

**Statement of**

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**before the**

**SUBCOMMITTEE ON COURTS AND INTELLECTUAL PROPERTY  
COMMITTEE ON THE JUDICIARY  
U.S. HOUSE OF REPRESENTATIVES**

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Mr. Chairman and Members of the Committee:

Thank you very much for inviting me here today to testify on the operations and finances of the U.S. Patent and Trademark Office (PTO). This is my second appearance before your Subcommittee, Mr. Chairman, and I want to state at the outset how much I value the strong working relationship that I have enjoyed with you, Ranking Member Berman, the other Committee members, and your staff. Your support for the PTO and for enhancing intellectual property protection has been absolutely critical in helping us meet the needs of our customers -- America's inventors, small businesses, and entrepreneurs -- who have done so much to fuel our robust economic growth.

As you know, a great deal has transpired on the intellectual property front and at the PTO since I came before you a year ago. Indeed, our agency faces numerous challenges in the months ahead. I am pleased to report, however, that we are rising to meet these challenges through strategic hiring of a diverse, well-educated workforce, increased utilization of state-of-the-art automation technology, and an increased focus on quality management.

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Mr. Chairman, let me begin by highlighting some of the more noteworthy developments at the PTO in the past year; then I will discuss in greater detail the current operational and financial issues before our agency.

1999 was an exciting and active year at the PTO on a variety of fronts. We experienced record increases in our workload in both our patent and trademark operations, and in December we issued the six millionth U.S. patent. We continued to increase the size of our Patent examining corps, hiring just

over 800 new patent examiners last year alone. We made more than two million patents issued since 1976 and all registered trademarks and trademark applications freely available on the Internet, established the Office of Independent Inventor Programs, and launched websites devoted specifically to independent inventors and school children. We were also designated to serve as co-chair, along with the Justice Department, of the new National Intellectual Property Law Enforcement Coordination Council.

In order to manage the growth in our workload and provide our customers with more efficient, high-quality service, we continued to improve our automation technology. These initiatives included: full implementation of electronic filing of trademark applications through our award-winning Trademark Electronic Application System (TEAS); the piloting of electronic filing of patent applications, and implementation of on-line systems that allow customers to check on the status of their patent and trademark applications or trademark registration.

Judging from the large increases we have recorded in customer satisfaction, these efforts seem to be paying off. For example, one user of the TEAS system emailed us to say that it was the "nicest interaction" she ever had with the federal government. Another customer said that we had "renewed [his] confidence in the government bureaucracy." I think you will agree that comments like these are not easy to come by in government today. I am also pleased to report that a recent study by the National Partnership for Reinventing Government, in cooperation with the Office of Personnel Management, ranked the PTO #1 in the federal government (with a score of 90 percent) for "service goals aimed at meeting customer expectations."

Last year on the international front, we continued consultations with other major patent offices to streamline the procedures for securing patent protection throughout the world. This included the issuance of a formal proposal to simplify the Patent Cooperation Treaty and preparation for the Diplomatic Conference on the Patent Law Treaty in May of this year. We also implemented the Trademark Law Treaty as part of our ongoing efforts to simplify and harmonize the requirements for acquiring and maintaining a trademark registration abroad.

Of course, the most significant event for our agency last year was something that would not have happened without the leadership and commitment of the members of this Subcommittee: passage of the "American Inventors Protection Act of 1999." This landmark legislation contains the most sweeping reforms in U.S. patent law since the Patent Act of 1952, and it restructures our agency into a performance-based organization, giving us greater independence and flexibility to improve the quality and quantity of our work.

As you can imagine, this legislation is having a major impact on our work. We are currently drafting rules to implement the eight subtitles of the legislation, and we hope to have at least four separate rulemaking packages published in the *Federal Register* shortly.

Let me now turn to discuss our operations in greater detail.

## PATENTS

The last several years have seen a significant increase in U.S. patent filings, with the volume of patent applications growing by 23 percent between 1997-1999. In 1999, the PTO received over 272,000 utility patent (patents for invention) applications, an increase of 12 percent over the previous year, and granted a record 169,154 patent documents, including 153,493 utility, 14,732 design, 421 plant, and 448 reissue patents, and 60 statutory invention registrations. Utility patent grants in 1999 represent a 4 percent increase over the total for 1998.

Of the patents granted last year, 20,543 patents went to U.S. independent inventors, a slight decrease from 1998. This represented 21.8 percent of all patents issued to U.S.-resident inventors. The share of patents issued to U.S.-resident inventors stayed steady at 55.6 percent. California resident inventors claimed a 20.0 percent share (18,865 patents) of these patents, followed by inventors from New York (7.3 percent - 6,900 patents), Texas (6.8 percent - 6,424 patents), New Jersey (4.6 percent - 4,372 patents), and Illinois (4.6 percent - 4,308 patents).

Some of the largest increases in patent filings are occurring in the area of business methods and biotechnology. With respect to business methods, the 1998 decision of the Court of Appeals for the Federal Circuit in *State Street Bank and Trust Co. v. Signature Financial Group Inc.* has had a dramatic impact on the number of applications filed with our office. In fact, the number of new cases filed in class 705 (Data Processing: Financial, Business Practice, Management or Cost/Price Determination) more than doubled from 1,285 in FY 1998 to 2,600 in FY 1999. From those filings, we issued nearly 600 patents last year.

To handle the increase in our workload, the PTO hired 801 new patent examiners last year. Together with the 728 examiners we hired in FY 1998, our examining corps has increased to 3,224, up from 2,212 in FY 1997 and 1,806 in FY 1992. The bulk of the new examiners are assigned to our software, computer, business methods, and biotechnology divisions. They have an average of four years of practical experience in the industries described above, and some fifty percent have advanced degrees, including more than 350 Ph.D.s.

In order to ensure timely searches and high quality examination, we have augmented this hiring with improvements in our examiners' search capability resources. Indeed, our examiners have access to more prior art than ever before. Our in-house patent database and our commercial database provider provides access to more than 900 databases, including Westlaw, Lexis-Nexis, and Chemical Abstracts. From their desktop computers, patent examiners can also search the full text of over 2.4 million United States patents issued since 1971; images of all U.S. patent documents issued since 1790; English-language translations of 3.5 million Japanese patent abstracts; English-language translations of 2.2 million European patent abstracts; IBM technical bulletins; and over 5,200 non-patent literature journals. Our paper search files and libraries remain in place as well.

While these improvements are encouraging, we continue working with private parties to expand examiners' access to non-patent literature. For example, last year we held hearings in San Francisco and here in Washington on this very matter. I am pleased that, as a result of these efforts, organizations such as the Securities Industry Association have come forward to help our office expand access to state of the art information in their areas.

Last year we also replaced our examiners' patent search system, the Automated Patent System (APS). We took this action because APS was not Y2K compliant, was limited to 200 concurrent users, and required costly custom programming. Unfortunately, we encountered some difficulty when we installed the new text and image database search systems. Known as EAST (Examiner Automated Search Tool) and WEST (Web-based Examiner Search Tool), these new search systems can handle up to 600 users at the same time and allow examiners to easily submit a single search transaction and concurrently search all five text databases.

Following the termination of APS on October 9, 1999, we encountered a number of unforeseen technical and performance-related problems with EAST and WEST. Examiners and public searchers were rightfully frustrated with delays that occurred in processing certain patent searches. However, we moved aggressively to remedy these difficulties, installing a new server (the largest server in Hewlett Packard's product line), purchasing faster disk drives, and working in close cooperation with senior representatives of the Patent Office Professional Association, the union representing our patent examiners.

I am pleased to report that these efforts have met with considerable success. Indeed, since November 26, 1999, EAST and WEST response times for examiners have achieved the goal of 80% of searches completed within 30 seconds. The performance goal for users of the Public Search Room has been met since October 29, 1999. While certain complex search queries are still taking longer than expected, software improvements are being developed that will improve these response times as well. As a result, we are confident that EAST and WEST are fast becoming productive and welcome tools for the patent examining corps.

As I alluded to earlier, we also have deployed an Electronic Filing System (EFS) pilot to five of the largest patent filers. EFS allows patent applicants or their representatives to submit patent applications and related papers to the PTO using the Internet. The applicant can combine files into a single one, compress and digitally sign the file, and send it to our office over the Internet. EFS also provides automated assistance and real-time acknowledgement of submissions. We hope to offer electronic filing for all patent applicants by the end of this year.

## **TRADEMARKS**

Much like the activity in patents, the trademark side of our operations is also experiencing significant growth. We received a record 295,200 trademark applications in 1999, an increase of 27 percent

from the previous year, and registered more than 104,000 classes. To handle this growth, we hired 136 examining attorneys last year, bringing the size of that workforce to 367.

As I mentioned earlier, last year we implemented the TEAS system for the electronic filing of trademark applications, making us the first national intellectual property office in the world to do so. TEAS allows trademark customers to submit applications over the Internet and use credit cards to pay filing fees – 24 hours a day, 7 days a week, 365 days a year -- without ever leaving the comfort of their home or office. In fact, the first trademark application of the new millennium was filed electronically – on January 1<sup>st</sup> at 2:00 PM. It is a testament to how far our office has come and what the future holds for our electronic business systems.

About 12 percent of our Trademark filings are now electronic, and we recently received 1,600 applications in just one day. *Yahoo Magazine* has cited TEAS as one of the most useful sites on the Internet, a commendation that is reaffirmed by feedback from our customers.

TEAS has a number of benefits for our office as well. For example, it lowers our processing time and costs because our employees no longer have to manually key-enter or scan the application information into our trademark database. This also will improve the quality of our database.

Last year, we also deployed the Trademark Application and Registration Retrieval (TARR) system, which allows our customers to access trademark application and registration status, mark, ownership, and prosecution information via the Internet. Last December, more than 33,000 customers made 243,000 Web queries using TARR. This relieved the burden on our office of having to handle nearly a quarter of a million telephone calls or responses to letters to Trademark customers with the current application status.

To ensure that we take full advantage of these systems -- to make our operations even more user-friendly -- we are starting to implement the concept of "one stop electronic shopping" in our Trademark Examining Operation. Under this system, electronic applications will be routed directly to an e-commerce focused law office for all initial processing, examination, intent-to-use processing, and publication for opposition. These applications will receive prompt examination, often much faster than their paper counterparts, and applicants will be encouraged to use electronic communication to handle all examination activities associated with the application. We anticipate that the e-commerce law office will be up and running later this year, and we are very excited about its potential.

## **BUDGET**

Mr. Chairman, let me close by discussing the PTO's budgetary situation.

For FY 2001, the President recommended that we be given authority to spend \$1,038.7 million of the fee revenues we generate. This is an increase of \$133.8 million over the FY 2001 base and \$170.7 million over the FY 2000 enacted level. Excluding the \$20 million to be transferred to the Office of

Personnel Management to cover current employees' retirement health and life insurance costs, the President's recommendation represents an increase of 17.4 percent over the FY 2000 enacted level.

The President also recommended 7,449 FTE, an increase of 541 FTE over the 2001 base and 648 FTE over the FY 2000 level. The majority of these FTE are for patent and trademark examination purposes and implementation of the American Inventors Protection Act of 1999.

In FY 2001, we expect to process \$1,151.6 million in revenues or 17 percent more than is expected to be processed in 2000. Of this amount, \$783.8 million will be available to us in FY 2001 and \$367.8 million (or 32 percent of revenues paid by customers) will not be available to us until FY 2002. In addition to the \$783.8 million, we will have access to \$25.9 million carried forward from FY 1999 and \$229 million carried forward from FY 2000 – for a total of \$1,039.7 million.

FY 2001 funding would be used for the following priorities. First, we need \$36.9 million for what we call “adjustments to base.” These include amounts to cover pay raises, increased contributions to retirement systems, and general pricing level adjustments.

Second, we would use \$25.7 million to increase the quality of PTO products and services. Quality and customer satisfaction are my highest priorities, and these funds would be used to create Patent Customer Service Representatives, enhance Patent Examiner Coaching, establish examiner-trainer positions, and offer technology and legal training with tuition assistance. We also want to enhance patent classification and searching activities by offering expanded access to commercial databases and refining our classifications of foreign patents.

Third, we are committed to managing the growth of patent and trademark applications, which we estimate will be 335,400 and 363,700 in FY 2001, respectively. Therefore, we would use \$27.5 million to hire 566 new patent examiners (offset by 366 attritions) for a net increase of 200 positions and 30 new trademark attorneys for a complement of 397 by the end of the fiscal year. At the proposed funding level, patent cycle time will be 13.6 months compared to a target of 10 months. Similarly, Trademark pendency time to first action is expected to be 6.0 months (compared to a target of 3.0 months), and pendency to registration/abandonment will be 19.5 months (compared to the target of 13.8 months).

Fourth, an additional \$28.8 million will be devoted to information technology, particularly the promotion of electronic commerce. We will begin expanding patent data on our website to ultimately include U.S. patent text and image data all the way back to 1790. As I mentioned earlier, we will also continue promoting electronic filing and expedited examination of trademark applications by establishing an additional electronic examining office, and we will provide employees and contractors with an adequate computer network infrastructure by replacing the existing network (PTONet).

Finally, we have requested \$21.8 million to continue implementing the American Inventors Protection Act of 1999; \$10 million to meet our space consolidation requirements related to information technology, security systems, move planning, furniture, and project management; and \$20 million to be

transferred to the Office of Personnel Management to pay for PTO employees' post-retirement health and life insurance.

In our transition to a performance-based organization (PBO), we would like to work within the Administration and with the Congress to ensure that the PTO has sufficient resources, financial flexibility, and appropriate oversight to operate as a first-rate PBO. Naturally, the Secretary of Commerce is interested in this matter as well.

### **CONCLUSION**

Mr. Chairman, despite the challenges for our agency that I have highlighted, I am very encouraged about the future of the PTO and our Nation's intellectual property system. The United States is blessed with the greatest intellectual property system in the world, and I am deeply committed to ensuring that we retain -- and build upon -- this status well into the new millennium.

Whatever technology comes along -- and the possibilities in areas like nanotechnology are almost unimaginable -- I am confident that the U.S. Patent and Trademark Office will be ready, with the resources and proven know-how, to ensure that innovative creations become enduring global industries. I look forward to continuing to work with this Subcommittee to help ensure that PTO is given the resources and flexibility it needs to do just that.

Thank you very much.