Total inventory includes applications not assigned to a particular TC, awaiting processing either pre- or post-examination.

Patent Quality (Shared Responsibility)

Quality of Products – FY 05

Fiscal Year 2005

	FY 04	1600	1700	2100	2600	2800	3600	3700	Design	FY 05
Patent In-Process Examination Compliance Rate [1]*	82.0%	81.7%	82.9%	88.1%	84.7%	90.9%	84.4%	86.6%	94.3%	86.2%
Patent Allowance Error Rate[2]*	5.32%	4.88%	6.46%	3.56%	2.25%	4.43%	4.94%	6.43%	1.6%	4.55%

*Compliance and error rates as measured by OPQA.

[1]Compliance is the percent of office actions reviewed and found to be free of any in-process examination deficiency (an error that significant adverse impact on patent prosecution).

[2]Patent allowance error rate is the percent of allowed applications reviewed having at least one claim which is considered unpate a basis for which a court would hold a patent invalid. "Allowance" occurs before a patent is issued, so these errors are caught bef patent is actually granted.

Re-Work

Technology Centers Rework* Statistics

	FY 2002	FY 2003	FY 2004	FY 2005
TC Summary	% FAOM Rework	% FAOM Rework	% FAOM Rework	% FAOM Rework
1600	36.4%	39.7%	40.3%	42.4%
1700	25.2%	26.9%	27.1%	28.0%
2100	23.9%	24.0%	24.6%	28.2%
2600	24.8%	24.1%	24.3%	25.4%
2800	19.1%	22.0%	24.9%	24.1%
3600	17.7%	21.2%	23.1%	28.5%
3700	22.2%	25.1%	24.0%	28.1%
UPR	23.2%	25.3%	26.1%	28.3%

* Rework first actions are those actions that are in a Continuing (CONs and CIPs), RCE, CPA or 129(a) applications (excludes Di

Hiring and Retention

Hires and Attritions

	1600	1700	2100	2600	2800	3600	3700	Corps	Design
FY 04 Hires	75	35	115	116	31	26	45	443	15
FY 04 Attritions	30	26	58	82	58	43	39	336	4
FY 05 BOY Examiner Staff	417	440	563	658	742	422	439	3681	72
FY 05 Hiring	101	58	225	169	184	91	131	959	19
FY 05 Attrits	42	39	93	92	54	55	50	425	10
FY 06 Hiring Goal	30	35	256	256	178	100	100	1000	20
FY 06 hires (1/25/06)	30	19	75	62	40	22	21	269	0
FY05 Hires as a Percent of Examiner Staffing in the TC	24%	13%	40%	26%	25%	22%	30%	26%	26%

Markush Practice

1. A cell adhesion protein of formula (1),
   A-(B)-(C)-(D)n-E
   or a pharmaceutically acceptable derivative thereof , wherein . . .

A composition molecules for use as tags or tag complements wherein in each molecule comprises an oligonucleotide selected from a set of oligonucleotides based on a following groups of sequences:

1	4	6	8	1	3
2	4	5	5	2	3
1	8	1	2	3	4
1	1	9	2	6	9
1	2	4	3	9	6
9	8	9	8	10	9
9	1	2	3	8	10
8	8	7	4	3	1
1	1	1	1	1	2
2	1	3	3	2	2
3	1	2	2	3	2
4	1	4	4	4	2
1	2	3	3	1	1
1	3	2	2	1	4
3	3	3	3	3	4
4	3	1	1	4	4
3	4	1	1	3	3
3	6	6	6	3	5
6	6	1	1	6	5
7	6	7	7	7	5
8	7	5	5	8	8
2	1	7	7	1	1
2	3	2	3	1	3
2	6	5	6	1	6
4	8	1	1	3	8
5	3	1	1	6	3
5	6	8	8	6	6
8	3	6	5	7	3
1	2	3	1	4	6
1	5	7	5	4	3
2	1	6	7	3	6
2	6	1	3	3	1
2	7	6	8	3	1
3	4	3	1	2	5
3	5	6	1	2	7
3	6	1	7	2	7
4	6	3	5	1	7
5	4	6	3	8	6
6	8	2	3	7	1
7	1	7	8	6	3

7	3	4	1	6	8
4	7	8	1	2	4
3	6	5	2	6	3
1	4	1	4	6	1
3	3	1	4	8	1
8	3	3	5	3	8
1	3	6	6	3	7
7	3	8	6	4	7
3	1	3	7	8	6
10	9	5	5	10	10
7	10	10	10	7	10
9	9	7	7	10	9
9	3	10	3	10	3
9	6	3	4	10	6
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17	21	10	16	6	22
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20	10	18	11	22	18
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7	19	14	8	15	4
4	5	3	20	7	16
22	18	6	18	13	20
19	6	16	3	13	3
18	6	22	7	20	18
10	17	11	21	8	13
7	10	17	19	10	14

Wherein:
(A) each of 1 to 22 is a 4mer selected from the group of 4mers consisting of WWWW, WWWX, WWWY, WWXW, WWXX, WWXY WWYX, WWYY, WXWW, WXWX, WXWY, WXXW, WXXX, WXXXY, WXYW, WXYX, WXYY, WYWW, WYWX, WYWY, WYXW, WYXY, WYYW, WYYX, WYYY, XWWW, XWWW, XWWX, XWWY, XWXW, XWXX, XWXY, XWYW, XWYY, XXWW, XXWX, XXW XXXW, XXXX, XXXY, XXYW, XXYX, XXYY, XYWW, XYWX, XYWY, WYXW, XYXX, XYXY, XYYW, XYYX, XYYY, YWWW, YWW YWWY,YWXW, YWXX,YWXY, YWYW, YWYX, YWYY, YXWW, YXWX, YXWY, YXXW, YXXX, YXXY, YXYW, YXYX, YXYY, YY YYWX, YYWY, YYXW, YYXX, YYXY, YYYW, YYYX, AND YYYY, AND

(B) each of 1 to 22 is selected so as to be different from all of the others of 1 to 22;

(C) each of W, X, and Y is a base in which:
(i) (a) W=one of A, T/U, G and C
X=one of A, T/U, G and C,
Y=one of A, T/U, G and C,
And each of W, X, and Y is selected so as to be different from all of the others of W, X, and Y,
(b) an unselected said base of (i)(a) can be substituted any number of times for any one of W, X and Y, or
(II)(a)W=G or C,
X=A OR T/U
Y=A OR T/U
AND X-Y AND
(B) a base not selected in (II) (a) can be inserted into each sequence at one or more locations, the location of each insertion bein same in all sequences.

Up to three bases can be inserted at any location of anyof the sequences or up to three bases can be deleted from any of the sec

(E) all of the sequences of a said group of oligonucleotides are read 5' to 3' or are read 3' to 5'; and
wherein each oligonucleotide of a said set has a sequence of at least ten contiguous bases of the sequences on which it is basec that:

(F)(I) the quotient of the sum of G and C divided by the sum of A, T/U, G and C for all combined sequences of the set is between and 0.40 and said quotient for each sequence of the set does not vary from the quotient for the combined sequences by more tha

(II) for any phantom sequence generated from any pair of first and second sequences of the set L_1 L_2 in length, respectively, by s from the first and second sequences of identical bases in identical sequences with each other:

(i) any consecutive sequence of bases in the phantom sequence which is identical to a consecutive sequence of bases in each of and second sequences from which it is generated is less than ((3/4 x L)-1) bases in length;

(ii) the phantom sequences, if greater than or equal to (5/6xL) in length, contains at least three insertions/deletions or mismatches compared to the first and second sequences from which it is generated; and

(iii) the phantom sequences is not greater than or equal to (11/12xL) in length;

where L=L_1; or $L_1L=_2$, where L is the greater of L_1 and L_2; and

where in any base present may be substituted by an analogue thereof.

We claim:
1. A penetrating peptide comprising at least one amino acid sequence selected from the group consisting of:
a. $(BX)_4z(BX)_2ZXB$;
b. $ZBXB_2XBXB_2XBX_3BXB_2X_2B_2$;
c. $ZBZE_2B_4XB_3ZXB_4Z_2B_2$;
d. $ZB_9XBX_2B_2ZBXZBX_2$;
e. $BZB_8XB_9X_2ZXB$
f. $B_2ZXZB_5XB_2X_2BZB_2$;
g. $XB_9XBXB_6X_3B$;
h. $X_2B_3XB_4XB_9XB$;
i. $XB_2XZBXBZXB_2ZXBX_3BZXBX_3B$;
j. $BZXBXZX_2B_4XBX_2BXB_4X2$;
k. $BZXBXZX_2B_4XBX_2BXB_4$;
l. $B_2XZ_2XB_4XBX_2B_5X_2B_2$;
m. $B_qX_TZB_MX_qB_4XBX_nB_MZB_2X_2B_2$;
n. $B_2ZX_3ZB_mX_qB_4XBX_NB_MZB_2X_2B_2$;
o. $X_3ZB_6BZB_2X_2B_2$; AND
p. at least 12 contiguous amino acids of any of peptides a) through o)
wherein
q is O or 1;
m is 1 or 2;
n is 2 or 3;
t is 1 or 2 or 3; and
X is any amino acid;
B is hydrophobic amino acid; and
Z is charged amino acid;
wherein said penetrating peptide is capble of translocationg accross a biological barrier.

Production
We Can Not Hire Our Way Out !!!


Production Graph
[D]

Contact Information

John Doll
Commissioner for Patents
e-mail: john.doll@uspto.gov
Phone: 571 272 8250

James Toupin – General Counsel February 1, 2006

Summary of Proposed Rule Changes to Continuations, Double Patenting, and Claims

Continuations/Double Patenting Proposed Rulemaking

- Main objectives:
  - Assure adequate opportunity for prosecution to provide appropriate invention protection
  - Limit the "recycling" of old applications to permit the USPTO to focus examining resources on "new" applications
  - Create greater public certainty on scope of patent protection
  - Reduce the burden on the USPTO to review applications for double patenting

Central Provisions on Continuation Practice

- No change for the vast majority of applications
- One continuation (broadly defined) always available as of right, whether in the form of
  - continuation application, or a request for continued examination (RCE); but with
  - with special rules for divisionals and continuations-in-part (CIPs)
- Additional continuations available if applicant can show that the amendment, argument or evidence could not have been e submitted

Divisionals

- Only involuntary divisionals to be permitted:
  - Prior application subject to unity of invention (PCT Rule 13) requirement or restriction requirement (35 USC 121); a
  - Divisional contains only claims to inventions identified in the requirement and not elected in prior-filed application
- Divisional application may claim the benefit of only a single prior-filed nonprovisional application.

Continuations-in-Part

- Identify what claims are supported by the parent's disclosure
  - Identified claims (which are supported by parent's disclosure) are given the earlier filing date
  - Claims not identified are only entitled to the filing date of the CIP
- A continuation of the CIP is permitted but all claims only entitled to benefit of filing date of CIP
  - Practice consequence: Only include "new matter" claims in continuation from CIP

Identification of Related Applications and Double-Patenting

- Identify any other application or patent having:
  - Common inventor;
  - Common assignee, or those so treated under CREATE Act; and
  - Filed within two months (taking into account priority/benefit claims)
- A rebuttable presumption of double-patenting is established for identified applications/patents if have:
  - Same effective filing date
  - Substantially overlapping disclosure

Double-Patenting: Rebutting the Rebuttable Presumption

- Applicant must:
  - Show claims of application are patentably distinct from claims of other patent or application, or
  - Submit a terminal disclaimer and explanation of why patentably indistinct claims in two or more such applications sl maintained
- If USPTO finds claims patentably indistinct, it may merge or require cancellation of indistinct claims unless good and suffic

reason shown

Claims Proposed Rulemaking

- Main Purposes
  - Applicant Assistance to Improve Focus of Examination
    - Narrow scope of initial examination so the examiner is addressing discrete number of issues
    - Improve the quality of first Office actions
  - Addressing Disproportionate Burdens on Examination System Posed by Applications with Large Numbers of Claim

Central Provisions: Representative Claims

- Normal Pattern: Applicant to identify 10 representative claims for initial examination
  - Must include all independent claims
  - If independent claims fewer than 10, designate additional dependent claims until total of 10 reached
- Full initial examination of all designated representative claims
- No first action final

Non-Designated Dependent Claims

- If representative claim is allowed, all its non-designated dependent claims will be examined for compliance with 35 USC 1
  112
- If representative claim is rejected, applicant may, for example:
  - Traverse rejection; or
  - Amend the claim, including adding subject matter from a non-designated dependent claim; or
  - Submit substitute representative claim

Distribution of Independent Claims at Filing

[D] [x] Distribution of Independent Claims at Filing Graph

Beyond 10 Claims: When Initial Examination of 10 Isn't Enough

- Circumstance should arise rarely
- Circumstance may arise:
  - where Applicant needs more than 10 independent claims
  - if Applicant cannot prioritize dependent claims so that there are only 10 representative (all independent and design
    dependent) claims

Beyond the 10 Claims: Assistance to Examination Document Required

- Applicant must:
  - Provide search report of all representative claims
  - Identify all limitations of representative claims that are disclosed by cited prior art references
  - Explain how all representative claims are patentable over the cited references

Strategic Choices: Before or During Prosecution

- Decision may be made in course of prosecution
  - Applicant may choose additional representative claims after first action. If total available representative claims exce
    examination support document is req'd.
- Rather than provide the support for examination document if there are more than 10 representative claims, applicant may:
  - Cancel designated (or independent) claims
    - Excess Claim fees paid on/after December 8, 2004 refunded
- Remove designation of dependent claims to bring total representative claims to 10 or less

Comments Appreciated

- Proposed Rules published in January 3, 2006, Federal Register
  - Continuations: 71 Fed. Reg. 48

    - Claims: 71 Fed. Reg. 61
- 120-day comment period
    - Comments due May 3, 2006
    - File by fax, e-mail, mail or Internet

Contact Information

James Toupin
General Counsel
e-mail: james.toupin@uspto.gov
Phone: 571 272 7000

John Doll – Commissioner for Patents
February 1, 2006

Pendency Projections

[x] Pendency Using FY 2005 Actual Filings at 8.1% graph [D]

Pendency Using FY 2005 Actual Filings at 8.1% Graph

[x] Pendency Using FY 2005 Actual Filings at 8.1% Graph [D]

Pendency Using FY 2005 Actual Filings at 8.1% Graph

[x] Pendency Using FY 2005 Actual Filings at 8.1% Graph [D]

Pendency Using FY 2005 Actual Filings at 8.1% Graph

[x] Pendency Using FY 2005 Actual Filings at 8.1% Graph [D]

Pendency Using FY 2005 Actual Filings at 8.1% Graph

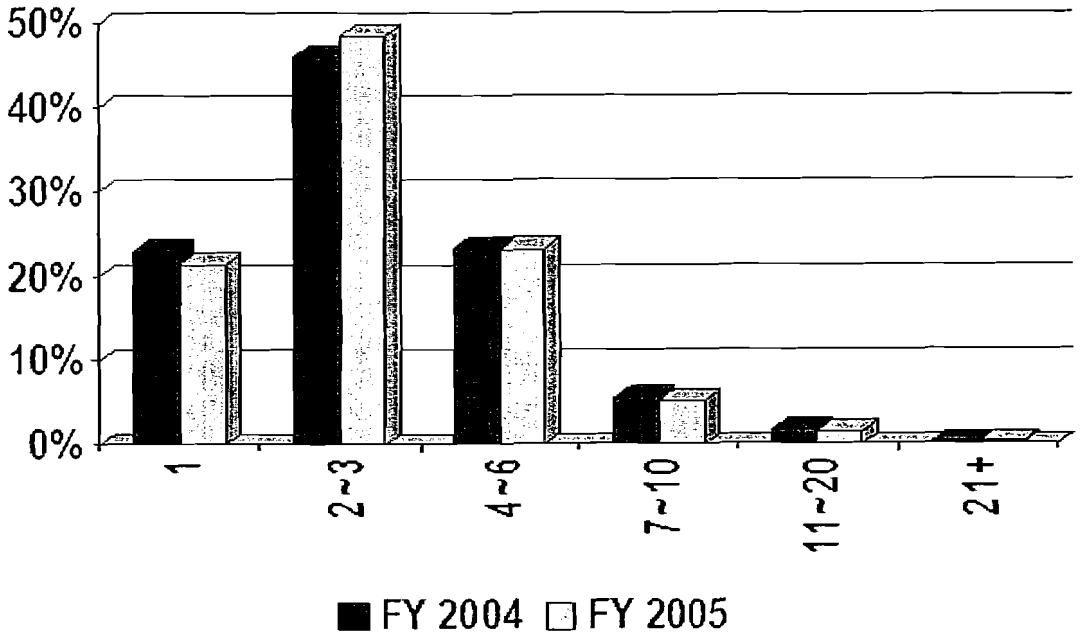
[x] Pendency Using FY 2005 Actual Filings at 8.1% Graph [D]

Stats and Stuff

Total Continuation Filing Rates

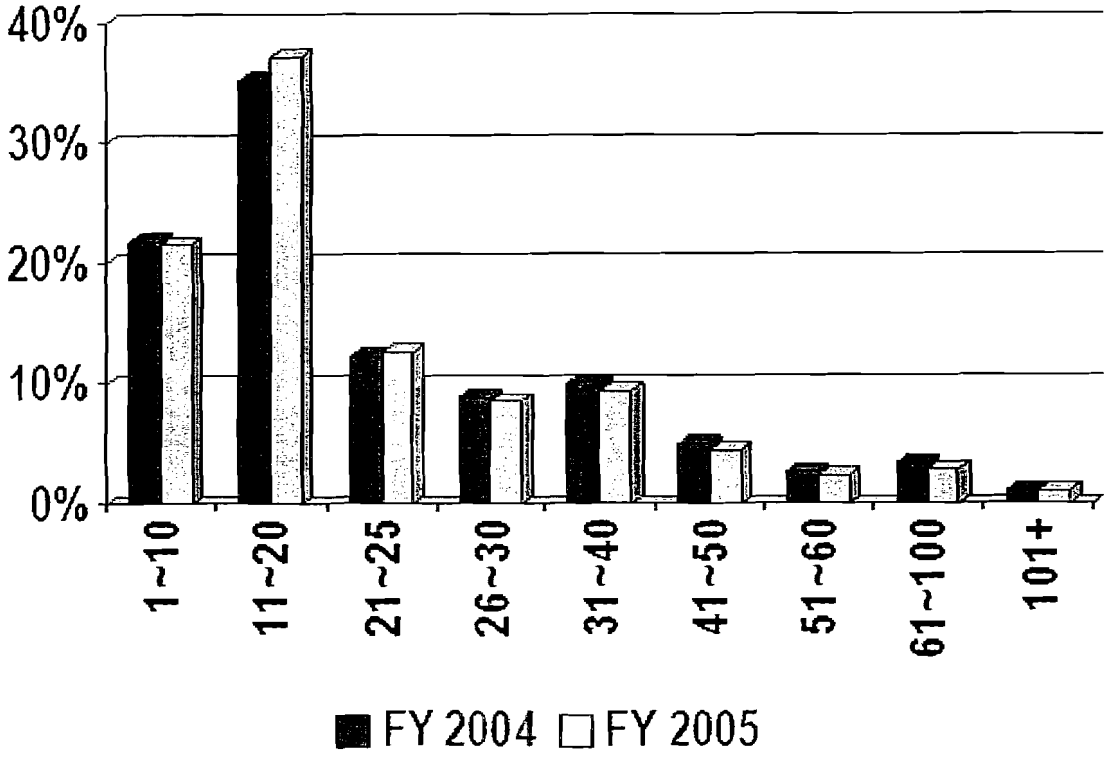
[x] Total Continuation Filing Rates Graphs [D]

Distribution of Independent Claims at Filing



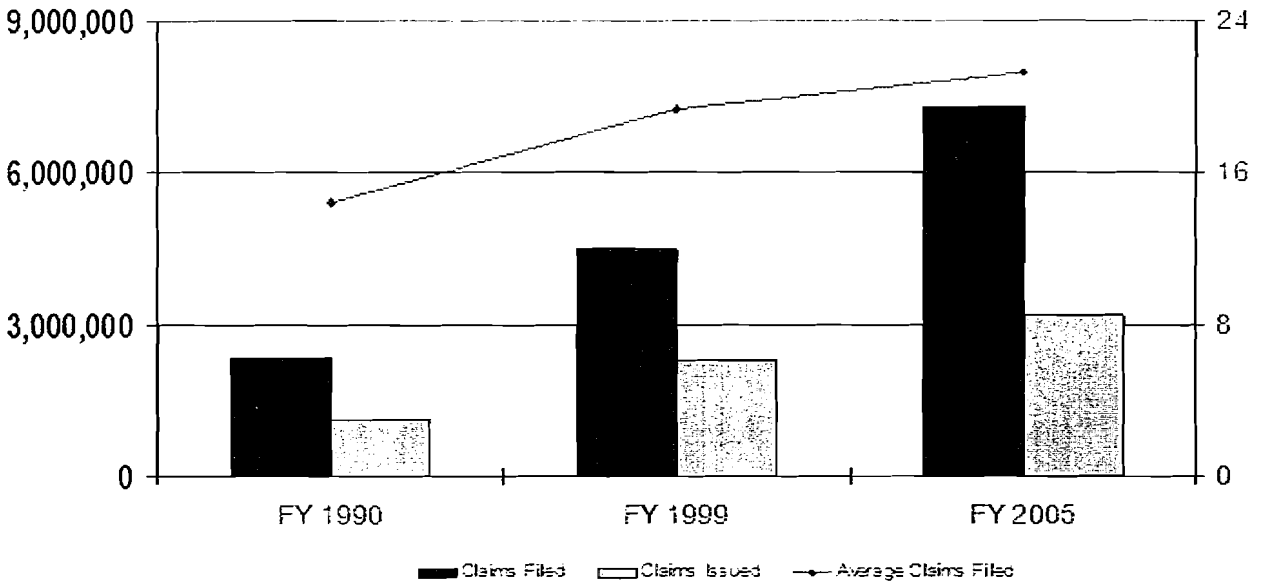
[D]

Distribution of Total Claims at Filing



[D]

Total Claims at Filing and Issue



[D]

Distribution of the Number of References Cited in Applications

Distribution of the Number of References Cited in Applications graph [D]

Changes to Practice for the Examination of Claims in Patent Applications
Examples

Election of Claims – Example 1

Election of Claims - Example 1 [D]

- All independent claims must be elected.
- The election of claim 3 is improper. An elected dependent claim must depend from another elected claim. Applicant can cl re-write claim 3 to depend from 1, or also elect claim 2 to be examined.

Election of Claims – Example 2

Claims
1. An apparatus comprising....
...
...
The method of using the apparatus of claim 1 to .....
Claim 7 is an independent method claim and will be treated as such for the purposes of claim election. Therefore, it must be elect examined.

Election of Claims – Example 3

Claims:
1. An apparatus comprising....
...
...
An apparatus as claimed in one of claims 1-3 further comprising....
For the purposes of election, proper multiply dependent claim 4 will be treated as 3 separate claims. Thus, 3 claims will be counte determine whether the applicant has exceeded the 10 claim limit to avoid submission of an examiner support document.

Election of Claims – Example 4

Applicant files an application with claims to a single invention. The application is filed with 10 total claims: 3 independent c 7 dependent claims.
For examination purposes:

- If the applicant designates all 7 dependent claims for initial examination, the Office will give initial examination to all 10 clai
- If the applicant does not designate any dependent claims for initial examination, the Office will give initial examination only independent claims.

Election of claims – Example 5

Applicant files an application with claims to a single invention. The application is filed with 10 total claims: 3 independent claims a dependent claims. The applicant designates all dependent claims, in addition to the independent claims, as representative claims examination.

Applicant files an amendment which (a) cancels 3 claims (1 independent and 2 dependent) and (b) adds 11 claims (4 independer dependent). The application, as amended, now contains 18 claims: 6 independent claims and 12 dependent claims.

- If the applicant does not change the original designation of dependent claims,*
  - the applicant must submit an examination support document covering the 11 representative claims, or
  - reduce the number of representative claims to 10 or fewer by canceling independent claims, rescinding the designa dependent claims for initial examination, or a combination of thereof.

*In this instance, there are now 11 designated representative claims: 6 independent claims and 5 dependent claims.

Election of claims – Example 6

Applicant files an application with claims to a single invention. The application is filed with 20 total claims: 3 independent claims a dependent claims.

- If applicant does not designate any dependent claims for initial examination, the Office will give initial examination only to t independent claims.
- If applicant designates 7 dependent claims for initial examination, the Office will give initial examination to 10 claims; 3 ind claims and 7 designated dependent claims.

Election of claims – Example 7

Applicant files an application with claims to a single invention. The application is filed with 20 total claims: 3 independent c 17 dependent claims.
If applicant designates all 17 dependent claims for initial examination, the application will have 20 representative claims. A must:

- submit an examination support document covering the 20 representative claims, or
- reduce the number of representative claims to 10 or fewer by canceling independent claims, rescinding the designating of dependent claims for initial examination, or a combination thereof.

Election of claims – Example 8

Example 1: An applicant files an application with claims to 3 distinct inventions. The application is filed with 30 claims: 3 in claims and 27 dependent claims.
If applicant does not designate any dependent claims for initial examination:

- The Office give initial examination only to the 3 independent claims.
- The Office may still restrict the application to a single invention

Election of claims – Example 9

An applicant files an application with claims to 3 distinct inventions. The application is filed with 30 claims: 3 independent c 27 dependent claims If the applicant designates 7 dependent claims for initial examination:

- The Office will give initial examination to 10 claims: 3 independent claims and 7 designated dependent claims.
- The Office may still restrict the application to a single invention.

Election of claims – Example 10

An applicant files an application with claims to 3 distinct inventions. The application is filed with 30 claims: 3 independent c 27 dependent claims.

If applicant designates all 27 dependent claims for initial examination, the application will have 30 representative claims. T applicant must:

- submit an examination support document covering the 30 representative claims;
- reduce the number of representative claims to 10 or fewer by canceling independent claims, rescinding the designating of dependent claims for initial examination, or a combination thereof; and/or
- reduce the number of representative claims to 10 or fewer by suggesting a requirement for restriction and election w/out tr such representative claims.

Changes to Practice for Continuing Applications
Examples

Continuations Benefit Claims under 35 USC 120, 121, or 365(c)

One RCE, Continuation, or CIP Permitted

1. Provisional Application
2. Nonprovisional Application claiming the benefit of the provisional application, 35 USC 119(e)
3. Applicant may file: an RCE, or a continuation or a CIP application, claiming a benefit under 35 USC 120, 121 or 365(c)

Divisional Applications Can Only Claim Benefit of One Prior Nonprovisional Application That Was Subject to a Restriction or Unity Invention Requirement

1. Nonprovisional Application with claims to inventions A, B, and C

   Restriction made in Application #1 Applicant elected invention A and canceled claims directed to B, and C
2. Applicant may file Divisional Applications claiming only the benefit of application #1 and the claims must be directed non-e inventions in application #1
3. Applicant may file Divisional Applications claiming only the benefit of application #1 and the claims must be directed non-e inventions in application #1

One Continuing Filing after a Divisional Permitted

1. Provisional Application
2. Nonprovisional Application claiming the benefit of the provisional application, 35 USC 119(e)
3. Divisional Application (as defined in proposed rule) to non-elected invention
4. Applicant may file: a single RCE, or continuation or CIP application of the divisional application

Second Continuing Filing Requires Petition & Showing That the Amendment, Argument, or Evidence Could Not Have Been Earlie Submitted

1. Provisional Application
2. Nonprovisional Application claiming the benefit of the provisional application
3. A first continuing application or an RCE
4. Applicant may file a second or subsequent RCE or continuing application w/ a petition and showing

Continuations – Example 1

Scenario: Applicant files application #1 with 65 claims. The USPTO requires restriction between the following groups:

1. Invention 1 - 15 claims; 3 independent + 12 dependent claims
2. Invention 2 - 30 claims; 5 independent + 25 dependent claims
3. Invention 3 - 20 claims; 1 independent + 19 dependent claims

Applicant may file two divisional applications, one each for inventions 2 and 3.

- But, both will need to be filed during the pendency of application #1 in order to be entitled to claim the benefit of applicatio filing date. If divisional #3 is filed during the pendency of divisional #2, but not during pendency of application #1, it will onl entitled to the filing date of divisional #2.

Continuations – Example 2

Scenario: Applicant files application #1 claiming only 1 invention. Later, applicant files application #2 with the same disclosure but

direction to a different invention. In application #2, the applicant claims the priority of application #1's filing date.

This is permitted, but application #2 will be treated as the one continuation of application #1 allowed as a matter of right.
- Therefore, neither applications #1 or #2 can have any additional RCEs or continuations absent a petition.
- Also, as both applications have the same effective filing date, there will be rebuttable presumption of double patenting. The will need to file a terminal disclaimer or argue persuasively that the claims are patentably distinct.

Examples of a Showing for Filing a Second Continuing Application

Example 1: In a continuation application,
- An interference is declared in an application containing both claims corresponding to the count(s) and claims not correspo the count(s), and
- The APJ suggests that the claims not corresponding to the count(s) be canceled from the application in interference and p a separate application.

Example 2: In a continuation application,
- Data necessary to support a showing of unexpected results just became available to overcome a final rejection under 35 U 103, and
- The data is the result of a lengthy experimentation that was started after applicant received the rejection for the first time.

Example 3: In a continuation application,
- The final rejection contains a new ground of rejection that could not have been anticipated by the applicant, and
- The applicant seeks to submit evidence which could not have been submitted earlier to overcome this new rejection.

Examples of Unacceptable Showing for Filing a Second Continuing Application

Example 1:
- An argument that a final rejection in one of the prior applications was premature.
- Applicant should address the propriety of the final rejection during prosecution of the prior application, and not collaterally petition for a continuation application.

Example 2:
- An argument that an amendment after final rejection should have been entered in the prior application.
- Applicant should address the non-entry in the prior application, and not collaterally in a petition for a continuation applicatic

To Submit Comments:

Comments should be sent by electronic mail to the following addresses:
Continuations – **AB93Comments@uspto.gov**
Claims – **AB94Comments@uspto.gov**

Contact Information

John Doll
Commissioner for Patents
e-mail: **john.doll@uspto.gov**
Phone: 571 272 8250

Attachment O

Relevant Statutes

CONSOLIDATED PATENT LAWS

United States Code Title 35 - Patents

Editor's Note (January 2007): The Patent Laws reproduced below supersede those reproduced in the last revision of the Manual of Patent Examining Procedure (MPEP) dated August 2006. The Public Laws are the authoritative source and should be consulted if a need arises to verify the authenticity of the language reproduced below.

PART I — UNITED STATES PATENT AND TRADEMARK OFFICE

CHAPTER 1 — ESTABLISHMENT, OFFICERS AND EMPLOYEES, FUNCTIONS

Sec.

1 Establishment.
2 Powers and Duties.
3 Officers and employees.
4 Restrictions on officers and employees as to interest in patents.
5 Patent and Trademark Office Public Advisory Committees.
6 Board of Patent Appeals and Interferences.
7 Library.
8 Classification of patents.
9 Certified copies of records.
10 Publications.
11 Exchange of copies of patents and applications with foreign countries.
12 Copies of patents and applications for public libraries.
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CHAPTER 2 — PROCEEDINGS IN THE PATENT AND TRADEMARK OFFICE

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Editor's Note (May 16, 2007): All final rules that became effective since the last revision of the Manual of Patent Examining Procedure (MPEP) dated August 2006 are identified below by the *Federal Register* Notice cites and the *Official Gazette* Notice cites, where applicable. These final rules have been incorporated in Title 37 – Code of Federal Regulations document below. The *Federal Register* Notices are the authoritative source in the event that there are discrepancies between the patent rules in this document and the rules as published in the *Federal Register.*

TITLE: Changes To Implement Priority Document Exchange Between Intellectual Property Offices
ACTION: Final Rule
FEDERAL REGISTER: 72 FR 1664 (January 16, 2007)
OFFICIAL GAZETTE: 1315 O.G. 63 (February 13, 2007)
EFFECTIVE DATE: January 16, 2007

TITLE: Changes To Facilitate Electronic Filing of Patent Correspondence
ACTION: Final Rule
FEDERAL REGISTER: 72 FR 2770 (January 23, 2007)
OFFICIAL GAZETTE: 1315 O.G. 57 (February 13, 2007)
EFFECTIVE DATE: January 23 , 2007

TITLE: Changes To Eliminate the Disclosure Document Program
ACTION: Final Rule
FEDERAL REGISTER: 71 FR 64636 (November 3, 2006)
OFFICIAL GAZETTE: 1312 O.G. 137 (November 28, 2006)
EFFECTIVE DATE: February 1, 2007

TITLE: Revisions and Technical Corrections Affecting Requirements for *Ex Parte* and *Inter Partes* Reexamination
ACTION: Final Rule
FEDERAL REGISTER: 72 FR 18892 (April 16, 2007)
OFFICIAL GAZETTE:
EFFECTIVE DATE: May 16, 2007

CHAPTER I — UNITED STATES PATENT AND TRADEMARK OFFICE, DEPARTMENT OF COMMERCE

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PRACTICE BEFORE THE PATENT AND TRADEMARK OFFICE

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Chapter 1700 Miscellaneous

1701 Office Personnel Not To Express Opinion on Validity*>,< Patentability>, or Enforceability< of Patent [R-3]

Every patent is presumed to be valid. 35 U.S.C. 282, first sentence. Public policy demands that every employee of the United States Patent and Trademark Office (USPTO) refuse to express to any person any opinion as to the validity or invalidity of, or the patentability or unpatentability of any claim in any U.S. patent, except to the extent necessary to carry out

(A) an examination of a reissue application of the patent,

(B) a reexamination proceeding to reexamine the patent, or

(C) an interference involving the patent.

The question of validity or invalidity is otherwise exclusively a matter to be determined by a court. >Likewise, the question of enforceability or unenforceability is exclusively a matter to be determined by a court.< Members of the patent examining corps are cautioned to be especially wary of any inquiry from any person outside the USPTO, including an employee of another U.S. Government agency, the answer to which might indicate that a particular patent should not have issued. No USPTO employee may pursue a bounty offered by a private sector source for identifying prior art. The acceptance of payments from outside sources for prior art search activities may subject the employee to administrative disciplinary action.

When a field of search for an invention is requested, examiners should routinely inquire whether the invention has been patented in the United States. If the invention has been patented, no field of search should be suggested.

Employees of the USPTO, particularly patent examiners who examined an application which matured into a patent or a reissued patent or who conducted a reexamination proceeding, should not discuss or answer inquiries from any person outside the USPTO as to whether or not a certain reference or other particular evidence was considered during the examination or proceeding and whether or not a claim would have been allowed over that reference or other evidence had it been considered during the examination or proceeding. Likewise, *employees* are cautioned against answering any inquiry concerning any entry in the patent or reexamination file, including the extent of the field of search and any entry relating thereto. The record of the file of a patent or reexamination proceeding must speak for itself.

Practitioners **>shall not make< improper inquiries of members of the patent examining corps. Inquiries from members of the public relating to the matters discussed above must of necessity be refused and such refusal should not be considered discourteous or an expression of opinion as to validity *>,< patentability >or enforceability.

The definitions set forth in 37 CFR 104.1 and the exceptions in 37 CFR 104.21 are applicable to this section.<

1701.01 Office Personnel Not To Testify [R-3]

It is the policy of the United States Patent and Trademark Office (USPTO) that its employees, including patent examiners, will not appear as witnesses or give testimony in legal proceedings, except under the conditions specified in 37 CFR Part 104, Subpart C. >The definitions set forth in 37 CFR 104.1 and the exceptions in 37 CFR 104.21 are applicable to