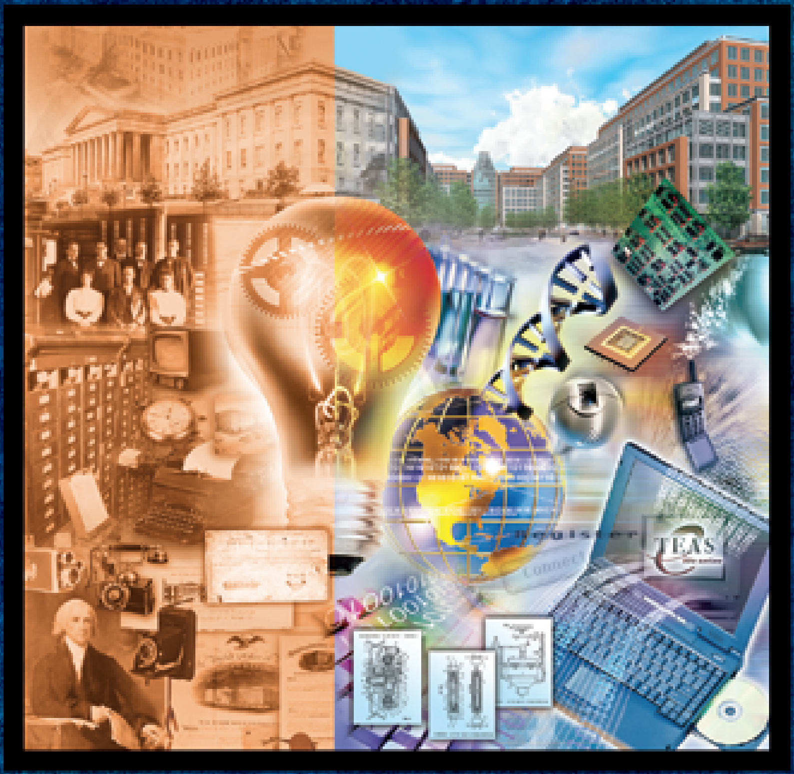
Principal Financial Statements and Related Notes



U.S. PATENT AND TRADEMARK OFFICE
CONSOLIDATED BALANCE SHEETS

As of September 30, 2002 and 2001

(Dollars in Thousands)	2002	2001
ASSETS		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	$ 926,130	$ 923,361
Accounts Receivable	99	1,547
Advances and Prepayments	34,844	4,523
Total Intragovernmental	$ 961,073	929,431
Cash	9,270	11,515
Accounts Receivable, Net	4,435	1,245
Advances and Prepayments	1,573	1,805
Property and Equipment, Net (Note 3)	119,184	128,598
Total Assets	$1,095,535	$1,072,594
LIABILITIES		
Intragovernmental:		
Accounts Payable	$ 3,721	$ 3,496
Accrued Payroll and Benefits	2,446	5,293
Accrued Postemployment Compensation	1,180	970
Customer Deposit Accounts	3,749	3,504
Total Intragovernmental	$ 11,096	$ 13,263
Accounts Payable	71,261	57,497
Accrued Payroll and Benefits	31,135	45,061
Accrued Leave	34,461	30,414
Customer Deposit Accounts	61,002	53,955
Patent Cooperation Treaty Account	4,586	6,680
Deferred Revenue (Note 5)	465,974	374,988
Actuarial Liability (Note 6)	5,332	5,526
Capital Lease Liability (Note 7)	—	3,032
Contingent Liabilities (Note 12)	—	3,590
Total Liabilities (Note 4)	$ 684,847	$ 594,006
NET POSITION		
Unexpended Appropriations	$ 679	$ —
Cumulative Results of Operations	176,480	245,059
Revenue Withheld	233,529	233,529
Total Net Position	$ 410,688	$ 478,588
Total Liabilities and Net Position	$1,095,535	$1,072,594

The accompanying notes are an integral part of these financial statements.

U.S. PATENT AND TRADEMARK OFFICE CONSOLIDATED STATEMENTS OF NET COST

For the years ended September 30, 2002 and 2001

(Dollars in Thousands)	2002			2001
	PATENTS	TRADEMARKS	TOTAL	TOTAL
Enhance Quality and Minimize Processing Time				
Intragovernmental Gross Cost	$ 203,138	$ 28,015	$ 231,153	$ 209,034
Gross Cost with the Public	819,153	110,689	929,842	807,323
Total Gross Cost (Notes 9 and 10)	$ 1,022,291	$ 138,704	$ 1,160,995	$ 1,016,627
Intragovernmental Earned Revenue	(5,347)	(149)	(5,496)	(4,783)
Earned Revenue from the Public	(904,734)	(151,117)	(1,055,851)	(1,035,475)
Total Earned Revenue	$ (910,081)	$ (151,266)	(1,061,347)	(1,040,258)
Net Cost/(Income) from Operations	$ 112,210	$ (12,562)	$ 99,648	$ (23,631)
Total Entity				
Total Program Cost (Notes 9 and 10)	$ 1,022,291	$ 138,704	$ 1,160,995	$ 1,016,627
Total Earned Revenue	(910,081)	(151,266)	(1,061,347)	(1,040,258)
Net Cost/(Income) from Operations	$ 112,210	$ (12,562)	$ 99,648	$ (23,631)

The accompanying notes are an integral part of these financial statements.

U.S. PATENT AND TRADEMARK OFFICE
CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION

For the years ended September 30, 2002 and 2001

(Dollars in Thousands)	2002		2001	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
Net Position, Beginning of Period	$ 478,588	$ —	$ 429,546	$ —
Budgetary Financing Sources:				
Appropriations Received	—	1,500	—	—
Appropriations Used	822	(822)	—	—
Other Budgetary Financing Sources	(555)	—	—	—
Other Financing Sources:				
Imputed Financing (Note 8)	30,803	—	25,411	—
Total Financing Sources	$ 31,070	$ 678	$ 25,411	$ —
Net Income/(Cost) from Operations	(99,648)	—	23,631	—
Net Position, End of Period	$ 410,010	$ 678	$ 478,588	$ —

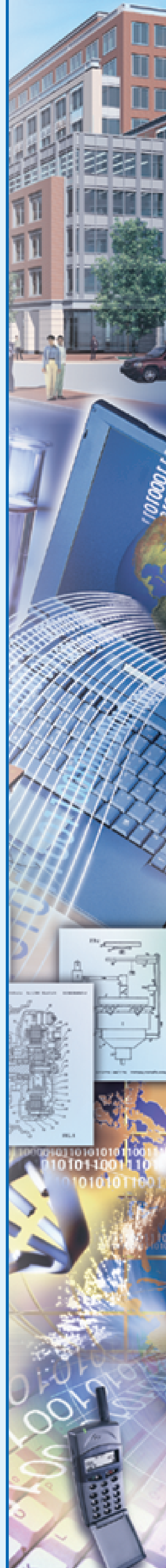
The accompanying notes are an integral part of these financial statements.

U.S. PATENT AND TRADEMARK OFFICE
COMBINED STATEMENTS OF BUDGETARY RESOURCES

For the years ended September 30, 2002 and 2001

(Dollars in Thousands)	**2002**	**2001**
BUDGETARY RESOURCES		
Budget Authority - Appropriations Received	$ 283,800	$ 254,889
Unobligated Balance - Beginning of Period (Note 11)	11,029	12,479
Spending Authority from Offsetting Collections:		
Earned - Collected	1,052,367	1,040,832
Earned - Customer Receivables and Refund Payables	6,803	(876)
Change in Unfilled Customer Orders - Advance Received	92,662	44,711
Total Spending Authority from Offsetting Collections	$ 1,151,832	$ 1,084,667
Recoveries of Prior Year Obligations	10,076	4,636
Temporarily not Available Pursuant to Public Law	(306,513)	(305,056)
Permanently not Available	(555)	—
Total Budgetary Resources	$ 1,149,669	$ 1,051,615
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred:		
Direct	$ 1,497	$ —
Reimbursable	1,142,517	1,040,586
Unobligated Balances Available:		
Realized and Apportioned for Current Period (Note 11)	2,661	9,223
Unobligated Balances not Available - Not Apportioned	2,994	1,806
Total Status of Budgetary Resources	$ 1,149,669	$ 1,051,615
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS		
Obligated Balance, Net, Beginning of Period	$ 316,289	$ 254,352
Accounts Receivable	548	7,351
Undelivered Orders	198,370	218,207
Accounts Payable	89,423	90,731
Obligated Balance, Net, End of Period	$ 288,341	$ 316,289
Outlays:		
Disbursements	1,155,084	974,889
Collections	(1,145,029)	(1,085,543)
Net Outlays/(Collections)	$ 10,055	$ (110,654)

The accompanying notes are an integral part of these financial statements.



U.S. PATENT AND TRADEMARK OFFICE CONSOLIDATED STATEMENTS OF FINANCING

For the years ended September 30, 2002 and 2001

(Dollars in Thousands)	2002	2001
RESOURCES USED TO FINANCE ACTIVITIES		
Budgetary Resources Obligated:		
Obligations Incurred	$ 1,144,014	$ 1,040,586
Spending Authority from Offsetting Collections and Recoveries	(1,161,908)	(1,089,303)
Net Obligations	$ (17,894)	$ (48,717)
Other Resources - Imputed Financing from Cost Absorbed by Others	30,803	25,411
Total Resources Used to Finance Activities	$ 12,909	$ (23,306)
RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS		
Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but not yet Provided	$ (10,253)	$ (49,304)
Resources that Fund Costs Recognized in Prior Periods (Note 11)	(6,204)	(926)
Budgetary Offsetting Collections that do not Affect Net Cost of Operations (Note 11)	92,662	44,712
Resources that Finance the Acquisition of Assets Capitalized on the Balance Sheet	(60,237)	(69,067)
Net Decrease in Revenue Receivables not Generating Resources until Collected	—	(472)
Total Resources Used to Finance Items not Part of the Net Cost of Operations	$ 15,968	$ (75,057)
COMPONENTS OF NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD		
Components Requiring or Generating Resources in Future Periods:		
Costs that will be Funded by Resources in Future Periods (Note 11)	$ 4,309	$ 9,410
Net Increase in Revenue Receivables not Generating Resources until Collected	(3,095)	—
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	$ 1,214	$ 9,410
Components not Requiring or Generating Resources:		
Depreciation, Amortization, or Loss on Asset Dispositions	69,651	65,320
Other Costs that will not Require Resources	(94)	2
Total Components of Net Cost of Operations that will not Require or Generate Resources	$ 69,557	$ 65,322
Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period	$ 70,771	$ 74,732
Net Cost / (Income) from Operations	$ 99,648	$ (23,631)

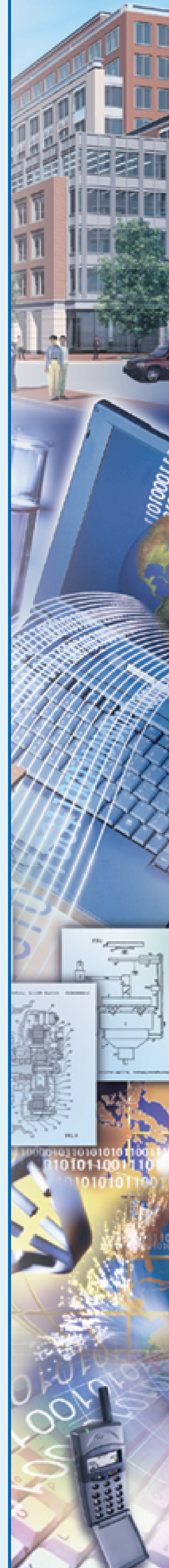
The accompanying notes are an integral part of these financial statements.

U.S. PATENT AND TRADEMARK OFFICE
CONSOLIDATED STATEMENTS OF CASH FLOWS (INDIRECT METHOD)

For the years ended September 30, 2002 and 2001

(Dollars in Thousands)	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (Cost)/Income from Operations	$ (99,648)	$ 23,631
Imputed Financing from Cost Absorbed by Others	30,803	25,411
Net (Decrease)/Increase in Cumulative Results of Operations	$ (68,845)	$ 49,042
Adjustments Affecting Cash Flow:		
(Increase)/Decrease in Accounts Receivable	$ (1,742)	$ 11
Increase in Advances and Prepayments	(30,089)	(1,789)
Increase in Accounts Payable	13,989	8,190
(Decrease)/Increase in Accrued Payroll and Benefits	(16,773)	6,682
Increase in Accrued Leave and Postemployment Compensation	4,257	5,146
Increase in Customer Deposit Accounts	7,292	2,312
(Decrease)/Increase in Patent Cooperation Treaty Accounts	(2,094)	698
Increase in Deferred Revenue	90,986	36,208
(Decrease)/Increase in Actuarial Liability	(194)	945
Decrease in Capital Lease Liability	(3,032)	(2,761)
(Decrease)/Increase in Contingent Liabilities	(3,590)	3,590
Depreciation, Amortization, or Loss on Asset Dispositions	69,651	65,320
Total Adjustments	$ 128,661	$ 124,552
Net Cash Provided by Operating Activities	$ 59,817	$ 173,594
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	$ (60,237)	$ (69,067)
Net Cash Used in Investing Activities	$ (60,237)	$ (69,067)
CASH FLOWS FROM FINANCING ACTIVITIES		
Direct Appropriation	$ 1,500	$ —
Rescissions	(555)	—
Net Cash Provided by Financing Activities	$ 945	$ —
Net Cash (Used)/Provided by Operating, Investing, and Financing Activities	$ 524	$ 104,527
Fund Balance with Treasury and Cash, Beginning of Period	$ 934,876	$ 830,349
Net Cash Provided by Operating, Investing, and Financing Activities	524	104,527
Fund Balance with Treasury and Cash, End of Period	$ 935,400	$ 934,876

The accompanying notes are an integral part of these financial statements.



U.S. PATENT AND TRADEMARK OFFICE NOTES TO FINANCIAL STATEMENTS

As of and for the years ended September 30, 2002 and 2001

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The U.S. Patent and Trademark Office (USPTO) is an agency of the United States within the U.S. Department of Commerce. The USPTO administers the laws relevant to patents and trademarks and advises the Secretary of Commerce, the President of the United States, and the Administration on patent, trademark, and copyright protection, and trade-related aspects of intellectual property.

These financial statements include the USPTO's two core business activities that promote the use of intellectual property rights as a means of achieving economic prosperity - processing patent applications and registering trademarks. These activities give innovators, businesses, and entrepreneurs the protection and encouragement they need to turn their creative ideas into tangible products, and also provide protection for their inventions and trademarks.

These financial statements report the accounts for salaries and expenses (13X1006), special fund receipts (revenue withheld) (135127), customer deposits from the public (13X6542), customer deposits from other Federal agencies (13F3885), and patent cooperation treaty collections (13X6538), which are under the control of the USPTO. The Federal budget classifies the USPTO under the Commerce and Housing Credit (376) budget function. The USPTO does not have custodial responsibility, nor does it have lending or borrowing authority. The USPTO does not transact business among its own operating units, therefore, no intra-entity eliminations are necessary.

Basis of Presentation

As required by the Chief Financial Officers Act of 1990 and 31 U.S.C. 3515 (b), the accompanying financial statements present the financial position, net cost of operations, budgetary resources, and cash flows for the USPTO's core business activities. The books and records of the USPTO serve as the source of this information.

These financial statements were prepared in accordance with the guidelines specified by the OMB in Bulletin Number 01-09, Form and Content of Agency Financial Statements, as well as the accounting policies of the USPTO. Therefore, they may differ from other financial reports submitted pursuant to OMB directives for the purpose of monitoring and controlling the use of the USPTO's budgetary resources. Certain prior year balances were reclassified to conform with current year presentation.

Basis of Accounting

Transactions are recorded on the accrual basis of accounting as well as on a budgetary basis. Accrual accounting allows for revenue to be recognized when earned and expenses to be recognized when goods or services are received, without regard to the receipt or payment of cash. Budgetary accounting allows for compliance with the requirements for, and controls over, the use of Federal funds. The accompanying financial statements are presented on the accrual basis of accounting. The accounting principles and standards applied in preparing these financial statements are in accordance with the accounting policies and practices summarized in this note and the following hierarchy of accounting principles:

- FASAB Statements and Interpretations plus AICPA and Financial Accounting Standards Board pronouncements if made applicable to Federal governmental entities by a FASAB Statement or Interpretation;

- FASAB Technical Bulletins and the following pronouncements if specifically made applicable to Federal government entities by the AICPA and cleared by the FASAB: AICPA Industry Audit and Accounting Guides and AICPA Statements of Position;

- AICPA Accounting Standards Executive Committee Practice Bulletins if specifically made applicable to Federal governmental entities and cleared by the FASAB and Technical Releases of the Accounting and Auditing Policy Committee of the FASAB;
- Implementation guides published by the FASAB staff and practices that are widely recognized and prevalent in the Federal Government; and
- Other accounting literature published by authoritative standard-setting bodies and other authoritative sources (a) in the absence of other guidance in the first four parts of this hierarchy, and (b) if the use of such accounting principles improves the meaningfulness of the financial statements.

Budgets and Budgetary Accounting

Appropriated funds from general taxpayer revenue were eliminated gradually following the passage of the OBRA in 1990. The OBRA established revenue withholding on statutory patent fees. Subsequent legislation extended the revenue withholding through the end of FY 1998. This withheld revenue constitutes offsetting receipts, and was deposited into a restricted special fund receipt account at the U.S. Department of the Treasury (Treasury). The USPTO may use moneys from this account only as authorized by the U.S. Congress, and only as made available by the issuance of a Treasury warrant. The U.S. Patent and Trademark Reauthorization Act, Fiscal Year 1999, as amended by Public Law 106-113, reset patent statutory fees without the OBRA surcharge. The USPTO has not collected or deposited any fees in the restricted special fund receipt account since 1998. The special fund receipt account has no liabilities currently, and the entire fund balance will remain restricted until appropriated.

Fees other than the restricted revenue withholding are offsetting collections subject to an annual congressional limitation, and are available to the USPTO until expended. Funds authorized but not used in a given fiscal year are carried forward for use in future periods, as appropriated by U.S. Congress.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Revenue and Other Financing Sources

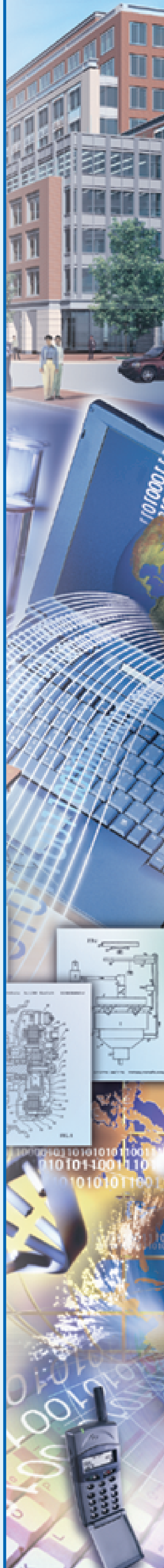
The USPTO's fee rates are established by rule and law and, consequently, in some instances may not represent full cost or market price. Since FY 1993, USPTO funding has been primarily through the collection of user fees. Fees that are remitted with initial applications and requests for other services are recorded as exchange revenue when received, with an adjustment to defer revenue for services that have not been performed yet. All amounts remitted by customers without a request for service are recorded as liabilities in customer deposit accounts until services are ordered.

The USPTO's share of the cost to the Federal government for providing pension and other post-retirement benefits to eligible USPTO employees is recognized as an imputed financing source.

The USPTO also receives some financial gifts and gifts-in-kind from anonymous donors. All such transactions are included in the consolidated Gifts and Bequests Fund financial statements of the Department of Commerce. These gifts are not of significant value and are not reflected in the USPTO's financial statements. Most gifts-in-kind are used for official travel to further the attainment of the mission and objectives of the USPTO.

Entity/Non-Entity

Assets that an entity is authorized to use in its operations are termed entity assets, while assets that are held by an entity and are not available for the entity's use are termed non-entity assets. With the exception of a portion of the Fund Balance with Treasury, all of the USPTO's assets are entity assets and are available to carry out the mission of the USPTO within existing budget constraints.



Fund Balance with Treasury

The USPTO deposits revenue in commercial bank accounts maintained by the Treasury's Financial Management Service (FMS). All moneys maintained in these accounts are transferred to the Federal Reserve Bank on the next business day following the day of deposit. In addition, many customer deposits are wired directly to the Federal Reserve Bank. All banking activity is conducted in accordance with the directives issued by the FMS. All disbursements are processed by the Treasury.

Accounts Receivable

Accounts receivable from the public represent a very small portion of the USPTO's assets as the USPTO requires payment prior to the provision of goods or services during the course of its core business activities. Public accounts receivable are comprised mainly of amounts due from former employees for the reimbursement of education expenses and other benefits.

The USPTO recorded a $13 thousand allowance for uncollectible amounts to reduce the gross amount of its public accounts receivable to its net realizable value as of September 30, 2002 and 2001. The allowance is established for receivables that have been transferred to Treasury. Typically, collection will subsequently occur for most items transferred to Treasury.

Advances and Prepayments

On occasion, the USPTO prepays amounts in anticipation of receiving future benefits. Although a payment has been made, an expense is not recorded until goods have been received or services have been performed. The largest advance, in the amount of $30,413 thousand, is with the GSA for the construction of the Carlyle campus. In addition, the USPTO maintains deposit accounts with the Government Printing Office and DOC to facilitate recurring transactions. The USPTO also advances funds to personnel for travel costs and we expense these amounts after travel has occurred.

Cash

Most of the USPTO's cash balance consists of undeposited checks for fees that were not processed at the Balance Sheet date due to the lag time between receipt and initial review. All such undeposited check amounts are considered to be cash equivalents. As of September 30, 2002 and 2001 the cash balance includes undeposited checks of $9,268 thousand and $11,513 thousand, respectively. Cash is also held outside the Treasury to be used as imprest funds. An imprest fund of $2 thousand was held as of September 30, 2002 and 2001.

Property and Equipment

The USPTO's capitalization policies are summarized below:

Classes of Property and Equipment	Capitalization Threshold for Individual Purchases	Capitalization Threshold for Bulk Purchases
IT Equipment	$25 thousand or greater	$500 thousand or greater
Software	$25 thousand or greater	Not applicable
Software in Progress	$25 thousand or greater	Not applicable
Furniture	$25 thousand or greater	$ 50 thousand or greater
Equipment	$25 thousand or greater	$500 thousand or greater

Contractor costs for developing custom internal use software are capitalized when incurred for the design, coding, and testing of the software. Software in Progress is not amortized until placed in service.

Property and equipment acquisitions that do not meet the capitalization criteria are expensed upon receipt. Fully depreciated assets purchased prior to October 1,1996 may be written off against accumulated depreciation.

Post-employment Compensation

Claims brought by employees of the USPTO for on-the-job injuries fall under the Federal Employees Compensation Act (FECA) administered by the U.S. Department of Labor (DOL). The DOL bills each agency annually as its claims are paid, but payment on these bills is deferred two years to allow for funding through the budget process. As of September 30, 2002, the USPTO recorded a $1,091 thousand liability for claims paid on its behalf during the benefit period July 1, 2000 through September 30, 2002. At September 30, 2001, the USPTO recorded a $917 thousand liability for claims paid on its behalf during the benefit period July 1, 1999 through September 30, 2001.

Employees of the USPTO who lose their jobs through no fault of their own may receive unemployment compensation benefits under the unemployment insurance program administered by the DOL. The DOL bills each agency quarterly as its claims are paid. As of September 30, 2002 and 2001, the USPTO recorded an $89 thousand and a $53 thousand liability, respectively, for claims paid by the DOL on the USPTO's behalf.

Annual, Sick, and Other Leave

Annual leave and compensatory time are accrued as earned, with the accrual being reduced when leave is taken. An adjustment is made each fiscal year to ensure that the balances in the accrued leave accounts reflect current pay rates. No portion of this liability has been obligated. To the extent current or prior year funding is not available to pay for leave earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of non-vested leave are expensed as used.

Employee Retirement Systems and Benefits

Employees of the USPTO participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). The FERS was established by the enactment of Public Law 99-335. Pursuant to this law, the FERS and Social Security automatically cover most employees hired after December 31, 1983. Employees who had five years of Federal civilian service prior to 1984 and who are rehired after a break in service of more than one year may elect to join the FERS and Social Security system or be placed in the CSRS offset retirement system.

The financial statements of the USPTO do not report CSRS or FERS assets or accumulated plan benefits that may be applicable to its employees. The reporting of such liabilities is the responsibility of the U.S. Office of Personnel Management (OPM). While the USPTO reports no liability for future payments to employees under these programs, the Federal government is liable for future payments to employees through the various agencies administering these programs. The USPTO does not fund post-retirement benefits such as the Federal Employees Health Benefit Program and the Federal Employees Group Life Insurance Program. The USPTO also is not required to fully fund the CSRS pension liabilities. The financial statements of the USPTO recognize an imputed financing source and corresponding expense that represents the USPTO's share of the cost to the Federal government of providing pension, post-retirement health, and life insurance benefits to all eligible USPTO employees.

For the fiscal years ended September 30, 2002 and 2001, the USPTO made contributions equivalent to approximately 8.5 percent and 10.7 percent of the employee's basic pay for those employees covered by CSRS and FERS, respectively, based on OPM cost factors.

All employees are eligible to contribute to a thrift savings plan. For those employees participating in the FERS, a thrift savings plan is automatically established, and the USPTO makes a mandatory one percent contribution to this plan. In addition, the USPTO makes matching contributions ranging from one to four percent for FERS-eligible employees who contribute to their thrift savings plans. No matching contributions are made to the thrift savings plans for employees participating in the CSRS. Employees participating in the FERS are also covered under the Federal Insurance Contributions Act (FICA), for which the USPTO contributes a matching amount to the Social Security Administration.

For the fiscal years ended September 30, 2002 and 2001, the USPTO's retirement plan contributions for CSRS and FERS participants were $47,664 thousand and $40,638 thousand, respectively. The USPTO also contributed to the Social Security Administration for FICA benefits $30,788 thousand and $25,922 thousand for the years ended September 30, 2002 and 2001, respectively.

Deferred Revenue

Deferred revenue represents fees that have been received by the USPTO for requested services that have not been substantially completed. Two types of deferred revenue are recorded. The first type results from checks received, with requests for services, which were not yet deposited due to the lag time between receipt and initial review. The second type of deferred revenue relates primarily to fees for applications that have been partially processed.

The deferred revenue calculation continues to improve with experience and as more information is acquired about the Patent and Trademark processes. The deferred revenue calculation is a complex accounting estimate, which requires a detailed and comprehensive understanding of numerous business and administrative processes, as well as an in-depth knowledge of workloads and inventories. The calculation includes the portion of costs associated with various stages of the application process.

Environmental Cleanup

USPTO does not have any liabilities for environmental cleanup.

NOTE 2. FUND BALANCE WITH TREASURY

Non-entity funds consist of amounts held on deposit for the convenience of USPTO customers and held on behalf of the WIPO and the European Property Organization. Customers have the option of maintaining a deposit account at the USPTO to facilitate the order process. Customers can draw from their deposit account when they place an order and can replenish their deposit account as desired. Funds maintained in customer deposit accounts are not available for USPTO use until an order has been placed. Once an order has been placed, the funds are reclassified to entity funds. In addition, the USPTO collects international fees on behalf of WIPO and the EPO and remits these fees monthly.

As of September 30, 2002 and 2001, Fund Balance with Treasury consisted of the following:

(Dollars in Thousands)		**2002**		**2001**
	Unrestricted Funds	**Restricted Funds**	**Total**	**Total**
Appropriated Funds (Obligated)	$ 288,341	$ —	$ 288,341	$ 309,610
Appropriated Funds (Unobligated)	334,923	—	334,923	316,083
Revenue Withheld	—	233,529	233,529	233,529
Subtotal Entity Funds	623,264	233,529	856,793	859,222
Intragovernmental Deposit Accounts	—	3,749	3,749	3,504
Other Customer Deposit Accounts	—	61,002	61,002	53,955
PCT WIPO/EPO Accounts	—	4,586	4,586	6,680
Subtotal Non-Entity Funds	—	69,337	69,337	64,139
Total Fund Balance with Treasury	$ 623,264	$ 302,866	$ 926,130	$ 923,361

No discrepancies exist between the fund balance reflected in the general ledger and the balance in the Treasury accounts.

NOTE 3. PROPERTY AND EQUIPMENT

As of September 30, 2002, property and equipment consisted of the following:

(Dollars in Thousands)

Class of Fixed Asset	Depreciation/ Amortization Method	Service Life (Years)	Acquisition Value	Accumulated Depreciation/ Amortization	Net Book Value
IT Equipment	SL	3-7	$ 211,247	$ 157,861	$ 53,386
Software	SL	3-7	123,145	82,555	40,590
Software in Progress	—	—	19,552	—	19,552
Furniture	SL	5	14,473	10,413	4,060
Equipment	SL	3-5	10,136	8,540	1,596
Total Fixed Assets			$ 378,553	$ 259,369	$ 119,184

As of September 30, 2001, property and equipment consisted of the following:

(Dollars in Thousands)

Class of Fixed Asset	Depreciation/ Amortization Method	Service Life (Years)	Acquisition Value	Accumulated Depreciation/ Amortization	Net Book Value
IT Equipment	SL	3-7	$ 192,345	$ 138,983	$ 53,362
Software	SL	3-7	108,296	59,000	49,296
Software in Progress	—	—	18,717	—	18,717
Furniture	SL	5	15,967	10,171	5,796
Equipment	SL	3-5	9,087	7,660	1,427
Total Fixed Assets			$ 344,412	$ 215,814	$ 128,598

NOTE 4. LIABILITIES

The USPTO records liabilities for amounts that are likely to be paid as the direct result of events that have already occurred. The USPTO considers liabilities covered by three types of resources: realized budgetary resources; unrealized budgetary resources that become available without further Congressional action; and cash and Fund Balance with Treasury. Realized budgetary resources include obligated balances funding existing liabilities and unobligated balances as of September 30, 2002. Unrealized budgetary resources represent fee collections in excess of amounts appropriated for current fiscal year spending. When current fiscal year appropriation language makes these unrealized budgetary resources available on October 1 of the following fiscal year without further Congressional action, these resources are used to cover liabilities. In FY 2002 and FY 2001 collections in excess of amounts appropriated for current fiscal year spending were $306,513 thousand and $305,056 thousand, respectively. However, only the FY 2001 excess collections, which became available the following fiscal year, are displayed as covering liabilities as of the Balance Sheet date. In addition, cash and Fund balance with Treasury cover liabilities that will never require the use of a budgetary resource. These liabilities consist of deposit accounts, refunds payable to customers for fee overpayments, undeposited collections and amounts collected by the USPTO on behalf of other organizations.

Due to the USPTO's funding structure, budgetary resources do not cover a portion of unearned fees. The USPTO's fees that were withheld and deposited into a restricted special fund receipt account are not considered a resource until appropriated and made available by the issuance of a Treasury warrant, although the USPTO incurred costs to generate these fees. Therefore, budgetary resources from current operations that normally would be used to cover a portion of unearned fees have been used to cover prior year costs associated with restricted fees. In addition, the current patent fee structure sets low initial application fees that are followed by income from maintenance fees as a supplement in later years to cover the full cost of the patent examination and issuance process. The combination of these funding circumstances requires the USPTO to obtain additional budgetary resources to cover its liability for unearned revenue.

As of September 30, 2002 and 2001, liabilities covered and not covered by budgetary resources were as follows:

(Dollars in Thousands)	**2002**	**2001**
Liabilities Covered by Resources		
Intragovernmental:		
Accounts Payable	$ 3,721	$ 3,496
Accrued Payroll and Benefits	2,446	5,293
Accrued Postemployment Compensation	—	—
Customer Deposit Accounts	3,749	3,504
Total Intragovernmental	$ 9,916	$ 12,293
Accounts Payable	71,261	57,497
Accrued Payroll and Benefits	15,526	38,485
Customer Deposit Accounts	61,002	53,955
Deferred Revenue	9,045	10,720
Patent Cooperation Treaty Account	4,586	6,680
Capital Lease Liability	—	—
Total Liabilities Covered by Resources	$ 171,336	$ 179,630
Liabilities Not Covered by Resources		
Intragovernmental:		
Accrued Postemployment Compensation	$ 1,180	$ 970
Total Intragovernmental	$ 1,180	$ 970
Accrued Payroll and Benefits	15,609	6,576
Accrued Leave	34,461	30,414
Deferred Revenue	456,929	364,268
Actuarial Liability	5,332	5,526
Capital Lease Liability	—	3,032
Contingent Liabilities	—	3,590
Total Liabilities Not Covered by Resources	$ 513,511	$ 414,376
Total Liabilities	$ 684,847	$ 594,006

NOTE 5. DEFERRED REVENUE

As of September 30, 2002, deferred revenue consisted of the following:

(Dollars in Thousands)	Patents	Trademarks	Total
Unearned Fees	$ 413,070	$ 43,859	$ 458,888
Undeposited Checks	7,465	1,580	9,045
Total Deferred Revenue	$ 420,535	$ 45,439	$ 467,933

As of September 30, 2001, deferred revenue consisted of the following:

(Dollars in Thousands)	Patents	Trademarks	Total
Unearned Fees	$ 325,831	$ 38,437	$ 364,268
Undeposited Checks	8,897	1,823	10,720
Total Deferred Revenue	$ 334,728	$ 40,260	$ 374,988

NOTE 6. ACTUARIAL LIABILITY

The FECA provides income and medical cost protection to covered Federal civilian employees injured on the job and for those who have contracted a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits under the FECA for the USPTO's employees are administered by the DOL and are ultimately paid by the USPTO.

The DOL estimated the future workers compensation liability by applying actuarial procedures developed to estimate the liability for FECA benefits. The actuarial liability estimates for FECA benefits include the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims.

The DOL method of determining liability uses historical benefit payment patterns for a specific incurred period to predict the ultimate payments for that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value using the OMB's economic assumptions for ten-year Treasury notes and bonds. Interest rate assumptions utilized for discounting were as follows:

2002	2001
5.20% in year 1, 5.20% in year 2, and thereafter	5.21% in year 1, 5.21% in year 2, and thereafter

Based on information provided by DOL, DOC determined the estimated liability of the USPTO as of September 30, 2002 and 2001 was $5,332 thousand and $5,526 thousand, respectively.

NOTE 7. LEASES

Capital Lease:

The USPTO capital lease was entered into during FY 2000 and consisted of automatic data processing equipment with a lease term longer than one year, a fair market value of $25,000 or more, a useful life of two years or more, and agreement terms equivalent to an installment purchase. The capital lease term was completed in FY 2002.

Operating Leases:

The GSA negotiates long-term office space leases and levies rent charges, paid by the USPTO, approximate to commercial rental rates. These operating lease agreements negotiated by the GSA for the USPTO's office buildings expire at various dates between FY 2003 and FY 2023. During fiscal years 2002 and 2001, the USPTO paid $67,693 thousand and $62,943 thousand, respectively, to GSA for rent.

Under existing commitments as of September 30, 2002, the minimum lease payments through FY 2007, and thereafter, are as follows:

Fiscal Year	**(Dollar Thousands)**
2003	$ 63,564
2004	115,554
2005	78,109
2006	64,390
2007	59,810
Thereafter	884,487
Total Future Minimum Lease Payments	$ 1,265,914

The existing commitments include the new operating lease for the Carlyle campus beginning in FY 2004 and extending to FY 2023.

NOTE 8. IMPUTED FINANCING

The USPTO recognizes an imputed financing source and corresponding expense to represent its share of the cost to the Federal Government of providing pension and post-retirement health and life insurance benefits (Pension/ORB) to all eligible USPTO employees. During FY 2002, the USPTO also recognized an imputed financing source and corresponding expense for a payment made on its behalf from the Judgment Fund.

As of September 30, 2002 and 2001, the components of the imputed financing sources and corresponding expenses were as follows:

(Dollars in Thousands)	**2002**	**2001**
CSRS/FERS	$ 8,946	$ 8,208
FEHB	21,569	17,137
FEGLI	76	66
Total Pension/ORB	$ 30,591	$ 25,411
Judgement Fund	212	—
Total Imputed Financing	$ 30,803	$ 25,411

NOTE 9. PROGRAM COSTS

Program costs are accumulated by USPTO strategic goal and consist of both costs related directly to the individual business lines and overall support costs allocated to the business lines. There were no costs that could not be assigned to specific programs. Total program or operating costs for the years ended September 30, 2002 and 2001 by cost category were as follows:

(Dollars in Thousands)		**2002**		**2001**
	Direct	**Allocated**	**Total**	**Total**
Personnel Services and Benefits	$ 587,659	$ 42,602	$ 630,261	$ 543,147
Unfunded Personnel Services and Benefits	32,545	2,827	35,372	32,956
Travel and Transportation	1,292	4,158	5,450	4,710
Rent, Communications, and Utilities	72,961	14,334	87,295	76,982
Printing and Reproduction	67,493	1,462	68,955	56,813
Contractual Services	143,418	76,656	220,074	188,307
Training	6,929	164	7,093	6,435
Maintenance and Repairs	7,262	9,127	16,389	15,733
Supplies and Materials	7,977	1,489	9,466	9,518
Equipment not Capitalized	6,159	3,144	9,303	12,853
Insurance Claims and Indemnities	(302)	1,988	1,686	3,690
Imputed Interest	—	—	—	163
Depreciation, Amortization, or Loss on Asset Disposition	45,897	23,754	69,651	65,320
Total Program Costs	$ 979,290	$ 181,705	$ 1,160,995	$ 1,016,627

NOTE 10. PROGRAM COSTS BY CATEGORY AND RESPONSIBILITY SEGMENT

The program costs for the years ended September 30, 2002 and September 30, 2001 by cost category and business line were as follows:

(Dollars in Thousands)		**2002**		**2001**
	Patents	**Trademarks**	**Total**	**Total**
Direct Costs				
Personnel Services and Benefits	$ 516,431	$ 71,228	$ 587,659	$ 501,930
Unfunded Personnel Services and Benefits	29,399	3,146	32,545	30,338
Travel and Transportation	1,091	201	1,292	1,428
Rent, Communications, and Utilities	63,689	9,272	72,961	63,417
Printing and Reproduction	65,306	2,187	67,493	55,480
Contractual Services	124,995	18,423	143,418	117,166
Training	6,010	919	6,929	4,317
Maintenance and Repairs	6,210	1,052	7,262	7,655
Supplies and Materials	7,450	527	7,977	8,347
Equipment not Capitalized	5,126	1,033	6,159	8,953
Insurance Claims and Indemnities	(312)	10	(302)	3,689
Imputed Interest	—	—	—	110
Depreciation, Amortization, or Loss on Asset Disposition	41,888	4,009	45,897	43,524
Subtotal Direct Costs	867,283	112,007	979,290	846,354
Allocated Costs				
Automation	78,239	13,305	91,544	79,382
Resource Management	76,769	13,392	90,161	90,891
Subtotal Allocated Costs	155,008	26,697	181,705	170,273
Total Program Costs	$ 1,022,291	$ 138,704	$ 1,160,995	$ 1,016,627

NOTE 11. FUTURE FUNDING REQUIREMENTS

For the periods ended September 30, 2002 and 2001, future funding requirements were as follows:

(Dollars in Thousands)	
Liabilities not Covered by Budgetary Resources as of 9/30/2001	$ 414,376
Unobligated Balance Used to Cover Unfunded Liabilities	11,029
Unfunded Liabilities as of 9/30/2001	$ 425,405
Liabilities not Covered by Budgetary Resources as of 9/30/2002	$ 513,511
Unobligated Balance Used to Cover Unfunded Liabilities	2,661
Unfunded Liabilities as of 9/30/2002	$ 516,172
Increase in Unfunded Liabilities	$ 90,767
Costs that will be Funded by Resources in Future Periods	$ 4,309
Resources that Fund Costs Recognized in Prior Periods	(6,204)
Budgetary Offsetting Collections that do not Affect Net Cost Of Operations	339,773
Revenue that was a Budgetary Offsetting Collection in a Prior Period	(247,111)
Increase in Future Funding Requirements	$ 90,767

NOTE 12. COMMITMENTS AND CONTINGENCIES

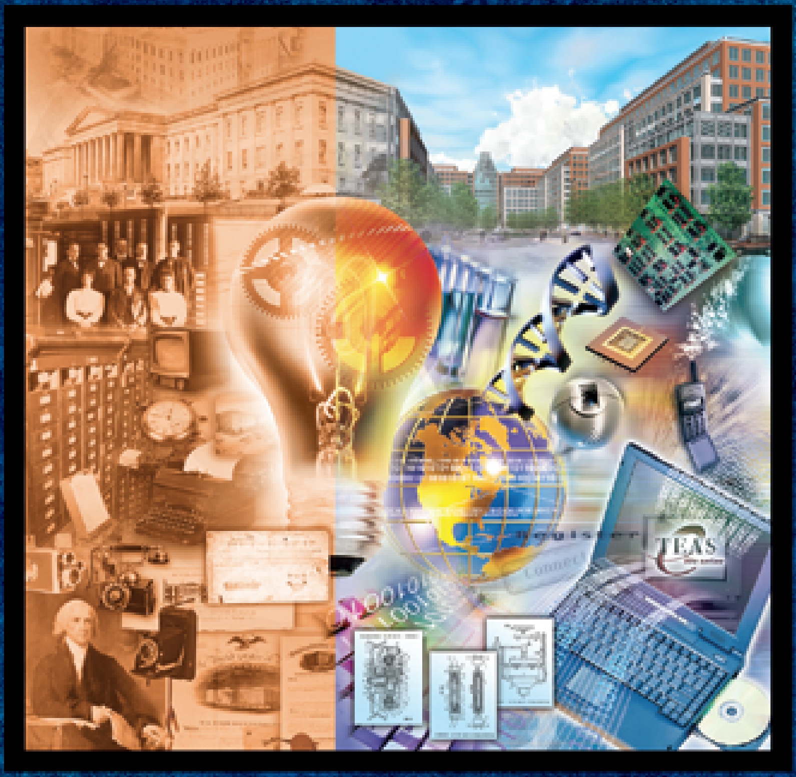
Commitments

In addition to the future lease commitments discussed in Note 7, the USPTO is obligated for the purchase of goods and services that have been ordered but not yet received. Total undelivered orders for all of the USPTO's activities were $234,794 thousand and $224,535 thousand as of September 30, 2002 and 2001, respectively. Of these amounts $198,370 thousand and $218,207 thousand, respectively, were unpaid.

Contingencies

The USPTO is a party to various routine administrative proceedings, legal actions, and claims brought by or against it, including threatened or pending litigation involving labor relations claims, some of which may ultimately result in settlements or decisions against the Federal government. As of September 30, 2002, management expects that it is reasonably possible that approximately $87,000 thousand may be owed for awards or damages involving labor relations claims and there are other unasserted claims where a range cannot be determined. As of September 30, 2001, management expected that it was reasonably possible that from $228 thousand to $668 thousand would be owed for awards or damages involving labor relations claims. During FY 2002, there was a $212 thousand payment from the Judgment Fund on behalf of the USPTO. Although the ultimate disposition of any potential Judgment Fund proceedings cannot be determined, management does not expect any liability or imputed costs that might ensue would be material to the USPTO's financial statements.

Required Supplemental Information



U.S. PATENT AND TRADEMARK OFFICE
REQUIRED SUPPLEMENTAL INFORMATION

As of September 30, 2002 and 2001

Intragovernmental Assets:
(Dollars in Thousands)

		2002				2001
Trading Partner		Fund Balance with Treasury	Accounts Receivable, Net	Advances and Prepayments	Total	Total
04	U.S. Government Printing Office	$ —	$ —	$ 3,731	$ 3,731	$ 3,770
13	Department of Commerce	—	—	700	700	2,290
20	Department of Treasury	926,130	—	—	926,130	923,361
47	General Services Administration	—	99	30,413	30,512	—
97	Department of Defense	—	—	—	—	10
	Total	$ 926,130	$ 99	$ 34,844	$ 961,073	$ 929,431

Intragovernmental Liabilities:
(Dollars in Thousands)

		2002					2001
Trading Partner		Accounts Payable	Accrued Payroll and Benefits	Accrued Post-employment Compensation	Customer Deposit Accounts	Total	Total
03	Library of Congress	$ 314	$ —	$ —	$ —	$ 314	$ 8
04	U.S. Government Printing Offfice	1,461	—	—	—	1,461	949
11	Executive Office of the President	—	—	—	—	—	378
12	Department of Agriculture	10	—	—	183	193	96
13	Department of Commerce	372	—	—	82	454	496
14	Department of Interior	—	—	—	13	13	36
15	Department of Justice	—	—	—	12	12	5
16	Department of Labor	52	—	1,180	—	1,232	970
17	Department of the Navy	—	—	—	1,190	1,190	837
18	United States Postal Service	—	—	—	5	5	4
19	Department of State	33	—	—	—	33	75
20	Department of Treasury	4	697	—	—	701	1,655
21	Department of the Army	—	—	—	700	700	1,093
24	Office of Personnel Management	208	1,749	—	—	1,957	3,828
47	General Services Administration	1,155	—	—	—	1,155	711
57	Department of the Air Force	—	—	—	90	90	91
68	Environmental Protection Agency	71	—	—	32	103	1
69	Department of Transportation	—	—	—	1	1	3
75	Health and Human Services	41	—	—	35	76	263
80	National Aeronautics and Space Admin.	—	—	—	371	371	487
88	National Archives and Records Admin.	—	—	—	—	—	503
89	Department of Energy	—	—	—	936	936	698
96	U.S. Army Corps of Engineers	—	—	—	68	68	66
97	Department of Defense	—	—	—	31	31	10
	Total	$ 3,721	$ 2,446	$ 1,180	$ 3,749	$ 11,096	$ 13,263

Intragovernmental Earned Revenue:
(Dollars in Thousands)

	Trading Partner	2002	2001
03	Library of Congress	$ 1	$ 1
04	Government Printing Office	1	—
11	Executive Office of the President	—	1
12	Department of Agriculture	218	298
13	Department of Commerce	67	80
14	Department of Interior	43	34
15	Department of Justice	5	9
17	Department of the Navy	1,340	1,179
18	United States Postal Service	77	65
20	Department of State	1	—
21	Department of the Army	751	757
33	Smithsonian Institution	—	1
47	General Services Administration	239	—
57	Department of the Air Force	332	345
64	Tennessee Valley Authority	—	12
68	Environmental Protection Agency	159	168
69	Department of Transportation	162	5
75	Department of Health and Human Services	4	8
80	National Aeronautics and Space Administration	604	520
89	Department of Energy	1,389	1,225
96	U.S. Army Corps of Engineers	48	44
97	Department of Defense	55	31
	Total	$ 5,496	$ 4,783

Gross Costs that Generated Intragovernmental Earned Revenue:
(Dollars in Thousands)

	Budget Functional Classification	2002	2001
376	Commerce Housing Credit	$ 6,269	$ 4,703
	Total	$ 6,269	$ 4,703

Intragovernmental Non-exchange Revenue:
(Dollars in Thousands)

	Trading Partner	2002	2001
20	Department of the Treasury	$ 212	$ -
24	Office of Personnel Management	$ 30,591	$ 25,411
	Total	$ 30,803	$ 25,411

The USPTO has not deferred to a future period maintenance on the property and equipment presented on the Balance Sheet as of September 30, 2002 and 2001.