

Management Discussion and Analysis



MISSION AND ORGANIZATION OF THE UNITED STATES PATENT AND TRADEMARK OFFICE

Vision

The USPTO leads the world in providing customer-valued intellectual property (IP) rights that spark innovation, create consumer confidence, and promote creativity.

Mission Statement

The USPTO mission is to promote industrial and technological progress in the United States and strengthen the economy by:

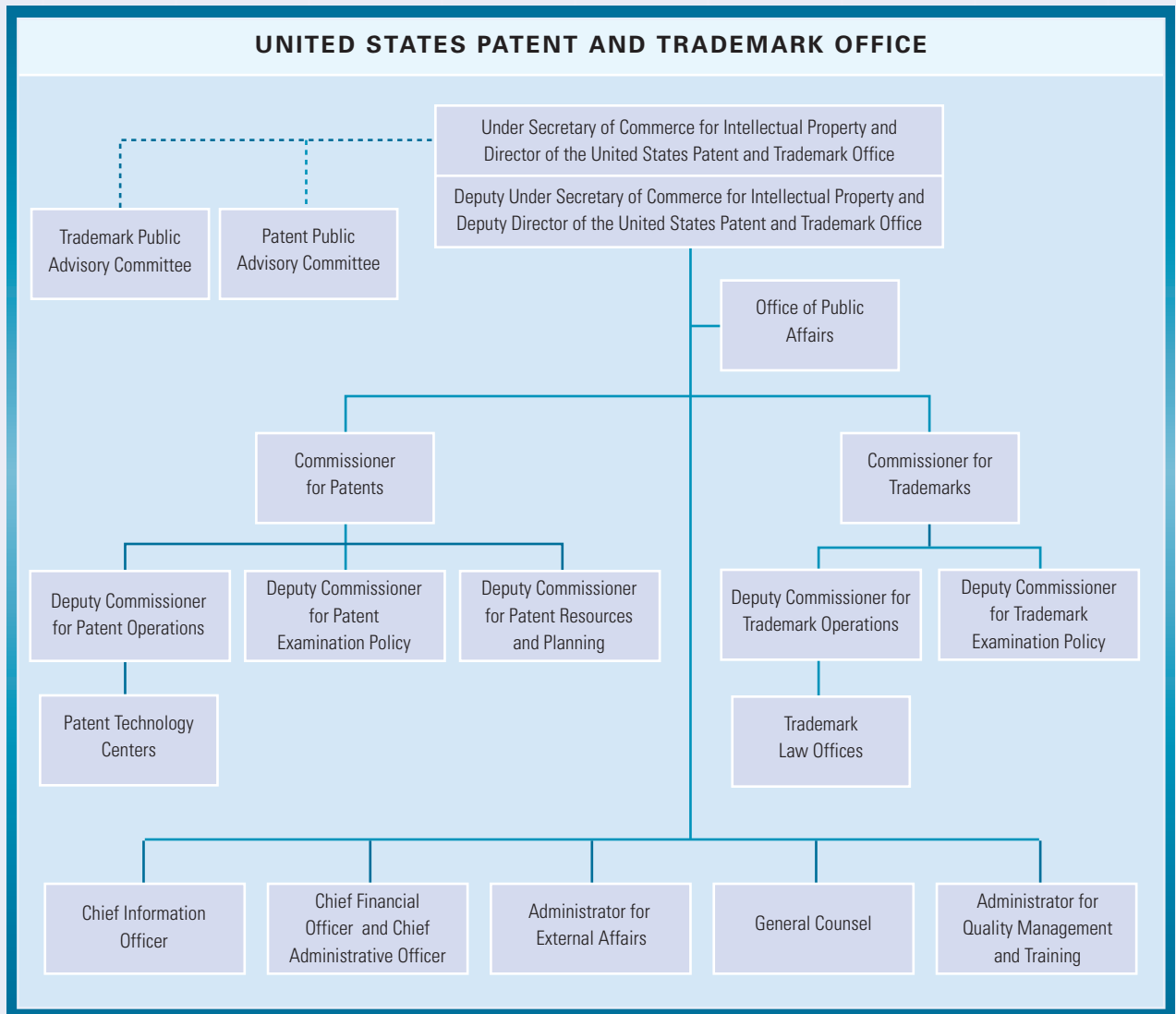
- Administering the laws relating to patents and trademarks while ensuring the creation of valid, prompt, and proper IP rights; and
- Advising the administration on all domestic and global aspects of IP.

The American IP system has played a significant role in the history of our nation's economy. Patents and trademarks have long protected American creativity and ingenuity—the first patent was issued in 1790 for a method of making potash fertilizer, and the oldest active trademark registered is SAMSON with design for "cords, lines, and ropes," and first was registered in 1884. The strength and vitality of our technology-driven economy depends directly on the effectiveness of the mechanisms that protect new ideas and investments in innovation and creativity. The continued demand for patents and trademark registrations underscores the ingenuity of U.S. inventors and entrepreneurs. The USPTO is at the cutting edge of our nation's technological progress and achievement.

The primary services provided by the USPTO to protect IP are administering the laws relating to patent and trademark application processing and disseminating patent and trademark information. Through the issuance of patents, we encourage technological advancement by providing incentives to invent, invest in, and disclose new technology worldwide. Through the registration of trademarks, we assist businesses in protecting their investments, promoting quality goods and services, and safeguarding consumers against confusion and deception in the marketplace. By disseminating both patent and trademark information, we promote an understanding of IP protection and facilitate the development and sharing of new technologies worldwide.

Organizational Structure, Workforce, and Location

The USPTO is an agency of the U.S. Department of Commerce. The powers and duties of the USPTO are vested in the Under Secretary of Commerce for Intellectual Property and Director of the USPTO who consults with a Patent Public Advisory Committee (PPAC) and a Trademark Public Advisory Committee (TPAC). The USPTO has two major business lines – patents and trademarks – as shown in the following organization chart. The USPTO workforce is comprised of 6,426 federal employees, which includes 3,061 patent examiners and 389 trademark examining attorneys. In addition, we have over 2,800 contract employees.



The USPTO is located in Arlington, Virginia. We occupy office space in 18 buildings in the Crystal City neighborhood. In addition, we have a storage facility in Springfield and one in Alexandria, Virginia, and we lease storage space in Boyers, Pennsylvania.

World Wide Web address

<http://www.uspto.gov>

Web address for the USPTO Performance and Accountability Report

<http://www.uspto.gov/web/offices/com/annual>

MANAGEMENT CHALLENGES

The USPTO is responsible for supporting the national economy through IP protection. The domestic and global economies are driven in part by new technologies supported by incentives provided by IP laws. The USPTO is one of the principle IP offices in the world, and all the major offices, particularly the USPTO, the Japan Patent Office (JPO), and the European Patent Office (EPO), have experienced rapid increases in the number of patent applications filed and the resulting increase in workload.

Volatility and Economic Uncertainty in the Demand for Products and Services



Patent Management Team:

Stephen G. Kunin; Nicholas P. Godici, Commissioner for Patents; Esther M. Kepplinger; and Edward "Kaz" Kazenske

Over the past decade, the USPTO has faced increasing workload demands, particularly in the filing of patent and trademark applications. However, the volatility of these application filings has been evident particularly in the last year. During the 1990s, patent application filings grew at an average annual rate of 8 percent per year. In fiscal years (FY) 2000 and 2001, the growth rate increased to 12 percent per year, where it is projected to stay through FY 2002 and then level off at 10 percent annual growth through FY 2007. Taken as a whole, these double-digit workload increases are formidable. However, the growth has been particularly explosive in the electrical technologies, which experienced a 19 percent growth over the past two years.

related to the Internet, which paralleled the growth of the economy, trademark application filings grew by 27 percent each year. Although application filings decreased in FY 2001 by 21 percent, consistent with a declining economy, the number of applications filed was the second highest level ever recorded. For FY 2002, the USPTO projects no additional growth in filings due to the current economic slowdown. Thereafter, based on projections and statements from the administration, the economy is expected to improve and for trademark applications to return to a growth position.

The annual growth rate of applications for registration of a trademark during the 1990s averaged 14 percent. In FY 1999 and FY 2000, fueled by the increase in business

Increasing Workload of Complex Technologies

In recent years the greatest growth in filings is in the more complex areas of electrical/computer engineering and biotechnology/bioinformatics technologies. To better manage this changing workload, the USPTO is focusing more heavily on automated

Trademark Management Team: Lynne Beresford; Robert Anderson; and Anne Chasser, Commissioner for Trademarks



search tools and other labor-saving techniques, as well as reviewing its fee structure for fee changes that may result in improvements to facilitate internal application processing efficiencies.

Recent Legislative Mandates

The American Inventors Protection Act of 1999 (AIPA) made significant changes to the structure and management of the USPTO and the patent system. Transition to the new structure and management practices took place in the early part of FY 2000 and continued into FY 2001. The new structure positions the USPTO to function with a more business-like approach.

Changes to the patent system have included patent term adjustments for failure to process patent applications within specific timeframes, pre-grant publication of most patent applications 18 months after filing, and expanded the reexamination process. Implementation of these provisions is still under way. Some of these new mandates created significant financial requirements for the USPTO. Until sufficient historical patterns can be observed, detailed implications for forecasting workload, fee collections, and impact on operations remain unclear.

Space Consolidation

The USPTO plans to consolidate its current operations in Alexandria, Virginia, about three miles from our current site. This space consolidation is a critical step in making the USPTO the best IP office in the world. On June 1, 2000, the General Services Administration (GSA), as agent for the USPTO, executed a 20-year lease for a two-million-square-foot facility to consolidate the USPTO's operations now dispersed among 18 separate Crystal City buildings within a one-mile area, covered by 33 separate GSA leases. Relocation to Alexandria will be phased to coincide with delivery of five interconnected buildings. Occupancy is expected to begin in late FY 2003 and be completed by mid-FY 2005.

Consolidation is critical to the agency's transition to e-Government. The USPTO now has the opportunity to tailor the design of a comprehensive state-of-the-art communication backbone for the facility and to provide for current communication technology such as video-conferencing. Additionally, in conjunction with the move and as part of the transformation to a fully electronic workplace, the agency plans to eliminate paper files in both employee and public search areas to the maximum extent possible.

The USPTO will face numerous logistical and operational challenges in executing this consolidating move. Dual operations, including dual computer facilities, will be required during the phasing of the relocation because the space will be delivered over a protracted period. Supporting employees and

CFO/CAO Management Team: Clarence C. Crawford; Sandra Weisman and Kimberly Walton

customers at geographically separate locations will require careful planning. However, the long-term benefit will be a world-class facility with operational efficiencies and improved allocation of workspace to accommodate the USPTO's growing and changing workplace.

e-GOVERNMENT – TECHNOLOGY ADVANCING TECHNOLOGY

The theme of the USPTO's FY 2001 Accountability Report is "e-Government – Technology Advancing Technology." Therefore, discussion of major information technology (IT) advances made this year in the patent and trademark businesses is appropriate.

The USPTO has undertaken major projects to come to grips with the challenges of an IT-driven economy. In doing so, it has emerged as a leader in e-Government initiatives. The USPTO has applied technology that has facilitated examiners' searches of prior art relevant to patentability and of potentially conflicting marks relevant to the registrability of trademarks. Enhanced technology also has allowed filing of both patent and trademark applications over the Internet, thereby increasing the efficiency of interactions between the public and the USPTO.

PATENTS

The patent business has moved aggressively to conduct business in an e-Government environment. In October 2000, the Electronic Filing System (EFS) was released to full production on schedule. EFS provides for the electronic filing of new utility and pre-grant publication applications. By the end of FY 2001, there were more than 2,000 applications filed electronically. In addition, the patent business continued to expand its EFS outreach and marketing effort. This past year, they visited 16 cities for two-day outreach workshops covering AIPA, the Electronic Business Center (EBC), and EFS. These workshops had a 98 percent satisfaction rating by the 3,200 attendees and 88 percent of EFS filings (November 2000 - July 2001) were from outreach states (26 on-demand workshops, conducted by the USPTO and sponsored by law firms and associations, along with customized workshops and 10 EFS hands-on training classes). The EBC, which operates

*CIO Management Team: Wesley H. Gewehr;
Doug Bourgeois, Chief Information Officer;
and Ron Hack*





PRINGLES and design owned by Procter & Gamble Company Application Serial No. 78033141 for snack foods, namely, potato chips and potato crisps

24 hours a day, seven days a week (24/7), also was established to issue customer numbers and digital certificates. The EBC has provided assistance to over 4,200 callers.

Another major focus of patent business e-Government activities was to reduce internal USPTO administrative costs and enhance quality. Toward this end, a development effort for an electronic patent application processing and workflow system was initiated. Tools for Electronic Application Management (TEAM) is the centerpiece of the electronic workplace environment for the paperless processing of electronically submitted patent applications and follow-on papers throughout their entire life cycle from authoring by patent business customers to patent grant and publication and electronic records archival. TEAM will enable customers and internal users to electronically access official and work-in-process application content and track application status before and after publication. TEAM also will enable the USPTO to conduct business electronically with customers and business partners in a secure manner, and will reflect the entire official prosecution history. The goal is to put TEAM into production in FY 2004.

Patent business operations continued to enhance the following IT systems.

Patent Application Information Retrieval (PAIR) System. The PAIR system provides patent applicants with the ability to review the status of their pending patent applications online, via the Internet, 24/7. PAIR provides real time workflow tracking information, records communications sent from the USPTO to applicants, and logs receipt of hard copy documentation from applicants.

Electronic Filing System. EFS provides the secure electronic filing of patent applications via the Internet from anywhere in the world, 24/7. Using Public Key Infrastructure (PKI) technology, the confidentiality of sensitive application data is maintained. EFS is a key first step in building an e-Government environment for the USPTO's customers.

Patent Image Capture System (PICS). PICS scans all incoming patent applications, providing retrievable image records. These application image records are used to respond to customer requests for quality certified copies of patent applications as filed. PICS images also are used by patent examiners for security screening of application content, eliminating the need for transporting the paper patent application file wrappers.

Examiners Automated Search System (EAST) and Web-based Examiner Search System (WEST). These two key automated search systems provide every patent examiner with desktop access to all U.S. patents, EPO and JPO documents back to 1920, as well as additional patent databases. EAST and WEST will permit the USPTO to move toward essentially "paperless" searching.

Office Action Correspondence Subsystem (OACS). The OACS enables communications from patent examiners to be created and stored electronically. OACS provides examiners with up-to-date form paragraphs and official forms, and general automated assistance in creating official correspondence with patent applicants.



GE script & design owned by General Electric Company Application Serial No. 78067128 for use with various plastic products

TRADEMARKS

The trademark business continued its transformation to a totally e-Government operation by expanding and improving upon the availability of trademark information accessed through the Internet. The trademark business exploited the concept of e-Government for use as a tool to more effectively serve an increasingly larger, global client-base, and to extend 24 hour-a-day access to trademark information for external customers, regardless of their location. Electronic filing and information systems serve customers in two very important ways: (1) reducing the time to provide access to



Mattel, Inc. was the top electronic filer for fiscal year 2001, filing a total of 837 electronic trademark applications.

General Electric received a plaque at a ceremony commemorating the 100,000 electronic trademark filing. From left to right Acting Under Secretary Nicholas Godici; Kathryn B. Park, Chief Trademark Counsel for GE; Ron Myrick, Chief Intellectual Property Counsel for GE; and Anne Chasser, Commissioner for Trademarks.



current information, and (2) improving the quality of the initial application and therefore the quality of the data that is captured and shared in the publication and registration of trademarks.

The trademark business continued to promote the benefits of e-Government by striving to create a single approach for serving all customers, relying on effective use of IT and the resources available at the USPTO Web site. Short- and long-term operational and process changes are designed to support electronic filing and increase electronic communication with USPTO customers. The goal is to perform nearly all communications with trademark customers electronically by FY 2004. A major effort to help the trademark business achieve this goal is the Trademark Electronic Application System (TEAS). TEAS received more than 20,600 application filings in its first year of operation. In the second year of operation (FY 2000), application filings through TEAS more than doubled to over 44,100 filings. In FY 2001, the trademark business received nearly 58,000 applications electronically, including more than 61,000 classes for the registration of a trademark. To foster continuous improvement of this important e-Government initiative, additional trademark forms were added and promotional events were held to encourage use.

The number of electronically filed applications submitted through TEAS accounted for 24 percent of all new applications filed, short of the goal to achieve 30 percent of filings electronically in FY 2001. While pro se applicants and corporations were initially the primary users of TEAS, by the end of the fiscal year, applications submitted by attorneys had risen to nearly 50 percent. As a result of increased filings, a third law office within the USPTO was dedicated solely to the processing of applications received electronically. The USPTO is committed to enhancing TEAS, as well as encouraging greater acceptance and use for the benefit of all those who use trademark information.

Electronic access to trademark information is the basis for the trademark business transformation to an e-Government operation. The trademark business has made significant progress in the use of electronic solutions to deliver greater efficiencies and convenience to customers and to provide employees with the tools and technologies they need to perform their jobs.

All of the trademarks depicted in this year's Annual Report were filed using TEAS, the Trademark Electronic Application System. The marks represent submissions from seven of the top 10 electronic filers for FY 2001.



LIFE SAVERS GUMMIES owned by Nabisco Brands Company now owned by Kraft Foods Holdings, Inc. Application Serial No. 78035064 for candy



PAMPERS PULL UPS & design owned by Procter & Gamble Company Application Serial No. 78024495 for disposable diapers



MISCELLANEOUS LEAF DESIGN
 owned by Novartis AG CORPORATION
 Application Serial No. 78074268 for pharmaceutical
 products, namely, dermatological preparations



GM & design owned by General Motors Corporation
 Application Serial No. 78063881 for clothing,
 namely, aprons, caps, coats, dress shirts, gloves,
 golf shirts, hats, headbands, jackets, moccasins,
 neckties, overalls, pants, polo shirts, rainwear,
 robes, scarves, shoes, shorts, sleep wear,
 slippers, socks, sun-visors, sweat pants,
 sweat shirts, sweaters, t-shirts and vests



MILK-BONE owned by Nabisco Brands Company
 Application Serial No. 78072491, Registration No.
 2534344 for pet toys

Trademark business operations continued to enhance the following IT systems.

Trademark Electronic Business Center. This free "storefront" service utilizes an Internet browser to search and retrieve information necessary to prepare and file nearly all required trademark application forms, and access status information related to their applications online. They also can search the text and images of more than three million trademark records. Customers can pay for products and services, and order and receive trademark products electronically via the Internet.

Trademark Electronic Application System. The TEAS system allows anyone to file online applications for the registration of a trademark, extensions and statements of use for intent-to-use filings and file for renewal of their trademark. In the past year, the trademark business has enhanced the number and type of forms available as well as the amount and type of information that is available electronically.

Trademark Electronic Search System (TESS). TESS system allows anyone to search the records of more than three million pending, registered, abandoned, cancelled or expired trademarks. TESS makes available to the public the entire database and search system used by USPTO trademark examining attorneys for making decisions regarding the registrability of a mark. In FY 2001, the number of search transactions initiated by public users averaged 1.1 million per month, an increase of 150 percent over FY 2000.

Trademark Application Registration Retrieval (TARR). TARR allows anyone to search the status of pending and registered trademarks available.

OnLine Trademark Official Gazette (TMOG). In the past year, a major publication was made available in a searchable "online" Portable Document Format (PDF) directly from the USPTO Web site. The TMOG, which includes marks that are published for opposition, registered and renewed, is posted weekly along with the four prior issues, for a rotating total of five issues. Internet access to weekly trademark information expands the offerings available that provide customers with searchable access to the entire database of pending and registered trademarks through TESS, and access to application and registration status through TARR.

Dr. Samuel W. Bodman, Deputy Secretary of Commerce, learns more about the trademark electronic filing system during a visit to the USPTO in August last year.





RESCUE HEROES owned by Mattel, Inc.
Application Serial No. 78032442 for inflatable children's
play sets and children's play spaces in the shape of
vehicles, castles, farms, houses, animals and the like



VIACOM owned by Viacom International, Inc.
Application Serial No. 78050028 for dissemination
of out of home advertising for others on billboards,
busses, railways and street furniture

PERFORMANCE GOALS AND RESULTS

Over the past decade, the USPTO faced unprecedented challenges including soaring workloads, resource limitations, increasingly complex technology, and growing demands from customers. Now more than ever, it is critical that the USPTO reinforce its position as the leading IP organization in the world by providing the highest quality patents and trademarks in a timely manner. To do this, the USPTO has refocused its attention on achieving two core goals: (1) enhance the quality of USPTO products and services, and (2) minimize patent and trademark application processing time.

Both the patent business and the trademark business adopted these two goals to guide their operations. In sharing these goals, both patents and trademarks require a fundamental pre-requisite for successfully meeting quality and timeliness goals and targets to transition to e-Government.

As demonstrated in the following two sections, both the patent and trademark businesses have prepared a strategic plan reflecting their unique environment, size, complexity, and customer base. The patent business plans to put its electronic patent application processing and workflow system into operation in FY 2004. The trademark business plans to complete its transition from paper-based processing to complete electronic processing by FY 2004. Discussion of performance evaluation processes and initiatives, and an overview of IP policy and leadership, follow these two sections.

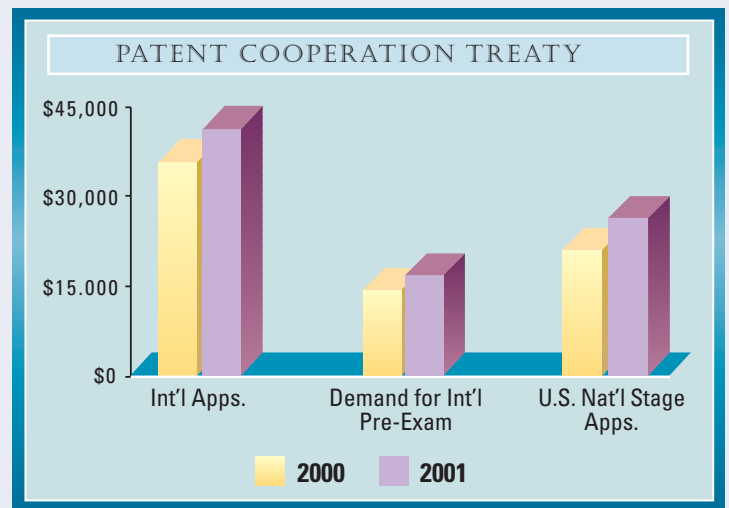
PATENTS

FY 2001 was another successful year for the patent business. The first full year under AIPA has seen significant progress in implementing the major pieces of this legislation. In May 2001, the patent business published the first U.S. patent applications under the new statute, commonly called pre-grant publications. By the end of FY 2001, a total of 25,376 patent applications had been published. The publication of these application documents is an historic event for the United States patent system. This information will expand the public knowledge of the latest technology. Additionally, the patent business has started measuring patent term adjustments for patents granted that exceed the specific timeframes defined in the AIPA. Further, it received the first request under the new inter partes reexamination rules. The business line also achieved or made significant progress toward achieving the performance goals and initiatives identified in the beginning of the fiscal year. It made notable gains in quality and timeliness, as well as employee and customer satisfaction. The patent business also is making tremendous strides and continues to build on its successes in e-Government.

The patent business continues to receive a record number of applications. It received 326,081 utility, plant and reissue (UPR) applications in FY 2001. Increases in the number of applications in communications, information processing, and biotechnology led to the 11.2 percent growth over last year. The patent business also issued a record 170,643 UPR patents, a three percent increase over FY 2000. For FY 2002, UPR applications are expected to increase another 12 percent, with the high technology areas leading this growth once again.

Filings under the Patent Cooperation Treaty (PCT) continued to increase, as shown in the table below. PCT usage reflects the transition to a global economy because it implements the concept of a single international patent application which has legal effect in the member countries.

An important step toward operating in an electronic environment occurred when the Office of Personnel Management approved the pay raise portion of the "Agreement on Initiatives for a New Millennium" on May 31, 2001. This historic agreement is the result of a cooperative effort by the Patent Office Professional Association (POPA) and USPTO management, and represents a milestone in the progress and commitment toward improving the agency for both customers and employees. The "Millennium" agreement addresses a number of long-standing issues and will help the organization reach its goals. The agreement includes a special pay rate to address recruitment and retention issues for patent



examining professionals, moving to an electronic search environment by the phased elimination of paper search files, improving automation tools, establishing a patent examiner work-at-home pilot, and adding a customer service element to employee performance plans. Taken as a whole, these initiatives will have a positive impact on quality, customer service, and timeliness, and provide the patent business with the flexibility necessary to recruit highly-skilled professionals and retain experienced employees who will help the agency move toward electronic-based processing.



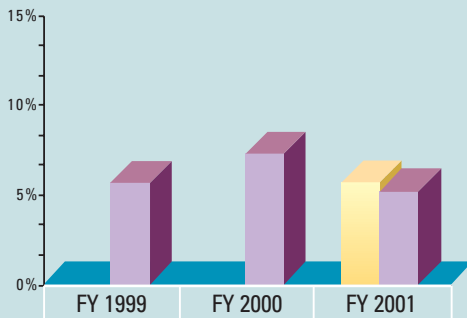
In July last year, the USPTO signed an agreement with the Patent Office Professional Association (POPA) that created a patent work-at-home pilot program. Left to right are: Esther Kepplinger, Deputy Commissioner for Patent Operations; Stewart Levy (standing) Director Technology Center 2800; and Ron Stern, President of POPA.

Goal: Enhance the quality of our products and services

Customers are concerned with the quality of the products and services they receive in exchange for the fees they pay. The patent business has made great strides in meeting expectations for high quality products and services.

Results: Quality of Patents

Measure: Improve quality of patents by 55 percent through reducing the error rate from 6.6 percent to 3 percent by FY 2006.



Discussion: Target met. FY 2001 reflects actual error rate from September 2000 through August 2001. FY 2002 and beyond will be reported on a September to August basis. We will continue to concentrate our efforts on training, providing search tool enhancements, and process improvements.

An error is defined as at least one claim within the randomly selected allowed application under quality review that would be held invalid in a court of law, if the application were to issue as a patent without the required correction. Some examples of errors include the issuance of a claim notwithstanding the existence of anticipatory prior art under 35 USC 102, or relevant prior art under 35 USC 103 that would render the allowed claim obvious. Other errors may include lack of compliance of a claim to the other statutory requirements (i.e., 35 USC 101, 35 USC 112) and judicially created doctrines.

DATA VALIDATION AND VERIFICATION

- Data source:** Office of Patent Quality Review Report.
- Frequency:** Daily input, monthly reporting.
- Data storage:** Automated systems, reports.
- Verification:** Manual reports and analysis.
- Data Limitations:** None.

The patent business finished FY 2001 with a 5.4 percent error rate, a great improvement from last year's 6.6 percent. Over the past 18 years, this error rate has varied from 3.7 percent to 7.6 percent. The goal is to reduce the error rate to a level of 3 percent by FY 2004.

Another key quality measure is the percent of allowed applications where a significant question relating to quality of the examination process was raised. This year, the patent business improved from 7.7 percent to 5.1 percent, beating its target of 7 percent. Based on the input from our PPAC, the business is developing a quality index that will incorporate a number of metrics to achieve a better-balanced measure of quality.

Programs to ensure the quality of patent business services and products include partnerships, focus sessions, and roundtables with customers. For example, the business established a customer partnership-working group in the business methods technology area. An inaugural business methods partnership meeting was held at the USPTO on March 1, 2001, with approximately 60 representatives from the business and legal communities, trade associations, and academia.

The in-process review program continues to help identify areas that need quality improvement within the technology centers (TC), and design training programs to enhance the quality of our products. Leadership continues to meet regularly with front-line supervisors and quality specialists to share knowledge; stress the importance of quality, training and employee development; identify systemic issues; and explore best practices. Other initiatives include focus sessions with customers on key aspects of patent examination. "Road shows," utilized in the biotechnology area, have brought training on the latest procedural issues to many of patent business customers. Patent examiners continue to attend technology fairs where industry highlights the latest in technology and processes. Further, patentability reviews have been expanded to review the correctness of each allowed application in the emerging technology areas where the prior art is not well established.

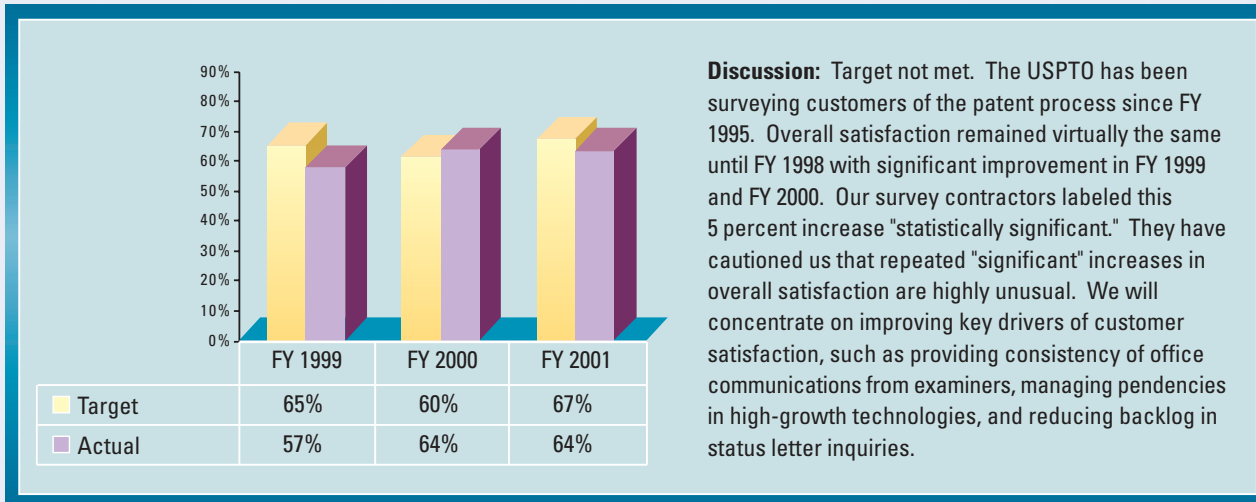
Implementing the AIPA has presented numerous challenges, as well as opportunities to improve quality in the USPTO. In FY 2001, the patent business provided the public with text searchable access to the published application database through the USPTO Web site. *A Patent Business Goal and AIPA Rulemaking and Patent Examination Guidelines* – first supplement was developed for distribution to internal and external customers, and training materials for examiners were created on inter partes reexamination. In August 2001, a new edition of the Manual of Patent Examining Procedure (MPEP) was completed, which incorporates the changes necessitated by the AIPA and a number of final rule packages that became effective since the last revision of the MPEP in February 2000. The electronic version of the new edition of the MPEP in PDF was posted on the USPTO Web site in September 2001.

The second business methods partnership meeting was held last year. Among those in attendance were, from left to right: Vincent Millin, Supervisory Patent Examiner, TC 2100; Alec French, House Judiciary Committee; John Love, Director, TC 2100; Chris Katapis, House Judiciary Committee; Jim Trammel, Supervisory Patent Examiner, TC 2100; and Wynn Coggins, Supervisory Patent Examiner, TC 2100.



Results: Customer Satisfaction

Measure: Increase overall customer satisfaction from 64 percent to 80 percent by FY 2006.



DATA VALIDATION AND VERIFICATION

Data source: Customer surveys.

Frequency: Surveys are conducted and results are reported annually.

Data storage: Paper files and contractor electronic files.

Verification: Independent contractor develops data instrument, conducts survey and compiles results.

Data Limitations: None.

Customer satisfaction with the patent business service is high, given the nature of the business. Customers are most satisfied that employees treat them with courtesy each time they contact the agency, that assistance is available at a time convenient to them, application instructions are clear, the telephone is used to resolve examination issues, the outcome met their objectives, and final decisions are fair. Yet there continues to be



Over 180 independent inventors attended the USPTO 6th annual Independent Inventor Conference in August last year.



Speakers at the conference included, left to right: Dan Lauer, inventor of WATERBABIES; Joanne Hayes-Rines, editor and publisher of *Inventors Digest Magazine*; and Richard Levy, inventor of the FURBY.

opportunities for improvement. Areas for improvement include the time required to correct problems, consistency of examinations, accuracy in correcting problems, and the time required for responding to status letters.

The patent business expanded the number of customer service centers throughout the organization to answer customer questions and resolve problems correctly and in a timely manner. The business piloted an automated complaint management system to analyze the root-cause of problems and improve processes. The USPTO provided desktop facsimile service to all TCs so that customers can send their documents directly to the individual responsible for getting their issues resolved. The patent business also has expanded the number of customers having direct access to their application information through the online PAIR system, allowing them to check on the status of their patent applications at any time. In FY 2002, the patent business will begin implementing systems and solutions to respond to status letter inquiries based on feedback from the PPAC and customers.

Goal: *Minimize patent application processing time*

The patent system has been the foundation of America’s great innovative success. The system carefully balances the exclusivity incentive it offers against disclosure, and openness of the invention that accrues to society as a whole by the use of the invention once the term of patent protection has ended. It is critical for the USPTO to maximize the term of patent protection for the inventor, as well as avoid extension of patent term beyond that necessary.

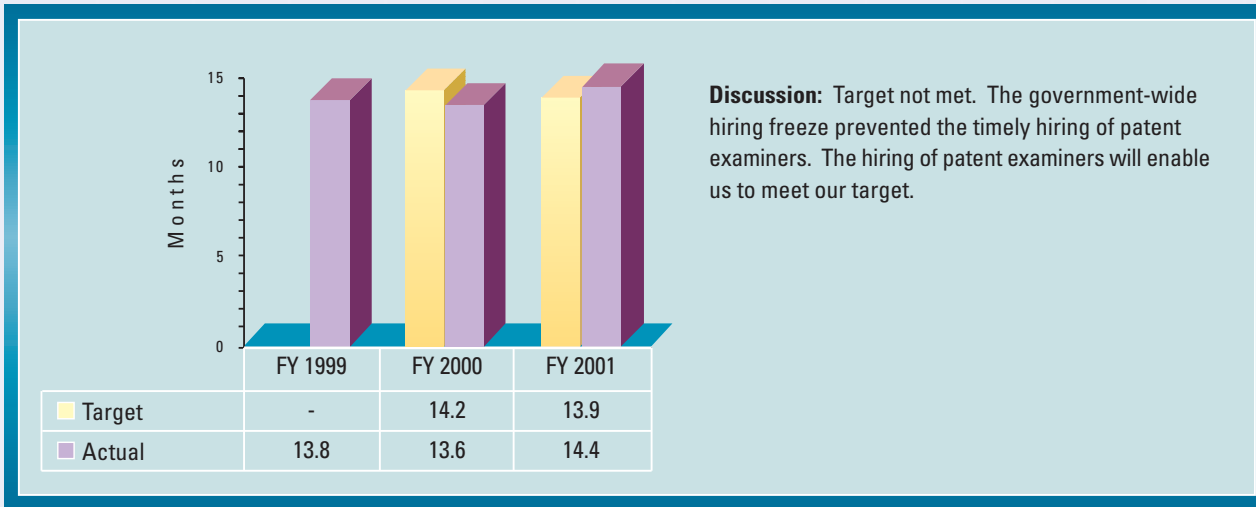
The AIPA legislation provides a guarantee that ensures diligent applicants maximize their patent terms. Failure of the patent business to take the actions listed below will result in the patent term being extended one day for each day of delay.

Issue a first office action within 14 months of filing	Target – 78.0% Achieved – 74.3%
Respond to an applicant’s reply to a rejection or to an appeal brief within four months	Target – 98.0% Achieved – 98.1%
Act on an application within four months of a decision of the Board of Patent Appeals and Interferences or a decision of the Federal Court	Target – 84.0% Achieved – 84.1%
Issue a patent within four months of payment of an issue fee	Target – 87.0% Achieved 92.2%
Issue a patent within 36 months of filing	Target – 86.0% Achieved – 87.2%

During FY 2001, 414 new patent examiners were hired and trained to help reduce processing time and address the growing workload. To provide timely information on progress, the patent business developed new management and balanced score-card reports to track critical performance targets. It balanced workloads and shifted resources to address critical shortages in various TCs. The business formed a new Technology Center 2100 to help with rapid growth in the business method area, and transferred approximately 30 experienced examiners from outside the electrical areas into the new TC 2100 to help with the workload and training of newer examiners.

Results: First Action Pendency

Measure: Reduce average first action pendency to 12 months by FY 2006.



DATA VALIDATION AND VERIFICATION

Data source: Patent Application Location and Monitoring (PALM) system.

Frequency: Daily input, monthly reporting.

Data storage: PALM, automated systems, reports.

Verification: Accuracy of supporting data is controlled through internal program edits in the PALM system. Final test for reasonableness is performed internally by patent examiners and supervisory and program management.

Data Limitations: None.

With a net increase in staffing (414 hired, 263 lost; net gain of 151 examiners), and an 11 percent increase in filings, the patent business has increased the number of first actions by 4,349 (241,770 up from 237,421) and increased the number of balanced disposals by 5,149 (239,493 up from 234,344).

Patent Application Publication No. US 2001/0035658 for a "vehicle and bumper assembly...", filed electronically by Rader, Fishman, et al, LLP, for Jeffrey A. Anderson et al of Michigan, and published after 18 months.

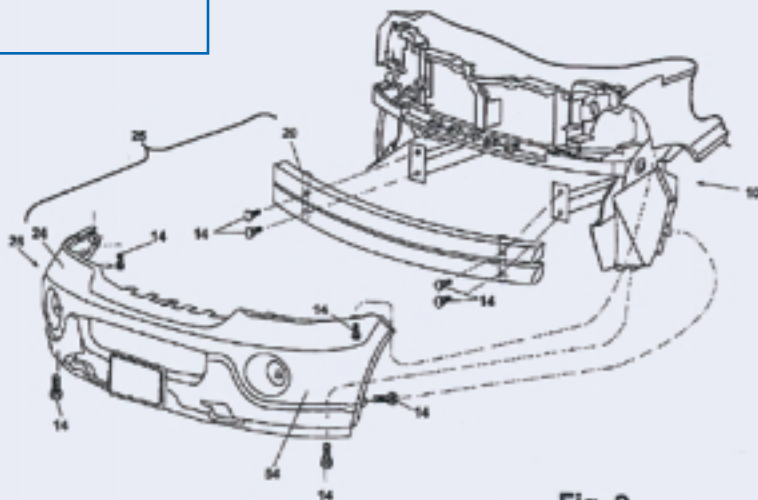
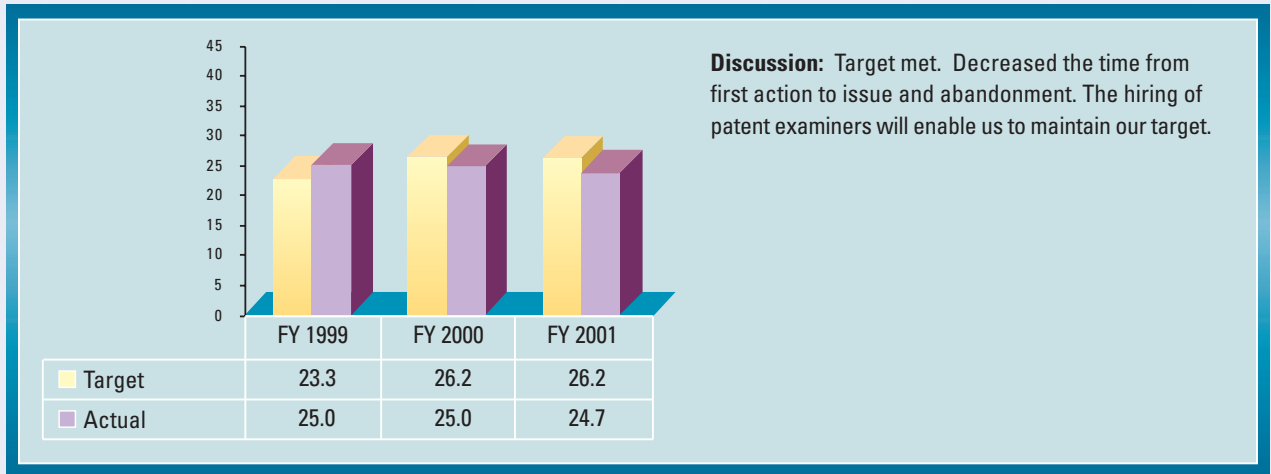


Fig. 2

Results: Total Pendency

Measure: Reduce average total pendency to 26 months by FY 2006



DATA VALIDATION AND VERIFICATION

Data source: PALM system.

Frequency: Daily input, monthly reporting.

Data storage: PALM, automated systems, reports.

Verification: Accuracy of supporting data is controlled through internal program edits in the PALM system. Final test for reasonableness is performed internally by patent examiners and supervisory and program management.

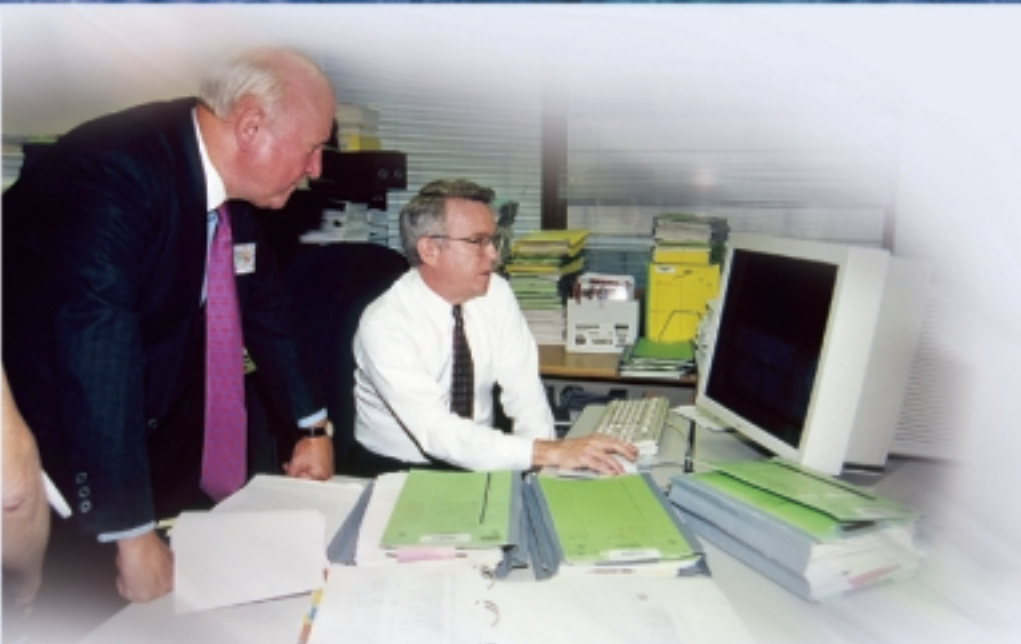
Data Limitations: None.

A performance incentive program to increase the productivity of current resources was implemented. The technology center group directors' performance plan and awards program now includes incentives to meet set production and pendency targets. A new performance plan and awards program for supervisory patent examiners was implemented at mid-year FY 2001, and also includes incentives to meet set production and pendency targets.

Employee Satisfaction Initiative. Employee ownership and accountability for providing high quality customer service characterizes the patent business environment.

The patent business views employees as its most valuable resource, and understands the importance of updating and expanding employee skills, knowledge, and abilities. By providing opportunities for employees to expand their professional competencies and experience personal growth and development in their careers, the USPTO is developing a diverse and expert staff genuinely interested in, and capable of, supporting and helping customers get patents. As employee satisfaction increases, the USPTO expects customer satisfaction and business performance to increase as well.

The patent business developed a new program for automation training for examiners and supervisors. The program was developed based on extensive feedback from examiners and includes the following key concepts: a bank of training hours, core curriculum, self-registration, non-traditional training hours, and online course catalog. This new automation-training program empowers employees to design their own automation training curriculum based on their level of expertise and their work schedule. This program has received tremendous positive feedback from employees. This past year, considerable time, energy, and resources were devoted to developing a knowledge, skills, and abilities (KSAs) developmental guide for



Deputy Secretary of Commerce Bodman learns more about electronic patent searching during a visit to the USPTO last year.

technical support employees. As a partnership effort between the National Treasury Employees Union - Local 243 and the USPTO, this project will identify the KSAs needed as the patent business transitions to an e-Government environment.

The annual patent employee satisfaction survey showed a marked improvement this fiscal year. The percent of employees in the patent business area who are satisfied with their job reached 65, a 10 percent increase over FY 2000 results. The patent business continues to make great progress in key measures that drive employee satisfaction, most notably the percent of patent employees who feel proud to work for the USPTO, who are proud of the work that they do, and who are satisfied with communication across the office.

These innovative initiatives have helped the patent business achieve many of the FY 2001 goals. In FY 2002, the patent business will continue to work with employees, managers and the PPAC to explore other opportunities to increase the quality of patent business products and improve the overall level of customer satisfaction.

Patent Performance

The American Inventors Protection Act, Title VI, Subtitle G, the Patent and Trademark Office Efficiency Act, established the USPTO as a Performance Based Organization (PBO) on March 29, 2000. The legislation allows appointment of a Commissioner for Patents as the Chief Operating Officer for Patents, and a Commissioner for Trademarks as the Chief Operating Officer for Trademarks. It also requires that an annual performance agreement be established between the Commissioners and the Secretary of Commerce. The agreement outlines measurable organizational goals and objectives for the PBO. The Commissioners may be rewarded a bonus, based upon an evaluation of their performance as defined in the agreement, of up to 50 percent of their base salary.

The patent business goals formed the foundation for the annual performance agreement between the Commissioner for Patents and the Secretary of Commerce, as required by the AIPA. The performance agreement outlined measurable organizational goals and objectives for the patent business based on the above goals and performance measures. At the time of publication, the Commissioner for Patents performance bonus had not been determined.

TRADEMARKS

In the past year, the trademark business has received recognition for excellence in three national competitions for its successful electronic filing system, TEAS, and its telecommuting program. Recognition at this level is evidence of the success of both of these programs and a significant accomplishment for the USPTO considering the level of competition and publicity these programs generate. While the USPTO is primarily concerned with how customers perceive TEAS, and how employees and the trademark business benefit from the electronic filing and telecommuting programs, it is pleased with the outside recognition it has received for its e-Government efforts.

In October 2000, the USPTO learned that the panel of judges for the *2000 Government Technology Leadership Awards* had selected TEAS as one of its winners. For the last eight years, the *Government Technology Leadership Awards* program has celebrated successful U.S. government initiatives. By honoring meritorious projects and the teams responsible for them, the awards have sought to encourage innovation. The awards salute projects, large and small, that directly have aided the mission of their organizations by boosting efficiency and effectiveness, lowering costs, and/or improving service to the public through original uses of technology.

Each year as a cooperative academic-industry effort, the College of Business at Rochester Institute of Technology (RIT) and USA TODAY host the *Quality Cup Competition*. This competition recognizes teams who have made significant contributions to the improvement of quality in their organizations. In March 2001, the TEAS program was awarded the finalist prize in the government category for the *2001 RIT/USA TODAY Quality Cup Competition*.

On June 25, 2001, the USPTO hosted a ceremony to recognize the receipt of the 100,000th TEAS application, as filed by the General Electric Company. The 100,000th filing is a significant milestone in creation of an e-Government operation and confirmation of customer acceptance for electronic filing.

In August, the USPTO received the Commuter Connections Employer Recognition Award for its Trademark Work-at-Home (TWAH) telecommuting program. The award, sponsored by the Metropolitan Washington Council of Governments, recognized the trademark business as one of four employers that have created a workplace where telecommuting produces a "smarter way to work."



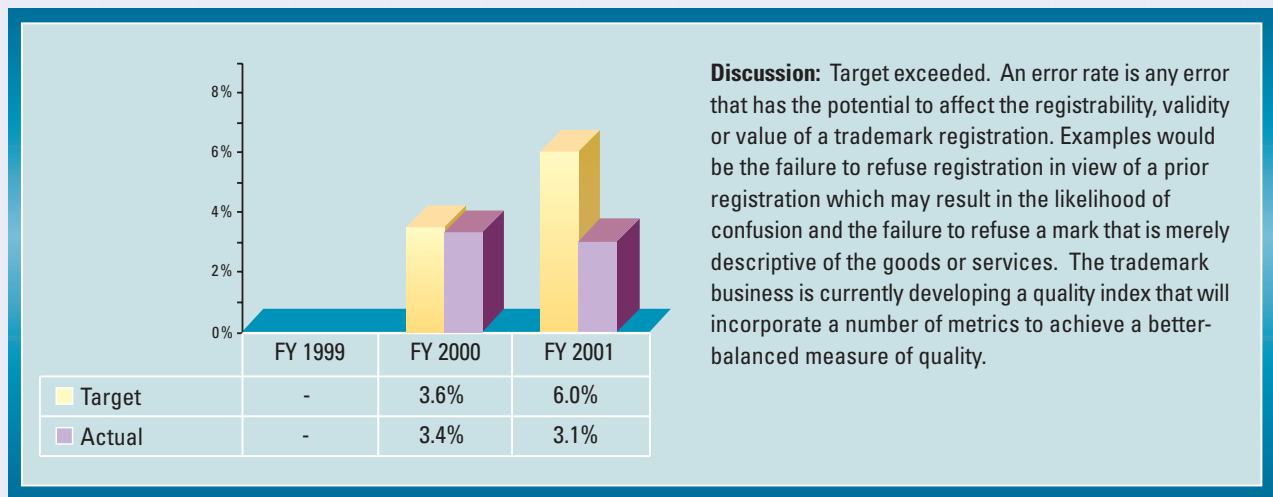
Pictured here are the members of the award winning TEAS team with Acting Director Nicholas Godici, on the left, and Commissioner for Trademarks, Anne Chasser, on the right.

GOAL: *Enhance the quality of our products and services*

Examination quality was rated at 96.9 percent, based on standards for assessing the "clear error" rate, for determining the type of errors that could affect the registrability of a mark. The review of pending, registered, and abandoned files by the Office of Trademark Quality Review determined the overall error rate to be 4.5 percent for the year including deficient search strategies.

RESULT: *Examination Quality*

Measure: *Reduce the error rate from 6 percent to 3 percent by FY 2004.*



DATA VALIDATION AND VERIFICATION

Data source: Office of Trademark Quality Review Report.

Frequency: Daily input, monthly reporting.

Data storage: Automated systems, reports.

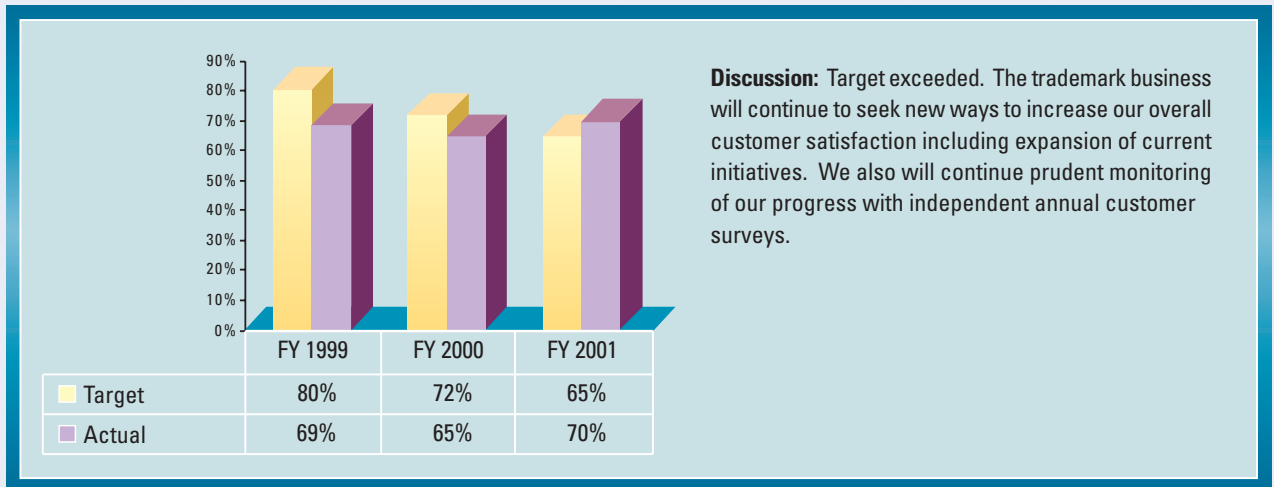
Verification: Manual reports and analysis.

Data Limitations: None.

During the past year, the trademark business worked to establish a more consistent set of quality measures that would better reflect the current quality of examination for use beginning in FY 2002. The trademark business has initiated plans for the creation of a new set of measures for first action and current quality and to create the infrastructure needed to support incorporating the results of the reviews and improving the examination practice.

Results: Customer Satisfaction

Measure: Increase overall customer satisfaction from 70 percent to 80 percent by FY 2005.



DATA VALIDATION AND VERIFICATION

Data source: Customer surveys.

Frequency: Surveys are conducted and results are reported annually.

Data storage: Paper files and contractor electronic files.

Verification: Independent contractor develops data instrument, conducts survey and compiles results. Final test for reasonableness is performed internally.

Data Limitations: None.

Results of the annual customer satisfaction survey indicate that, considering all customer experiences with the trademark process, 70 percent of trademark business customers report satisfaction with its service. This is a significant improvement of five percentage points from last year's results. Customers who reported dissatisfaction dropped to a low of 13 percent.

Results that have the most significant impact on the level of satisfaction our customers report include:

- Clear written position of examining attorneys (improved two percentage points to 79 percent);
- Prompt referral to appropriate office or person within the organization (improved by four percentage points to 72 percent);
- Phone calls returned within one business day (improved by two percentage points to 55 percent);
- Resolution of problems within seven days (improved by one percentage point to 33 percent); and
- Mailing of filing receipts for paper-filed applications within 14 days (significantly improved by 16 percentage points, to 43 percent).

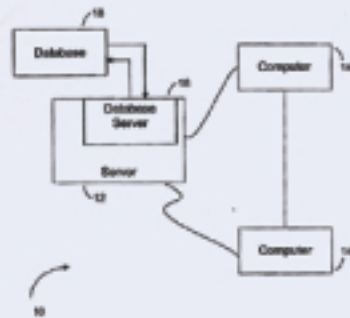
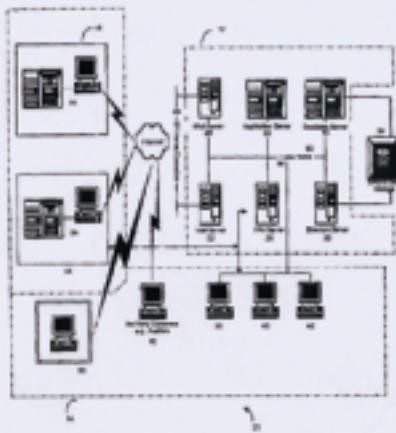
Overall, the trademark business received high marks for its quality improvement initiatives, shorter cycle times, and outstanding customer service. Several other customer service improvement initiatives were undertaken this year.

Trademark Assistance Center. The Trademark Assistance Center was restructured in the past year to address the weakness of handling customer complaints and to improve problem resolution. Both of these areas for improvement were identified in customer survey data. Results have been extremely favorable. By the end of the year, the service level measure indicating the percent of calls responded to within 20 seconds improved significantly -- from 23 percent at the beginning of the year to 62 percent by year's end. Improvements that focus on identifying the source of customer complaints with the objective of preventing future occurrences will be implemented in the next year.

Goal: Minimize trademark application processing time

The USPTO received 232,939 trademark applications, including 296,388 classes for registration, marking the second highest level of filings ever recorded. This milestone followed two consecutive years with increases of 27 percent per year in the number of applications filed. Filings in FY 2001 were 21 percent less than in FY 2000. For the first time in nine years, fewer applications were received in a fiscal year than in the previous year, reflecting the largest one-year decline but also the second highest level of filings ever reported.

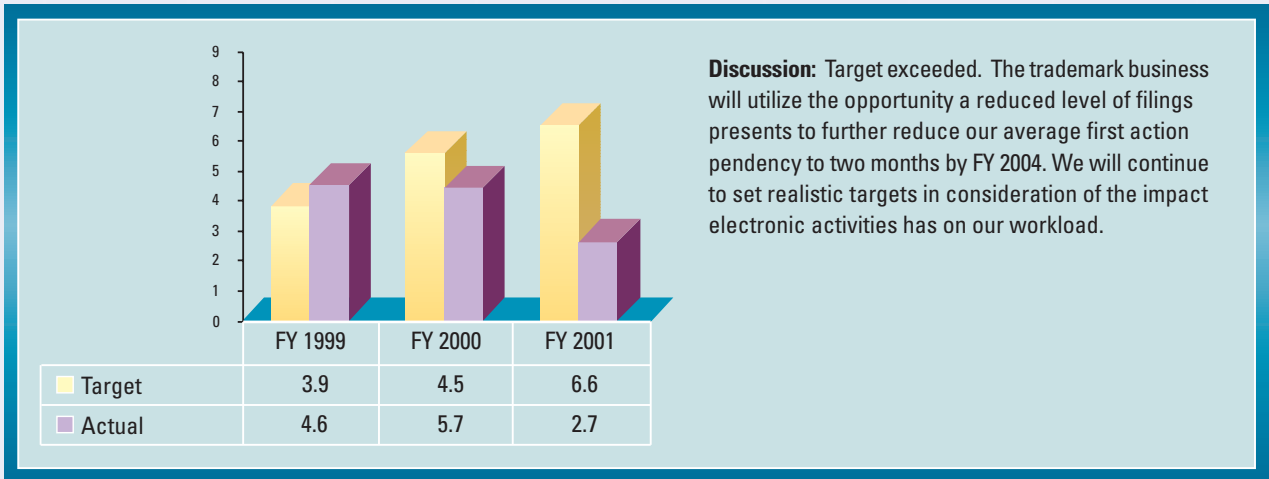
A second agreement for a trademark work-at-home pilot project was signed last year with NTEU. Present at the signing were, seated from left to right: Susan White, paralegal Office of the Commissioner for Trademarks; Melvin White, President of NTEU 243; and Anne Chasser, Commissioner for Trademarks. Standing, left to right: Fred Turner, NTEU representative; Robert Anderson, Deputy Commissioner for Trademarks; and Debbie Cohn, Group Director Trademark Law Offices.



Patent Application Publication No. US 2001/0047321 for "methods and systems for auctioning products," filed electronically by Armstrong Teasdale, LLP, for Gregory R. Wyatt of Connecticut, and published after 18 months.

Results: First Action Pendency

Measure: Reduce average first action pendency to 2 months by FY 2004.



Discussion: Target exceeded. The trademark business will utilize the opportunity a reduced level of filings presents to further reduce our average first action pendency to two months by FY 2004. We will continue to set realistic targets in consideration of the impact electronic activities has on our workload.

DATA VALIDATION AND VERIFICATION

Data source: Trademark Reporting and Monitoring (TRAM) system.

Frequency: Daily input, monthly reporting.

Data storage: TRAM, automated systems, reports.

Verification: Accuracy of supporting data is controlled through internal program edits in the TRAM system. Final test for reasonableness is performed internally by examining trademark attorneys and supervisory and program management.

Data Limitations: None.

Reduced application filings along with significant increases in examiner production and customer service performance incentives contributed to reducing first action pendency to its lowest level in 13 years. The time from filing to an examiner's first office action decreased by the end of FY 2001 to 2.7 months from a high of 6.2 months nine months earlier. This is the first time since 1992 that first action pendency has been within the three-month goal.

Patent Application Publication No. US 2001/0049668 for "integrated marketplace model," filed electronically by Michael Dryja, Esq., for Dolores M. Wright of Minnesota, and published after 18 months.

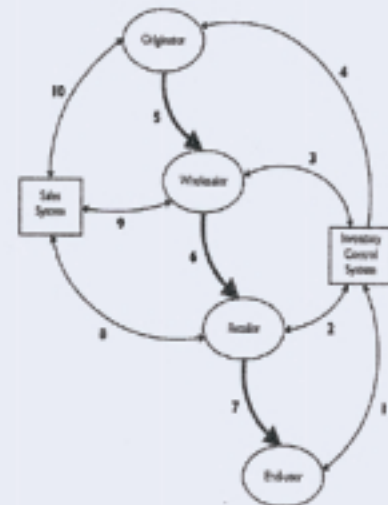
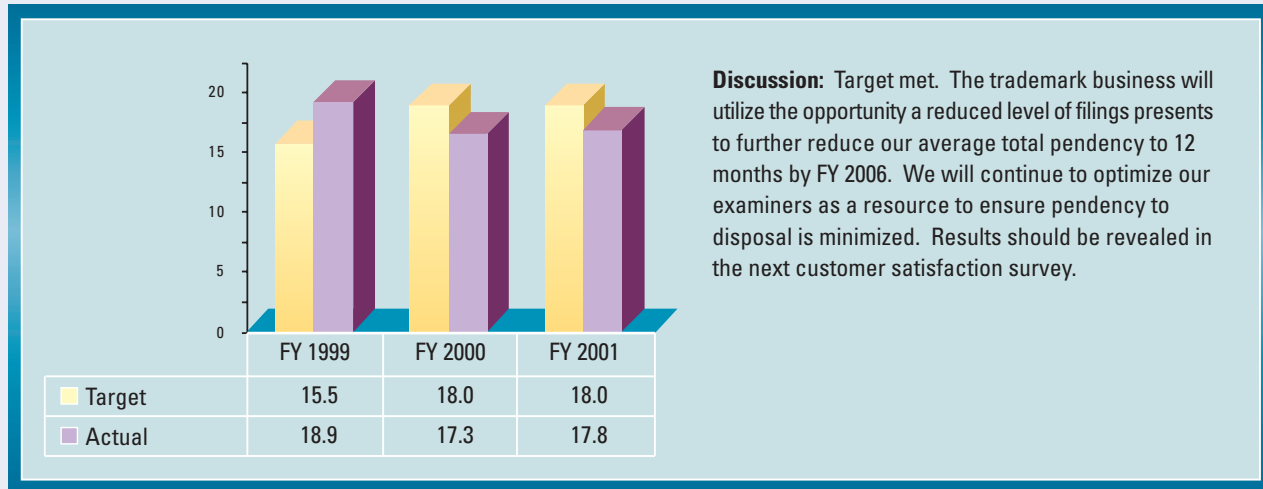


Figure 1

Measure: Reduce average total pendency to 12 months by FY 2006.



DATA VALIDATION AND VERIFICATION

Data source: TRAM system.

Frequency: Daily input, monthly reporting.

Data storage: TRAM, automated systems, reports.

Verification: Accuracy of supporting data is controlled through internal program edits in the TRAM system. Final test for reasonableness is performed internally by examining trademark attorneys and supervisory and program management.

Data Limitations: None.

Continued high levels of applications under examination from prior years kept overall pendency to registration, notice of allowance or abandonment above the 13-month goal at 17.8 months. As the total number of applications under examination is reduced, and first actions are taken within three months, overall pendency to registration will decrease.

Employee Satisfaction Survey Results. Results of the annual employee satisfaction survey reveal that an impressive number of trademark employees—68 percent of them—find satisfaction in the work that

they do at the USPTO. Overall satisfaction of trademark employees working at the USPTO is 66 percent for the same group of employees, indicating a majority are proud to work for the USPTO. Survey results confirm that flexible work schedules, increased options for telecommuting, and opportunities to increase compensation through performance incentive awards have contributed to the satisfaction of the employees working at the USPTO and in the trademark business.

Incentive Awards. Performance-based awards were introduced to provide incentives for increased production and maintaining customer service timeliness goals. Examiners were offered the opportunity to receive semi-annual production awards of up to \$10,000 for significantly higher production. Overall, the average number of first actions per examiner was 30 percent higher than the year before and the average number of action points was up more than 24 percent as a result of incentive awards. The total actions improved by nearly 26 percent with a 32 percent improvement in the number of first actions. Along with increasing employee satisfaction, incentive awards have drastically improved individual and overall production of the examining corps, reducing pendency, and increasing the total number of examiner disposals.

A group incentive award for maintaining customer service response times was implemented for technical support staff in the second half of the year and has resulted in significant progress in improving and maintaining processing times for responding to customer requests.

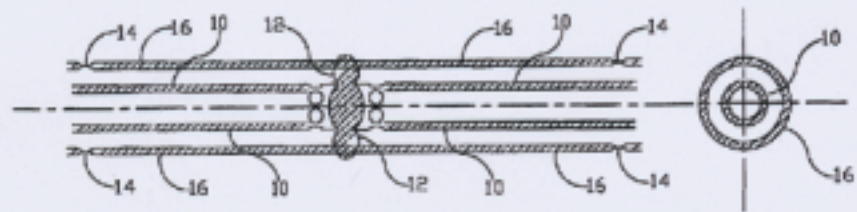
Trademark Work-at-Home Program. The number of examining attorneys in the TWAH telecommuting program increased more than 56 percent since the beginning of FY 2001. The program consisted of 57 participants at the beginning of FY 2001 and 89 by the end of the fiscal year. The program has led to increased production as well as increased job satisfaction.

In FY 2002, the trademark business will continue to work toward improved performance and customer satisfaction, building upon the progress that contributed to a successful year in FY 2001.

Trademark Performance

The American Inventors Protection Act, Title VI, Subtitle G, the Patent and Trademark Office Efficiency Act, established the USPTO as a PBO on March 29, 2000. The legislation allows appointment of a Commissioner for Patents as the Chief Operating Officer for Patents, and a Commissioner for Trademarks as the Chief Operating Officer for Trademarks. It also requires that an annual performance agreement be established between the Commissioners and the Secretary of Commerce. The agreement outlines measurable organizational goals and objectives for the PBO. The Commissioners may be rewarded a bonus, based upon an evaluation of their performance as defined in the agreement, of up to 50 percent of their base salary.

The trademark business goals formed the foundation for the annual performance agreement between the Commissioner for Trademarks and the Secretary of Commerce, as required by the AIPA. The performance agreement outlined measurable organizational goals and objectives for the trademark business based on the above goals and performance measures. At the time of publication, the Commissioner for Trademarks performance bonus had not been determined.



Patent Application Publication No. US 2001/0046827 for a "method for manufacturing a multi-tube fluorescent discharge lamp," filed electronically by Wen-Tsao Lee of Taiwan, and published after 18 months.

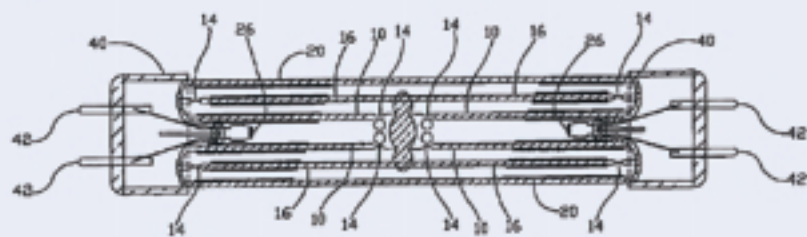
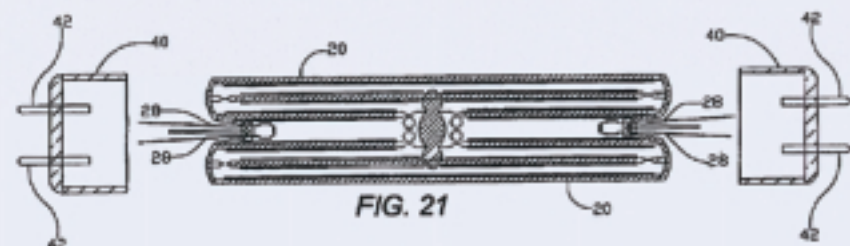


FIG. 22

EVALUATION OF PERFORMANCE DATA

The USPTO reviews and evaluates its performance goals and measures based on customer, stakeholder, and employee input and the results of performance evaluations, as described below.

Customer, Stakeholder, and Employee Input. The USPTO has been a customer-driven organization for almost 10 years, when it began holding focus sessions with customers to determine their needs and expectations. Customer satisfaction efforts began by developing customer service standards relating to timeliness, accuracy, and responsiveness in delivering products and services. Next, customers were surveyed to establish baselines and subsequently measure progress toward customer satisfaction with the business lines in general and with specific goals and objectives. The USPTO recently completed its sixth annual survey of patent and trademark customers.

In 1998 and 1999 we collaborated with the National Academy of Public Administration to define and measure end outcomes of the U.S. patent and trademark systems. Independent inventors, patent and trademark practitioners, industry representatives, academicians, economists, USPTO senior executives, and experts in performance measurement participated in this exercise. The results were published and distributed to the participants in early FY 2000, and the results were used to make changes in operations and systems.

The USPTO also is committed to incorporating employee input into strategic and corporate planning processes. Employee satisfaction levels are one of the key components of the performance measures on USPTO's balanced scorecards. Employee surveys were completed in both FY 2000 and FY 2001. These data have been used to develop initiatives to improve overall employee satisfaction. Several program evaluations were initiated or continued during FY 2001.

Baldrige Assessment. In January 2001, the USPTO conducted a second organization-wide self-assessment using the Baldrige criteria. Data were used to project key requirements for delivering ever-improving value to customers while maximizing overall effectiveness and productivity of the delivering organization. The participants met for four days and were divided into three teams where they collectively discussed each of the Baldrige criteria (i.e., Leadership, Strategic Planning, Customer and Market Focus, Information and Analysis, Human Resources, Process Management, and Business Results). After extensive discussion, each team identified several areas in which the USPTO had particular strengths and other areas where there were opportunities for improvement. Work will continue on implementing improvements as the USPTO continues its journey toward performance excellence.

Quality Reviews. The USPTO conducts ongoing reviews of the quality of patent and trademark examination. The focus of the review for patent applications is threefold: (1) identifying patentability errors, (2) assessing adequacy of the field of search and proper classification, and (3) assessing proper examination practice and procedures. For trademark applications, the review includes four areas: (1) substantive statutory criteria for registrability, (2) search for confusingly similar marks, (3) proper examination practice and procedures, and (4) proper application of judicial precedents. The information from these reviews helps the businesses identify necessary training with the goal of enhancing overall product quality and improving the consistency of examination. The results of these reviews provide analysis in the form of reports to patent and trademark management. These reports serve as a tool for educating examiners and examining attorneys. In addition to reporting specific errors, the analysis provides information on recurring problems and trends.

Management Control Reviews. The USPTO continued to promote work-at-home programs in 2001. The patent work-at-home (PWAH) pilot program was established in July 2001. The PWAH is being undertaken to improve the efficiency and effectiveness of our workforce, as well as improve employee recruitment and retention. The TWAH telecommuting program was expanded from 57 examining attorneys in FY 2000 to 89 examining attorneys in FY 2001, with a pilot that included paralegals. Measurements show that participants increased their productivity by increasing the number of hours worked on examinations.

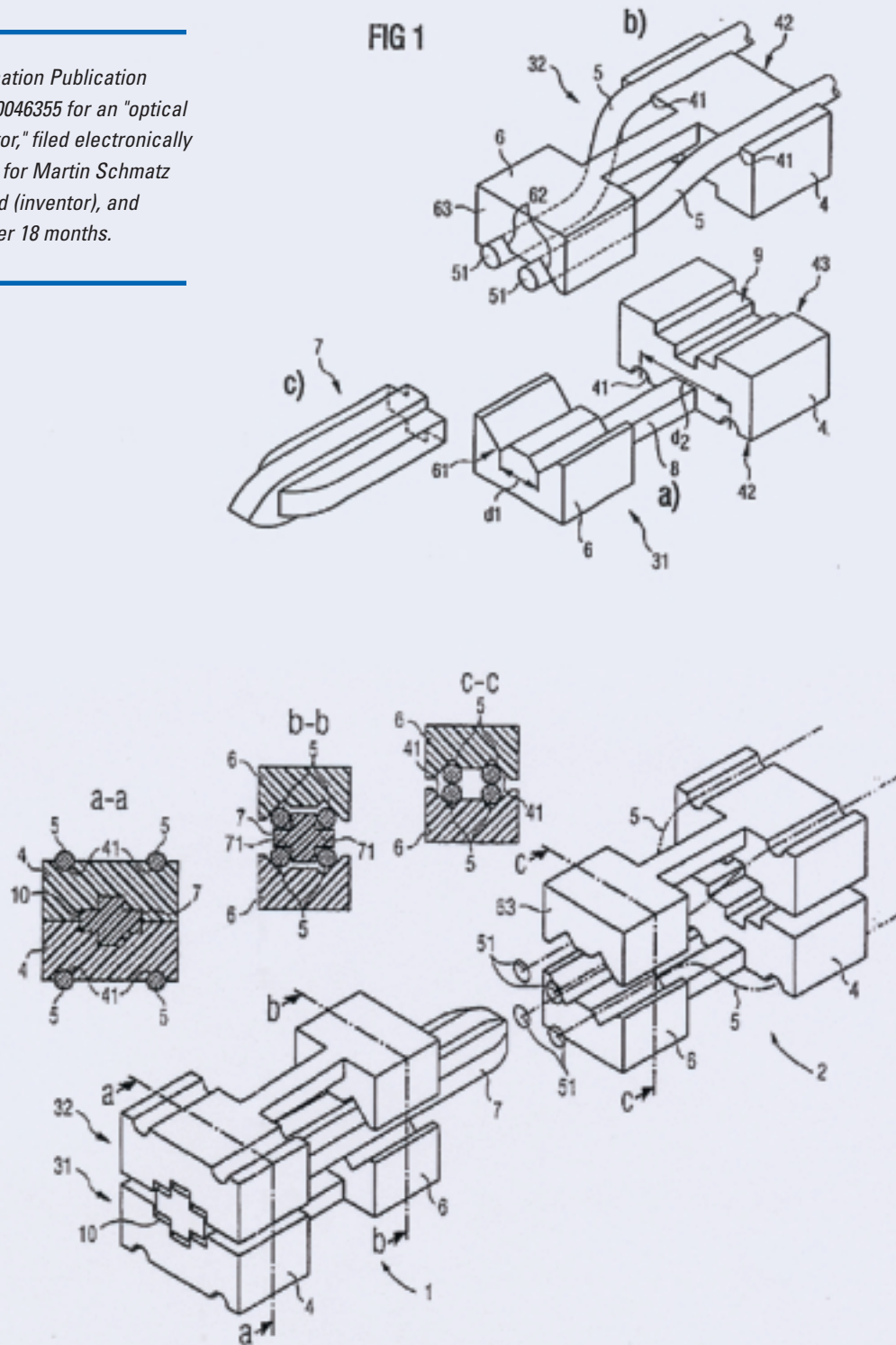
The USPTO researched a number of alternative methods for assessing the productivity of our patent and trademark processes. A promising alternative is similar to the one used by the Bureau of Labor Statistics. This methodology was applied to a trademark productivity analysis, which examined changes in productivity from FY 1998 through FY 2001, and makes projections through FY 2008. The analysis examined the number of hours worked for all trademark employees and contractors and compared them with the number of trademark disposals. Results indicate that trademark productivity has remained about the same from FY 1998 to FY 2001; however, data also indicate trademark productivity is expected to increase steadily throughout the remainder of the study period. A similar methodology is currently under investigation for patents. While it is too soon to report definitive findings from these analyses, the methodology holds significant promise for showing productivity improvements as the USPTO transitions to a fully electronic organization.

Computer Security Initiatives. Recent initiatives taken to enhance information security include centralized user identification and password administration, upgraded physical access controls, streamlined security tasks with automated tools, and implementation of a campus-wide network intrusion detection system. The IT security Web page that provides information on USPTO's IT security policies, security awareness material, and virus information was enhanced, and accreditation of the IT infrastructure, PTOnet, and the Data Center was completed. Additionally, PKI, which facilitates secure communications and information processing for sensitive information, was deployed for the EFS and the PAIR system.

Review of Unconventional Threats to National Security. The USPTO has significantly enhanced its security efforts in response to the September 11, 2001, attacks on the United States. The agency is in a unique situation in that it occupies office space in 18 public buildings and is not the sole tenant of many of them. The USPTO is working with other federal agencies and property managers in Crystal City to enhance noncyber-based security. Some of the enhancements in place or in progress, include the following:

- Placed lobby level guards in all fully USPTO occupied buildings to check identification, packages, briefcases, etc.
- Increased roving guard patrols tenfold -- guard coverage now includes the parking garages, USPTO occupied space, stairways, building perimeters and all parking areas near the building.
- Ordered X-ray machines for mailrooms to inspect all incoming packages.
- Re-engineered USPTO's Occupant Emergency Plan.
- Initiated weekly meetings with the Federal Bureau of Investigation and the Federal Protective Service.

Patent Application Publication
No. US 2001/0046355 for an "optical
fiber connector," filed electronically
by IBM Corp. for Martin Schmatz
of Switzerland (inventor), and
published after 18 months.



Office of the Inspector General (OIG) Reviews. The OIG contributes to USPTO’s efforts to assure audit and evaluation coordination and coverage of USPTO goals. The OIG conducted the following types of audits and evaluations:

Financial Statement Audit. During FY 2000 financial statement audit, various tests and reviews of the primary accounting system and internal controls were conducted as required by the Chief Financial Officers’ Act. In their FY 2000 and FY 2001 internal control report, the auditors reported no internal control material weaknesses or reported conditions. The auditors have issued an unqualified opinion on USPTO’s FY 2000 and FY 2001 financial statements.

Program Evaluations. Several reviews of this type were conducted by the OIG. An example is the review of the USPTO performance measures included in the Department of Commerce’s FY 2000 Annual Performance Plan. The purpose of the review is to validate the measures and the data collection tools and methods. The results of the audit showed that management controls were in place and operating effectively regarding the collection, validation and reporting of performance measures. In addition, the report stated that the USPTO was committed to developing and producing quality performance measures. Several minor recommendations were reported and have subsequently been implemented by the USPTO.

Discontinued Goals and Measures. As a result of an assessment to focus performance goals and measures on core mission activities, the following goals and measures as stated will no longer be tracked as part of the Government Performance and Results Act. Many of the measures identified below will continue to be monitored as part of USPTO’s normal ongoing operations but will not be used to assess compliance with overall agency goals.

Intellectual Property Policy Goal: Strengthen intellectual property protection in the United States and abroad, making it more accessible, affordable and enforceable.

	FY 1999 Actual	FY 2000 Actual	FY 2001 Target	FY 2001 Actual
Measure: Increase in technical assistance to developing countries moving to a market economy - number of countries provided technical assistance.	93	126	125	78
Discussion: Target not met. Not able to recruit staff to conduct technical assistance as a result of hiring freeze in place for part of the fiscal year. Will recruit new staff in FY 2002 to increase technical assistance.				
Measure: Increase in technical assistance to developing countries moving to a market economy – number of technical assistance activities completed.	99	106	105	88
Discussion: Target not met. Not able to recruit staff to conduct technical assistance as a result of hiring freeze in place for part of the fiscal year. Will recruit new staff in FY 2002 to increase technical assistance.				

Patent Goal: Enhance the quality of patent products and services, transition to e-Government, and optimize patent processing time.

	FY 1999 Actual	FY 2000 Actual	FY 2001 Target	FY 2001 Actual
Measure: Percent of allowed applications where a significant question relating to quality of the examination process was raised.	13.9	7.7	7.0	5.1
Discussion: Target met.				
Measure: Percent customer satisfaction with setting forth positions clearly in written communications.	63	63	66	62
Discussion: Target not met. The USPTO has been surveying customers of the patent process since 1995. Overall satisfaction remained virtually the same until 1998 with significant improvement in 1999 and 2000. Our survey contractors labeled this 5 percent increase "statistically significant." They have cautioned us that repeated "significant" increases in overall satisfaction are highly unusual.				
Measure: Percent customer satisfaction with results of the search of prior art.	64	61	64	63
Discussion: Target not met. The USPTO has been surveying customers of the patent process since 1995. Overall satisfaction remained virtually the same until 1998 with significant improvement in 1999 and 2000. Our survey contractors labeled this 5 percent increase "statistically significant." They have cautioned us that repeated "significant" increases in overall satisfaction are highly unusual.				
Measure: Percent customers satisfied with returning phone calls in one day.	57	61	66	64
Discussion: Target not met. The USPTO has been surveying customers of the patent process since 1995. Overall satisfaction remained virtually the same until 1998 with significant improvement in 1999 and 2000. Our survey contractors labeled this 5 percent increase "statistically significant." They have cautioned us that repeated "significant" increases in overall satisfaction are highly unusual.				
Measure: Percent customers satisfied with directing callers to the proper office or person.	64	69	71	70
Discussion: Target not met. The USPTO has been surveying customers of the patent process since 1995. Overall satisfaction remained virtually the same until 1998 with significant improvement in 1999 and 2000. Our survey contractors labeled this 5 percent increase "statistically significant." They have cautioned us that repeated "significant" increases in overall satisfaction are highly unusual.				
Measure: Average days to mail a filing receipt.	23	64	30	48
Discussion: Target not met. Transition from government FTE to contractor personnel took longer than planned. Contractor personnel will be fully trained and expected to meet FY 2002 targets.				
Measure: Percent of filing receipts produced accurately.	73.3	80.5	84.0	89.2
Discussion: Target met.				



	FY 1999 Actual	FY 2000 Actual	FY 2001 Target	FY 2001 Actual
Measure: Percent employee satisfaction on survey question, "how satisfied am I with my job?"	48	58	61	65
Discussion: Target met.				
Measure: Rank in survey results of employee satisfaction in Government.	N/A	N/A	N/A	N/A
Discussion: Government-wide employee satisfaction survey not conducted.				
Measure: Average number of first office actions and disposals (production units).	223,099	235,883	231,954	240,633
Discussion: Target met.				
Measure: Number of patent disposals.	214,556	234,344	226,700	239,493
Discussion: Target met.				
Measure: Percent applications receiving first office actions within 14 months of filing while factoring in term reductions.	83.1	81.2	78	74.3
Discussion: Target not met. The government-wide hiring freeze prevented the timely hiring of patent examiners. The hiring of patent examiners will enable us to meet our target.				
Measure: Percent applications receiving actions after an applicant's amendment within four months.	97.4	98.3	98.0	98.1
Discussion: Target met.				
Measure: Percent applications receiving actions after a Board decision within four months.	N/A	76.9	84.0	84.1
Discussion: Target met.				
Measure: Percent applications granted within four months after issue fee payment.	N/A	89.1	87.0	92.2
Discussion: Target met.				
Measure: Percent patents granted that do not qualify for term extension for exceeding 36 months.	N/A	N/A	86.0	87.2
Discussion: Target met.				
Measure: Percent annual business return on e-Government initiatives.	N/A	N/A	N/A	N/A
Discussion: The TEAM system is the major measurable initiative in which the USPTO has launched a business return study in FY 2001. TEAM is planned for FY 2004 to provide an electronic record as the official legal record of patent application processing. Based on preliminary projections the USPTO will realize a net cost avoidance of \$31.2 million over a six year period resulting in a return on investment of 18 percent, and a payback period of five years and five months.				
Measure: Percent of patent applications filed electronically.	N/A	N/A	2	<1
Discussion: Target not met. EFS requires substantial up-front IT investment by the customers. The USPTO is exploring incentives for the customers who file electronically.				
Measure: Percent of annual growth of external customers using USPTO e-Government systems.	N/A	N/A	10	387
Discussion: Target exceeded.				
Measure: Percent of employees relying on USPTO e-Government environment to perform their work.	N/A	N/A	10	86
Discussion: Target exceeded.				

Trademark Goal: Enhance the quality of trademark products and services, transition to e-Government, and optimize trademark processing time.

	FY 1999 Actual	FY 2000 Actual	FY 2001 Target	FY 2001 Actual
Measure: Percent of customers reporting satisfaction with clear written communication.	77	77	77	79
Discussion: Target met.				
Measure: Percent of customers reporting satisfaction with correct information in the TMOG.	74	76	77	71
Discussion: Target not met. The process by which the TMOG is published was greatly enhanced in the last quarter of FY 2001. As a result the TMOG is now available in an "on-line" PDF searchable format directly from our Web site. This enhancement has enabled us to minimize errors. Results should be revealed in the next customer satisfaction survey.				
Measure: Percent of customers satisfied with the office returning phone calls in one day.	59	53	65	55
Discussion: Target not met. All Trademark employees received customer service training in the second half of FY 2001. Emphasis included the importance of returning phone calls, and the timeframe in which we do so. Results of the improvement are expected in the next customer satisfaction survey.				
Measure: Percent of customers satisfied with the delivery of filing receipts. Correct filing receipts mailed in one day for electronic filing.	N/A	100	93	81
Discussion: Target not met. Electronic filing receipts are returned in less than one day. Customers who have not filed electronically responded to the survey.				
Measure: Percent of customers satisfied with the delivery of filing receipts. Correct filing receipts mailed in 14 days for paper filing.	33	27	85	43
Discussion: Target not met. Although we fell short of our target, we improved significantly over FY 2000. As we continue to encourage electronic filing, this measure is expected to decline significantly.				
Measure: Rank in survey results of employee satisfaction as measured against other government agencies.	N/A	N/A	N/A	N/A
Discussion: Government-wide employee satisfaction survey not conducted.				
Measure: Percent of trademark applications filed electronically.	8.3	14.9	30	24
Discussion: Target not met. The number of applications filed electronically continues to climb, even as the number of paper filings drops. Although we failed to reach our goal, economic factors such as those affecting the number of applications filed overall, impacted the results of this measure.				
Measure: Percent customers communicating electronically in all aspects of correspondence.	N/A	N/A	N/A	N/A
Discussion: We have yet to identify an acceptable measure for this goal but continue to encourage electronic communication with our organization, as well as ways of measuring it.				

INTELLECTUAL PROPERTY POLICY AND LEADERSHIP

As the largest IP office in the world, the USPTO is leading efforts to develop and strengthen domestic and international IP protection. The growing importance of IP rights and the globalization of economic activity has led to new cooperative initiatives between the USPTO, international bodies, and other IP offices, including the EPO, the JPO, the European Union's (EU) Office for Harmonization in the Internal Market (OHIM) for trademarks and designs, the World Intellectual Property Organization (WIPO), and the World Trade Organization (WTO). International negotiations, consultations, and information sharing efforts led by USPTO experts are geared to providing more effective and cost-efficient means of protecting the IP rights of U.S. nationals abroad.

The USPTO is responsible for formulating policy on patent, trademark, and copyright issues. The Administrator for External Affairs, with the support of the Office of Legislative and International Affairs, serves as the principal adviser to the Under Secretary and Director on public policy matters related to IP protection. Ongoing activities include:

- Drafting legislative and policy proposals concerning IP matters;
- Promoting the development of multilateral systems for the protection of IP rights;
- Participating in IP consultations; in meetings regarding IP in international organizations, in particular the WIPO and the WTO; and in negotiations on multilateral and bilateral trade agreements;
- Providing technical assistance to developing countries, countries in transition to a market economy and least developed countries; and
- Working with the Office of the U.S. Trade Representative and industry on the annual review of IP protection and enforcement under Section 301 of the Trade Act of 1974 (as amended in 1988).

Other reviews conducted under U.S. laws governing trade benefit programs include the Generalized System of Preferences and the Caribbean Basin Initiative, conducting IP enforcement training for developing countries, and supporting and promoting the creative efforts of America's independent inventors and entrepreneurs.

During FY 2001, the following developments related to USPTO funding and operations were noteworthy:

USPTO Reauthorization and Fees. On July 24, 2001, the House Judiciary Committee approved an amended version of H.R. 2047, "The Patent and Trademark Office Authorization Act of 2002." The bill authorizes USPTO to have access to all fees collected in FY 2002; requires the development of a user-friendly electronic system for filing and processing patent and trademark applications; and requires the development of a five-year strategic plan to enhance quality, reduce pendency, and develop an effective electronic system for use by USPTO and the public for "all aspects of the patent and trademark processes."

USPTO Appropriations. On September 13, 2001, the Senate passed an amended version of H.R. 2500, Commerce-Justice-State Appropriations for FY 2002. The bill would fund USPTO at \$1.139 billion, consistent with the President's budget request. The House-passed version would fund USPTO at \$1.129 billion, \$92 million above FY 2001 and \$10 million below the President's request. Senate committee report language requires the Secretary of Commerce to develop and deliver to Congress by

January 15, 2002, a five-year strategic plan for the USPTO. The plan would include information on handling workload, improving patent quality, reducing pendency, and improving training, retention and productivity of examiners. The measure also directs the USPTO to fully implement the "electronic file wrapper" by the end of FY 2004.

USPTO Oversight Hearing. The House Judiciary Subcommittee on Courts, the Internet and Intellectual Property held an oversight hearing on the operations of the USPTO on June 7, 2001. Acting Director Nicholas Godici provided testimony along with representatives of the Intellectual Property Owners Association (IPO), International Trademark Association (INTA) and the Patent Office Professional Association (POPA).

Business Method Patents Hearing. The House Judiciary Subcommittee on Courts, the Internet and Intellectual Property held a hearing on business method patents on April 4, 2001. Acting Director Nicholas Godici provided testimony along with representatives of the American Intellectual Property Law Association, IPO, and Travelocity.com.

The following key legislation impacting the USPTO also was passed during FY 2001:

Patent Reexamination Legislation. On September 5, 2001, the House of Representatives passed two bills that would revise procedures for the reexamination of patents. H.R. 1866 clarifies that reexamination may be based on a patent or printed publication previously cited by or to USPTO or considered by USPTO. H.R. 1886 provides for appeals to the Court of Appeals for the Federal Circuit by third parties in inter partes reexamination proceedings.

AIPA Technical Amendments. On February 14, 2001, the Senate passed S. 320, the "Intellectual Property and High Technology Technical Amendments Act of 2001." The House passed an amended version of the measure on March 14, 2001. Both bills provide for clerical, technical, and minor substantive changes to the AIPA, as well as trademark and copyright statutes.

Madrid Protocol. The House of Representatives approved H.R. 741, "The Madrid Protocol Implementation Act," on March 14, 2001. The Senate Judiciary Committee approved a companion bill, S. 407, on July 19, 2001. The ratification package is pending in the Senate Foreign Relations Committee. The Protocol would permit U.S. trademark owners to file for trademark registration in any number of member countries by filing with the USPTO a single standardized application, in English, with a single set of fees.

Copyright-Distance Learning Legislation/USPTO report. On June 7, 2001, the Senate approved S. 487, "The Technology, Education, and Copyright Harmonization Act of 2001." The House Judiciary Subcommittee on Courts, the Internet and Intellectual Property passed the measure on July 11, 2001. The bill would amend copyright law to update educational use provisions to account for advancements in digital transmission technologies that support distance learning. It also would require the

Acting Under Secretary Godici, discusses policy issues with Robert Stoll (left) Administrator for External Affairs and James Toupin (right) General Counsel



USPTO to submit a report to Congress (within 180 days of the bill's enactment) describing technological protection systems intended to protect digitized copyrighted works and prevent infringement. The report would not include any recommendations or comparative assessments of those technologies.

The following international activities of IP interest to the USPTO occurred in FY 2001:

Substantive Patent Law Harmonization. In order to reduce the costs for American patent owners to secure IP rights abroad, the USPTO is working with WIPO to harmonize substantive patent law. In FY 2001, the Standing Committee on the Law of Patents, meeting under the auspices of WIPO, began developing treaty articles, rules, and practice guidelines that attempt to harmonize the different substantive requirements associated with obtaining patent protection throughout the world. Upon conclusion, these measures will provide a truly harmonized system governing not only the substantive law of patents but also the practice to implement that law, allowing for uniform treatment of patent applications and patent grants.

Patent Law Treaty (PLT)/Patent Cooperation Treaty (PCT). The USPTO is leading efforts to simplify procedural matters for securing patents abroad through reform of the PCT and implementation of the PLT. The USPTO is preparing the ratification package for the PLT and is drafting the necessary implementing legislation for the treaty. The PLT, signed in June 2001 by 43 WIPO member states including the United States, will enter into force upon ratification by 10 member states. The treaty provides uniform filing requirements and formal procedures among the member countries in order to reduce the high costs of patent protection abroad.

Trilateral Patent Cooperation. Recognizing the need for a standardized approach to the electronic filing of applications, the trilateral offices of the USPTO, EPO, and JPO agreed in FY 2001 on a number of technical issues related to the finalization of a WIPO standard for electronic filing. This standard will allow for future interoperability of software among the trilateral offices for the national/regional phase, as well as for PCT applications. It also will allow Member State Offices and customers the flexibility to choose their own system/software for filing applications.

WIPO Meeting of the Assemblies of Members States. At a September 2001 WIPO Meeting of the Assemblies of Members States, a number of noteworthy IP developments occurred. An important U.S.-sponsored modification to the PCT was approved to simplify the treaty and alleviate a serious workload problem faced by certain International Searching and Preliminary Examining Authorities, including the USPTO. The change extends from 20 to 30 months from the priority date the time limit under Article 22(1) in which applicants must perform certain acts in order to ensure that processing of the international application is commenced by the designated offices in which the application is to proceed. In the area of trademarks, the General Assembly of WIPO adopted a "Joint Recommendation Concerning the Protection of Marks, and Other Industrial Property Rights in Signs, on the Internet." This document represents the first international consensus position on a standard approach for determining when a mark used on the Internet has been infringed and what actions might indicate good faith rather than intent to infringe. Additionally, a significant international consensus was achieved regarding the protection of audiovisual performances. For the very first time, a general international agreement exists on the economic and moral rights of performers in their performances in the digital environment.

Trademark Trilateral. In an historic meeting held May 22-23, 2001, the USPTO organized and hosted the first-ever trilateral cooperation meeting with JPO and OHIM. The meeting resulted in a commitment by the three offices to further improve the systemic environment for trademark owners worldwide. Cooperative efforts include standardization of identifications of goods/recitations of services, creation of a Nice Classification-based database of such identifications/recitations, electronic filing and use of the Internet, electronic standards for the display of color marks, and standardized application of the Vienna Classification for figurative elements.

Geographical Indications (GI). The USPTO continues to work to educate U.S. government colleagues, foreign governments, and international organizations on the relationship between GI and trademarks. International understanding of the WTO/Trade Related Aspects of Intellectual Property (TRIPs) Agreement's obligations related to GIs and trademarks is critical because U.S. trademarks abroad are being cancelled in favor of foreign "geographic" terms, while U.S. parties with interests in geographical indications (e.g., "IDAHO" for potatoes) are unable to obtain protection in many countries. Accordingly, the USPTO was very active in representing the U.S. government in its dispute-settlement consultations with the EU over GI violations in EU Regulation 2081/92. It also participated in a variety of international fora, including the WTO/TRIPs Council, WIPO's Standing Committee on the Law of Trademarks, Industrial Designs, and Geographical Indications, and the Free Trade Area of the Americas (FTAA) negotiations to increase understanding of GI.

Domain Names. USPTO is an active participant in events affecting domain names, participating in the Government Advisory Committee constituency of the Internet Corporation for Assigned Names and Numbers (ICANN) and preparing formal written comments in response to the Second WIPO Internet Domain Name Process interim report. To ensure that bilateral and multilateral agreements include reference to WHOIS (search-tool)-type databases and Uniform Dispute Resolution Process type procedures within the country-code top-level domains, USPTO crafted relevant language for inclusion in the Singapore and Chile Free Trade Agreements (FTAs) and the Free Trade Agreement of the Americas (FTAA) text. The USPTO also coordinated the Washington, D.C. regional consultation for the Second WIPO Internet Domain Name Process, held at the Department of Commerce on May 29, 2001.

WIPO Copyright Treaties. The USPTO continues to promote the ratification and implementation of the 1996 WIPO Copyright Treaty (WCT) and the WIPO Performances and Phonograms Treaty (WPPT), which are designed to ensure international protection of copyrighted works, performances and sound recordings in the digital environment. The U.S. deposited its instruments of ratification for the treaties in 1999, and 30 ratifications or accessions are necessary for each treaty to enter into force. At the end of FY 2001, 28 countries had ratified/acceded to the WCT and 26 had ratified/acceded to the WPPT.

Hague Convention on Jurisdiction and Foreign Judgments. The USPTO continues to be engaged in the Hague Conference on Private International Law as the conference negotiates a convention on jurisdiction and the recognition and enforcement of foreign judgments in civil and commercial matters. The proposed convention would create jurisdictional rules governing international lawsuits and provide for recognition and enforcement of judgments by the courts of Contracting States in other Contracting States. On October 17, 2000, the USPTO published a Request for Comments seeking views on the impact that the draft of the proposed convention would have on IP-related litigation. A second Request for Comments was published in August 2001. The first session of a Diplomatic Conference on the convention was held in June 2001 in The Hague, Netherlands. However, delegates were unable to decide how to move the negotiations forward, and an agreement was reached to reconvene in early 2002 to decide the scope of future negotiations.

During FY 2001, the USPTO engaged in the following key IP enforcement activities:

National Intellectual Property Law Enforcement Coordination Council (NIPLECC). The USPTO Director serves as co-chair of NIPLECC, which coordinates domestic and international IP law enforcement among federal and foreign entities. The USPTO co-hosted a public NIPLECC meeting in November 2000 at the U.S. Department of Commerce to solicit public comment on the issues to be addressed by the council. Participants included the Business Software Alliance, the Recording Industry Association of America, the Pharmaceutical Researchers and Manufacturers of America, and the International Trademark Association. In January 2001, the USPTO issued a report to Congress on the effort to refine the NIPLECC's mission and to identify areas in which interagency coordination could improve the government's performance in IP law enforcement.

Trade Related Aspects of Intellectual Property Compliance (TRIPS). The USPTO provides technical assistance to developing country WTO Members on implementation of the Agreement on the Trade Related Aspects of Intellectual Property, including thorough review of, and advice on, legislation and seminars and other technical assistance on particular areas of IP. Developing country members had until January 1, 2000, to be in full compliance with their obligations. In FY 2001, the USPTO reviewed the laws of 50 developing country WTO members to prepare questions for the reviews of those countries' implementation of their obligations under TRIPs. The USPTO also participated in four TRIPs council meetings and provided follow-up questions for members under review.



Representatives from nearly 20 countries attended a weeklong training program on intellectual property training last year at the USPTO.

IP Enforcement Training. In FY 2001, the USPTO was engaged on a number of fronts to strengthen IP administration and enforcement abroad. The USPTO developed a number of country-specific, interagency enforcement training initiatives and administered these programs worldwide. During FY 2001, the USPTO cosponsored with the U.N. Economic Commission for Europe's IP Advisory Group an IP and Internet enforcement program for government and private sector participants from Europe. It sponsored or cosponsored over a half-dozen enforcement programs for government officials from Asia, Eastern Europe, the Americas and Africa and took the lead in developing country-specific interagency enforcement training initiatives for China, Taiwan, Mexico, Oman, Croatia, Russia, and Vietnam. The USPTO, in cooperation with WIPO, also continues to offer its twice-annual IP Enforcement Program to government officials from around the world.

Visiting Scholars Program. For more than 15 years, USPTO's Visiting Scholars Program has provided representatives from IP offices around the world with a better understanding of the critical role IP protection plays in economic development.



In FY 2001, 68 participants from 26 countries were provided two weeks of classroom and hands-on study during the sessions in October 2000 and June 2001. The programs focused on U.S. patent, trademark, and copyright law and examination issues, including topics such as computer software patents, biotechnology, and geographical indications.

The USPTO Visiting Scholars Program drew representatives from more than 20 countries last year.

FINANCIAL DISCUSSION AND ANALYSIS

SUPPORTING BUSINESS LINE ACTIVITIES THROUGH INNOVATIVE FINANCIAL MANAGEMENT

Achieving the most efficient service and products, with the best quality at the least costs, requires planning and decision-making based on timely and accurate financial information. Front line managers depend on information and data analysis to evaluate program strengths and weaknesses. Preparation of financial statements is part of the USPTO's overall goals to improve financial management and to provide accurate and reliable information that is useful in assessing performance and allocating resources. The USPTO's financial statements, audited by the independent accounting firm of Ernst & Young LLP, appear immediately following this discussion and analysis, and for the ninth consecutive year the USPTO was issued an unqualified audit opinion. The CFO/CAO organization's value does not end with the preparation of financial statements. There are several areas where improved financial advice and analyses assist in this evaluation by addressing market challenges. Effective cost and fee management can be maintained in a changing market environment by achieving efficiencies in supply, understanding how costs and fees relate, and implementing automated processes that make important information more readily available for decision-making.

Applying Traditional Business Practices Within Federal Government Parameters

A challenge of any business is to set prices and control costs to maximize goal achievement. The USPTO faces additional challenges to apply traditional financial management within a framework of federal legislation. Legislation largely defines the agency's mission and ultimately shapes how goals are achieved. Legislation also is the driver of the budget process, where businesses normally plan pricing strategies and prepare cost estimates. While the USPTO is a market-driven agency, the federal budget process makes swift market reaction very difficult. Federal budgets are required to be planned 18 months in advance, are set by Congress within definite budgeting periods, and cannot be increased based on changing costs or requirements driven by market indicators and trends. Therefore, business practices developed to meet private sector financial goals cannot always be applied to the USPTO, creating a need for innovative financial management.

In setting prices, or patent and trademark fees, the USPTO strives to accomplish the objective stated in the AIPA, which is to encourage maximum participation by the inventor community. In addition, appropriation language dictates that the USPTO is to be funded by customer fees. A dollar cannot be spent until a dollar has been collected in fees. Therefore, it is important to maximize participation in the patent system. For example, we charge a smaller fee to price-sensitive customers (small entities) and a larger fee to customers that are not as price-sensitive (large entities). While this pricing strategy is not normally used in the business community as a tool to maximize profit when the quality and complexity of service provided is consistent among customers, it is justified in a government organization.

The USPTO also achieves this maximum participation objective by deferring the payment of a large portion of fees until after a customer has a chance to receive value from the patent received. Initial fees are set low. This pricing strategy makes patent protection more affordable for the customer. Patent maintenance fees to continue protection are set higher and collected at predetermined time intervals. However, if the customer decides it is not prudent to continue protection, they are not required to pay the additional fees. This is a form of product guarantee that significantly reduces the risk to the customer, again encouraging maximum participation.

Patent applications are rising with no sign of slowing. In addition, patent applications are becoming increasingly complex, especially in the biotechnology and computer-related arts. This added complexity results in a need for even more supply efficiencies to meet demand. In previous years, trademark applications also rose at a high annual rate. In FY 2001, trademark applications dropped, consistent with the declining economy. No increases in trademark application filings are expected until FY 2003.

Tracking large swings in demand with supply is a difficult task. It requires innovative personnel resource management and a new look at existing processes and the existing fee structure. Operating under the federal government pay schedule makes retention of highly skilled professionals a major concern. The USPTO is trying new initiatives, such as the work-at-home program and more competitive pay scales to attract and retain patent examiners; however, it must continue to look for creative ways to meet demand instead of simply increasing manpower. While examining the management of processes and leveraging technology, the USPTO also looks at pricing strategies to manage the demand for patent services and to achieve specified goals of quality and timeliness.

Measuring the Financial Life Cycle of a Patent and a Trademark

While the USPTO operates within legislative guidelines, it also operates within parameters set in federal regulations. The Office of Management and Budget (OMB) requires full cost reimbursement for all goods and services provided to the public. To determine fees that need to be charged to achieve full cost reimbursement in the aggregate and over the life of patents and trademarks, the USPTO uses complex projection models. These models weigh variables such as the expected ratio of small to large entity applications, the expected ratio of different product types, and the percentages of customers wishing to continue protection at various time intervals. The use of so many unknowns in fee analyses creates uncertainty regarding the adequacy of fees to cover costs. Understanding how costs and fees relate plays a large part in addressing workload concerns. Once this relationship is determined, the best fee schedule can be proposed to meet program needs.

The AIPA requires a study of alternative fee structures and the Chief Financial Officers Act of 1990 and OMB Circular A-25 require a review of fees biennially. The USPTO intends to use innovative fee changes to improve workload adjustments. In addition, fee structure changes could directly contribute to workload adjustments, including providing customer incentives for electronic submissions and reduced application complexity, which would result in more streamlined business processes. Ultimately, a fee structure that tightly links costs and fees will allow the USPTO to perform more like a business. This linkage will better ensure that fees cover costs over the financial life cycle, better plan and budget, and better respond to stakeholder questions and concerns. However, in looking at fees, the USPTO must always keep in mind the objective to maximize participation as well as the ultimate impact on the inventor community and the economy in general.

During FY 2001, the USPTO made outstanding strides towards linking costs associated with each patent fee that is currently charged. A complex activity-based cost accounting model has been in place for several years. It analyzes all the costs incurred in various processes and activities. FY 2001 efforts went a step further, tying costs to fees by determining the processes (costs) contributing to each service provided (fee). The USPTO has begun steps to take this analysis even further by comparing the fee streams to the cost streams for the life cycle of an average patent. We also will do the same analysis for an average trademark. These next steps require careful integration of production and performance data with financial data and will ultimately have far-reaching benefits beyond the fee analysis in process.

Promoting e-Government

The USPTO Revenue Accounting and Management (RAM) system, awarded a government agency award for excellence by the Post Newsweek Tech Media Group, publisher of Government Computer News and Washington Technology, is the mission-critical, financial management system that provides subsidiary accounting for fee revenue and deposit accounts. Recognizing the emergence of e-Government, the original RAM system evolved to incorporate contemporary Web technology that has increased its usefulness for patent and trademark customers worldwide. In support of first-line managers' e-Government goals, RAM was designed with the forethought of a generic storefront interface to allow for efficient and effective integration of processes and to allow thousands of financial transactions to be automatically entered and processed without manual intervention. RAM has integrated patent and trademark e-Government applications for rapid collection of fees over the Internet. RAM uses Secure Socket Layer technology and real time credit card authorization, making an efficient user/system interaction. The RAM e-Government capabilities offer a 24/7 mechanism to conduct patent and trademark business with instantaneous payment capabilities using electronic funds transfer (EFT) or credit card payments. The initiation of "anytime, anywhere" capabilities unquestionably has improved customer service and relations. Customers may pay electronically for trademark applications, patent applications, and patent copies; replenish, charge and obtain balances for deposit accounts; and identify the payment window and pay patent maintenance fees.

With information technology evolving to a distributed environment requiring greater user flexibility, the USPTO began replacing its legacy mainframe core accounting system with an updated scalable, Web-enabled, financial management system. The latest technology of this new system will put the agency on a path for future enhancements and e-Government initiatives allowing efficient and effective integration with other e-Government solutions, such as e-procurement. The new system also integrates processing financial transactions with normal business processes by allowing the creation of electronic folders, routing documents for review and approval and attaching scanned images for electronic filing. While the current core accounting system provides complete and reliable financial and cost information as well as significant electronic transaction processing, this new system will provide this data to USPTO businesses routinely. This will allow first-line managers the opportunity to make more effective, timely, and efficient strategic business decisions.

The new system also will contain flexible reporting tools to meet the challenging new federal financial reporting requirements. In FY 2001, OMB issued Bulletin No. 01-09, promulgating new financial statement form and content guidance. This guidance makes significant strides in addressing issues regarding the usefulness of financial information arising from lack of timeliness. Accelerated reporting and interim reporting are major areas of focus. Annual reporting deadlines are initially shortened by almost a month with plans to accelerate deadlines even more. Interim reporting is required semi-annually initially, followed shortly by a quarterly reporting requirement. Automation is a critical component of the solution to full compliance with this new guidance.

Innovations in the areas of supply efficiencies, fee-setting, and e-Government will help the USPTO achieve a more businesslike environment, where a fee model and a supply plan are in place that are flexible enough to respond to market changes and systems to better manage resources. The better the USPTO understands its business needs – how to set prices and control costs to maximize achievement of the organization's goals – the better it can express these needs to federal regulators and stakeholders to effect change.

RESULTS OF OPERATIONS

Net Income/Loss

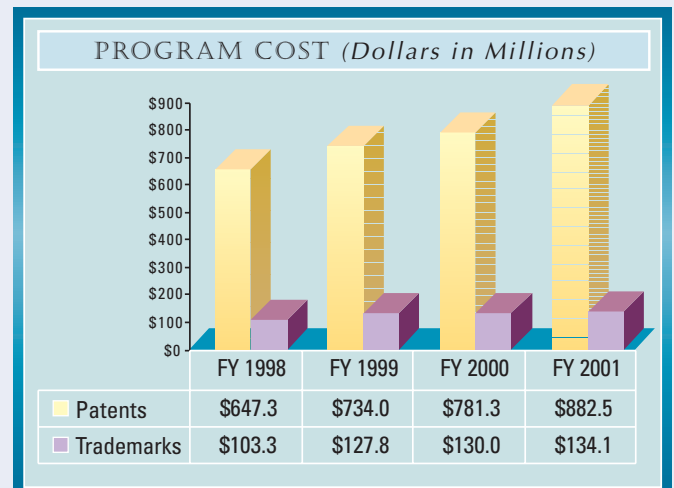
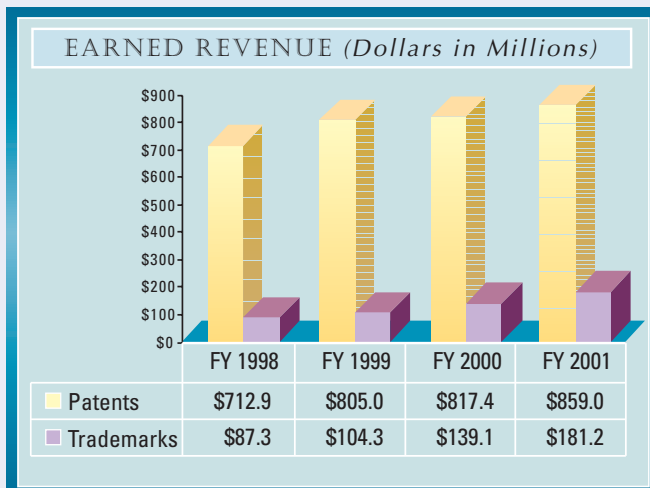
FY 2001 generated \$23.6 million in net income, a 47.8 percent decrease from FY 2000 net income of \$45.2 million. Since net income is a picture of fees earned compared to costs incurred during a specific period of time, it is not necessarily an indicator of net income or net loss over the life of a patent or trademark. The net income calculation is based on fees earned during the FY being reported, regardless of when the fees were collected. Maintenance fees play a large part in whether net income or net loss is recorded for the patent business line. Maintenance fees collected in FY 2001 are a reflection of production levels 3.5, 7.5, and 11.5 FYs ago rather than a reflection of productivity levels in FY 2001. Therefore, maintenance fees can have a significant impact on matching costs and revenue. Also, the net income calculation looks at groups of work that begin and end the FY in various phases of their life cycle. Net income for the FY is dependent upon the phase work has gone through.

After several years of net income, the patent business line experienced a net loss of \$23.5 million in FY 2001. This loss on work processed begins to normalize earned revenues and costs over the life cycle of patents to better approximate a \$0 net income. Part of this normalization is due to improving our deferred revenue estimate to more closely link deferred revenue to total application inventory, resulting in an additional \$21.9 million of revenue deferred in FY 2001. Since increases in revenue deferred reduce net income, this change contributed greatly to the patent business line's net loss.

The trademark business line incurred a net income of \$47.1 million in FY 2001 by completing large volumes of work to fulfill orders received in prior years. Trademark's operations were able to address their backlog because of a temporary decline in new applications submitted during FY 2001 and an 11.4 percent increase in staff.

Components of Net Income/Loss

The following charts depict the USPTO's financial operations for the past four FYs. There have been gradual increases in both revenues and costs, indicating steady growth.

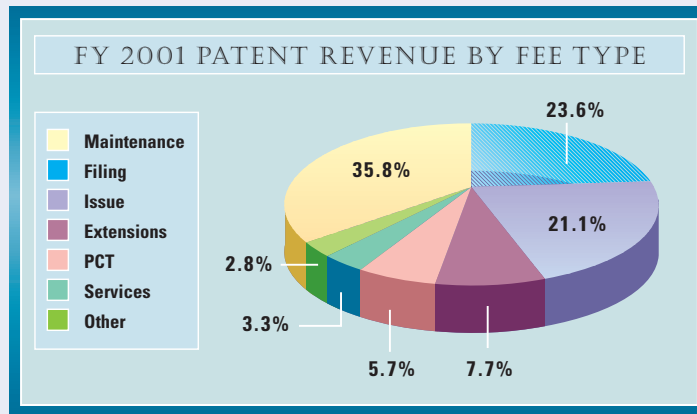


Earned Revenue

Earned revenue totaled \$1,040.2 million for the year ended September 30, 2001, an 8.8 percent increase over FY 2000 earned revenue of \$956.5 million. Of fees earned during FY 2001, \$258.9 million related to revenue deferred in prior FYs, \$307.5 million related to maintenance fees collected during FY 2001, which are immediately considered earned, and \$473.8 million related to work performed on fees collected during FY 2001.

Patent business operations earned \$859.0 million for FY 2001, a 5.1 percent increase over \$817.4 million in FY 2000. Revenue is earned at the current fee rate. Filing, issue, and maintenance fees were raised slightly at the beginning of FY 2001, accounting for the small increase in revenue.

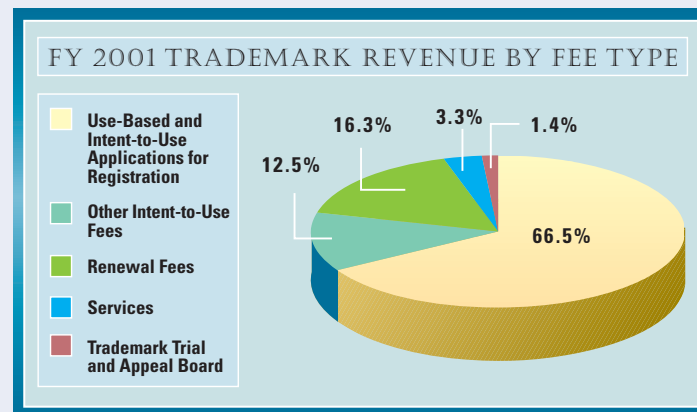
Patent maintenance fees have traditionally been the largest category of patent fees. Therefore, fluctuations in rates of renewal can significantly affect patent revenue. However, there can be no assurance that the USPTO will be able to sustain or improve upon historic or current renewal rates in future years. Rates of renewal continued to slowly climb in FY 2001.



PATENT RENEWAL RATES	FY 1998	FY 1999	FY 2000	FY 2001
First Stage (end of 3rd year after patent is issued)	81.8%	83.1%	84.3%	84.5%
Second Stage (end of 7th year after patent is issued)	56.6%	57.9%	59.4%	59.9%
Third Stage (end of 11th year after patent is issued)	36.1%	37.7%	38.8%	39.1%

Trademark business operations earned \$181.2 million for FY 2001, a 30.3 percent increase from \$139.1 million in FY 2000. This increase is due to earning revenue deferred in prior years that relates to the large amount of prior year workload that was completed during FY 2001. This drastically reduced the amount of trademark work outstanding.

The USPTO charges a single fee for the registration of both use-based and intent-to-use applications. Then, another fee is charged for intent-to-use applications because these applications require additional disclosures for trademark examiner review.



Trademark renewals are only required if continued protection is requested. To some extent, renewals subsidize costs incurred during the initial registration process. The large increase in the rate of renewals in FY 2000 was due to a new requirement to pay a renewal fee every 10 rather than every 20 years.

TRADEMARK RENEWAL RATES	FY 1998	FY 1999	FY 2000	FY 2001
Renewals: Every 20th year for trademarks registered prior to FY 1999 and every 10th year for trademarks registered FY 1999 and thereafter.	9.7%	9.6%	19.2%	21.2%

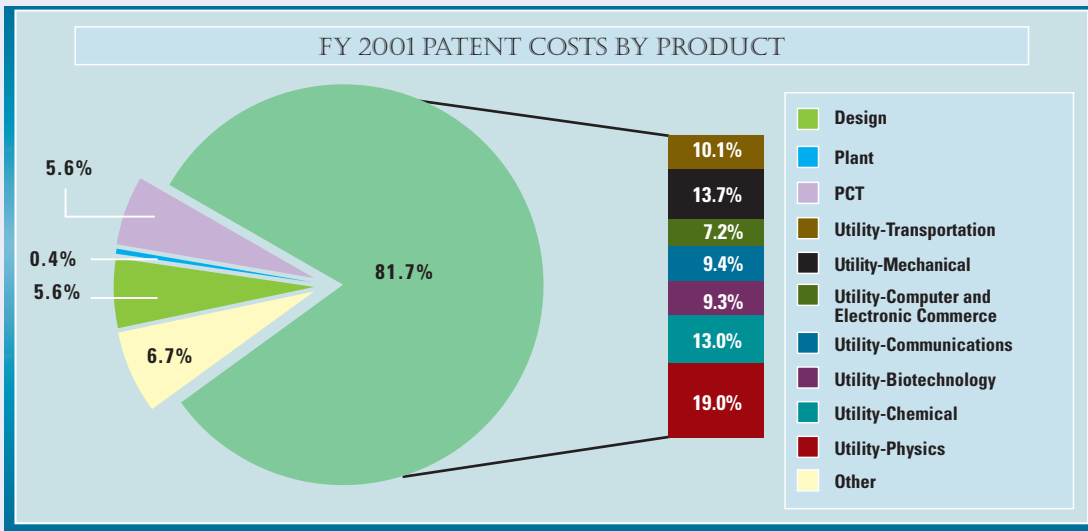
Program Cost

Program costs totaled \$1,016.6 million for the year ended September 30, 2001, an 11.6 percent increase over FY 2000 program costs of \$911.3 million. As a service organization, USPTO's production was related directly to personnel examining patent and trademark applications. Accordingly, personnel services and benefits costs directly attributable to the two business lines traditionally represent over one-half of total costs. Any change or fluctuation in staffing or pay rate patterns directly affects the change in total program costs. Total direct personnel services and benefits costs increased 11.9 percent over the FY 2000 amount of \$448.5 million, to \$501.9 million for FY 2001. This change drove the increase in total program cost and was due to several changes in pay scales.

In addition to the January 2001 federal-wide 3.8 percent increase in the general pay scale, as of June 2001, certain patent examiners and other USPTO employees were switched to a new pay schedule. This pay schedule covered over 3,600 employees and represented approximately another 10 percent increase in pay for over half of the workforce. While compensation per employee increased, hiring freezes and attritions due to a change in appointed positions kept staffing increases low. Without these decreases, personnel services and benefits costs would have increased much more.

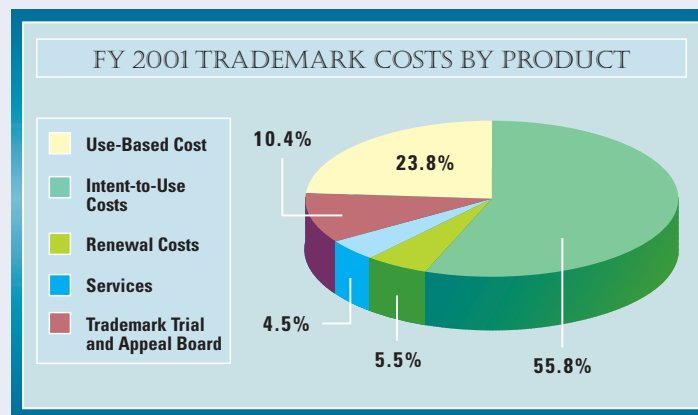
Rent, communications, utilities, contractual services, and depreciation costs traditionally comprise a third of total program costs each year. Contractual services directly attributable to business lines increased 12.7 percent from \$104.0 million in FY 2000 to \$117.2 million in FY 2001. Increases were incurred largely in the patent business line as a response to increases in demand and a continued move towards automated processes. Increases were incurred in a wide variety of activities, such as a shift to 24/7 PALM support, other increased electronic processing support, increased facilities research services, and increased mail services.

Patent business operations cost \$882.5 million for FY 2001, a 13.0 percent increase over the total patent program cost of \$781.3 million in FY 2000. Patent costs are spread over four main patent products: utility patents, design patents, plant patents, or PCT. The overall cost percentages presented below are a function of the volume of applications processed in each product area rather than per unit costs. The large majority of applications received are for utility patents, thus utility patents represent the majority of costs. Cost percentages are based on both direct costs and costs allocated to the patent business line.



Trademark business operations cost \$134.1 million in FY 2001, a 3.2 percent increase over the total trademark program cost of \$130.0 million in FY 2000. While personnel and benefits costs directly attributable to the trademark business increased 15.4 percent, several other cost categories decreased in FY 2001 compared to FY 2000. The most notable reason for the decreases is a refinement in the process used to track information technology costs to customers. This refinement resulted in the trademark business line receiving a smaller portion of information technology costs than in the past, such as depreciation. In addition, in FY 2001, the information dissemination function (IDO) shifted to the information technology function. The information technology costs therefore included IDO costs and the refinement resulted in lower IDO costs for trademarks as well.

Trademark costs are comprised of processing three main products: use based marks, intent-to-use marks, and renewals after registration, which involves processing affidavits, corrections, and amendments. The overall cost percentages presented at right are a function of the volume of applications processed in each product area rather than per unit costs. Cost percentages are based on both direct costs and costs allocated to the trademark business line. The intent to use costs include costs related to examining both the application and the additional intent-to-use disclosures.



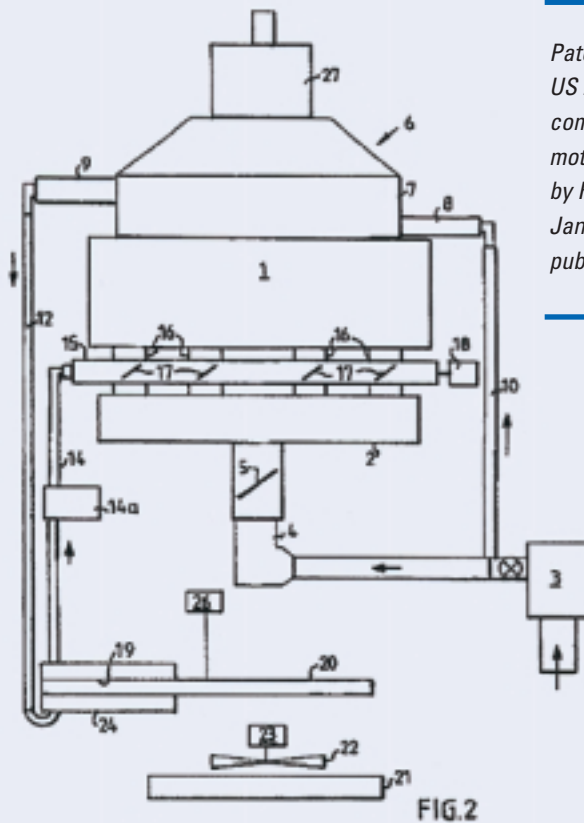
FINANCIAL CONDITION

Net Position

Net position was \$478.6 million as of September 30, 2001, an increase of \$49.1 million over the FY 2000 total of \$429.5 million. Net position consists of \$233.5 million in revenue withheld, which is segregated as a portion of net position because the Omnibus Budget and Reconciliation Act (OBRA) of 1990, as amended in 1993, restricted its availability. Annual amounts were withheld from FY 1992 through FY 1998, with no additional amounts withheld after FY 1998.

After reducing net position by revenue withheld, cumulative results of operations were \$245.1 million as of September 30, 2001, comprising net property and equipment in the amount of \$128.6 million and non-cash assets totaling \$9.1 million, leaving the remaining interest in the cash and fund balance as \$107.4 million.

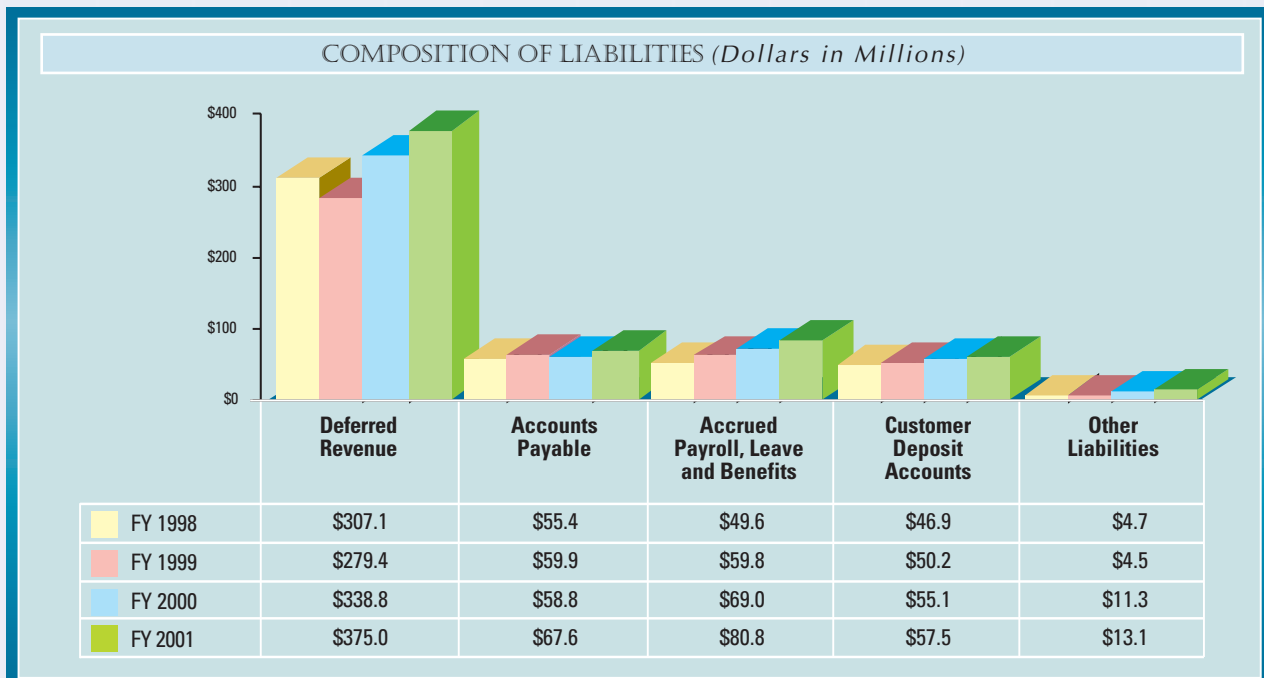
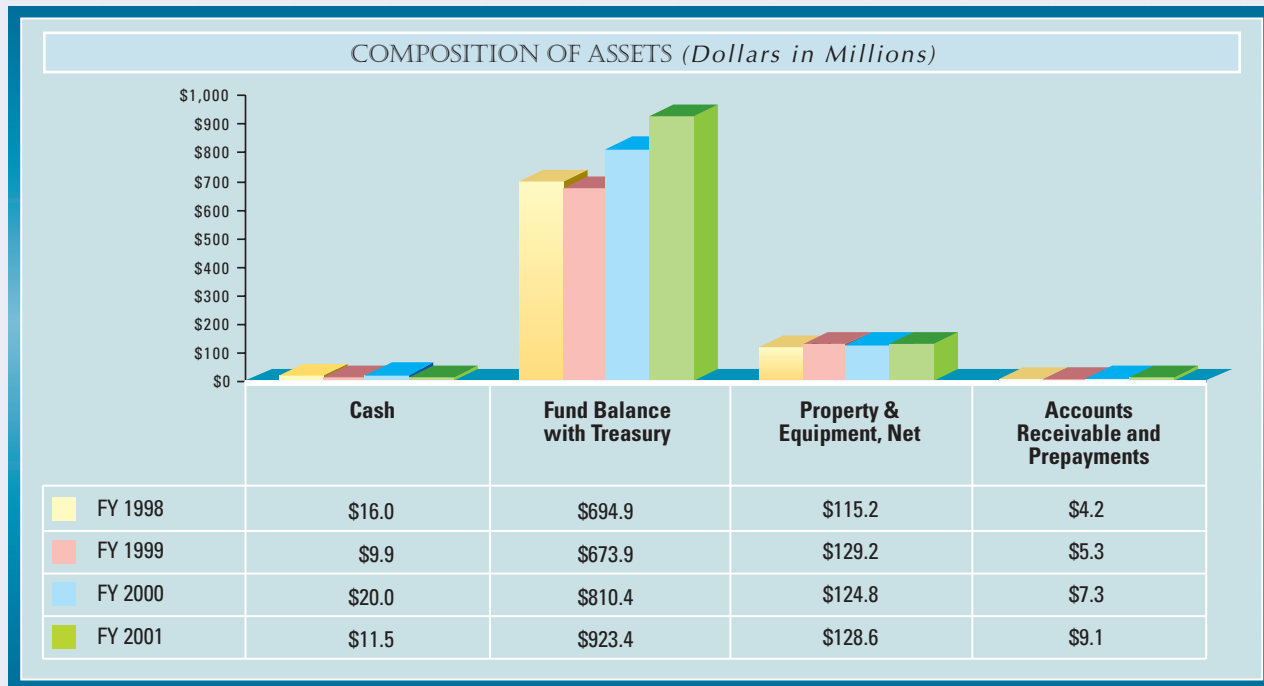
The \$107.4 million interest in cash and the fund balance is calculated on a financial accounting basis and does not reflect the impact of obligations for \$218.2 million in unpaid undelivered orders (goods and services ordered, but not yet received) less \$1.5 million in receivables that provide budgetary resources. Therefore, after liquidating unpaid undelivered orders and funded liabilities as of September 30, 2001, future funding in the amount of \$109.3 million will have to be earned, or surcharge revenue withheld will need to be appropriated, to liquidate unfunded liabilities as of September 30, 2001.



Patent Application Publication No. US 2001/0047790 for an "internal combustion engine installation in a motor vehicle," filed electronically by Kilpatrick Stockton, LLP, for Jan Karlsson of Sweden, and published after 18 months.

Components of Net Position

The following charts depict the USPTO's financial condition for the past four FYs. There have been gradual increases in both assets and liabilities, indicating steady growth.

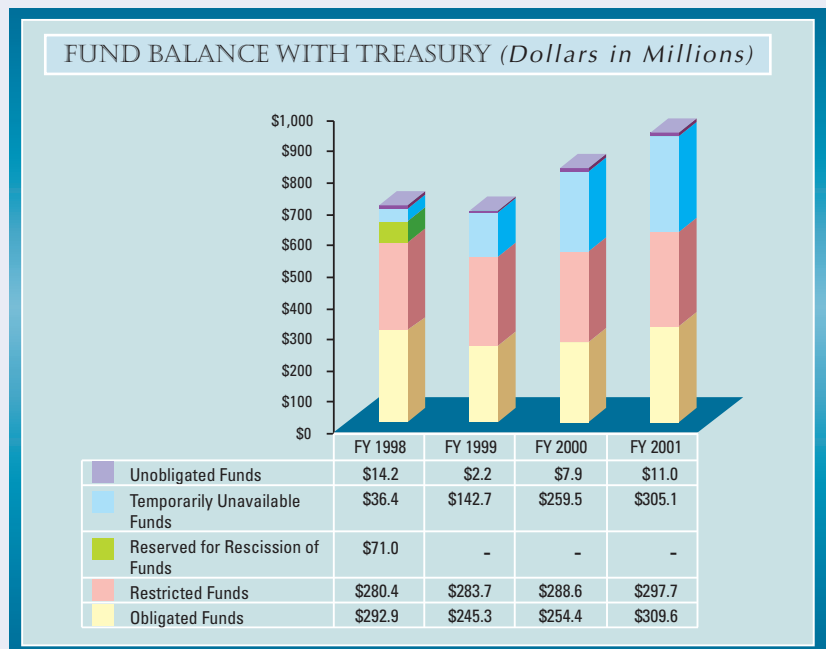


Current Ratio measures the adequacy of resources in terms of current assets per dollar of current liabilities. A current ratio greater than 1.0 normally indicates current assets are sufficient to cover current liabilities. At the USPTO, this ratio must be modified to take into consideration two important factors. The \$233.5 million surcharge earned and collected through the enactment of the OBRA is included in current assets but may never be available to the USPTO to cover liabilities. Also, current liabilities do not reflect undelivered orders, which are obligations to pay for future goods or services. To demonstrate the effect of the OBRA surcharge and undelivered orders on liquidity, the current ratio also is presented net of these amounts. While the current ratio is greater than 1.0 when considering the assets and liabilities on the face of the Balance Sheet, it falls below 1.0 when undelivered orders and the surcharge are factored in for each of the four years presented. This indicates that the USPTO does not have enough current assets to cover current liabilities.

FINANCIAL RATIOS	FY 1998	FY 1999	FY 2000	FY 2001
Current Ratio	1.62	1.60	1.66	1.67
Current Ratio, Net of Surcharge and Undelivered Orders	.68	.72	.85	.87

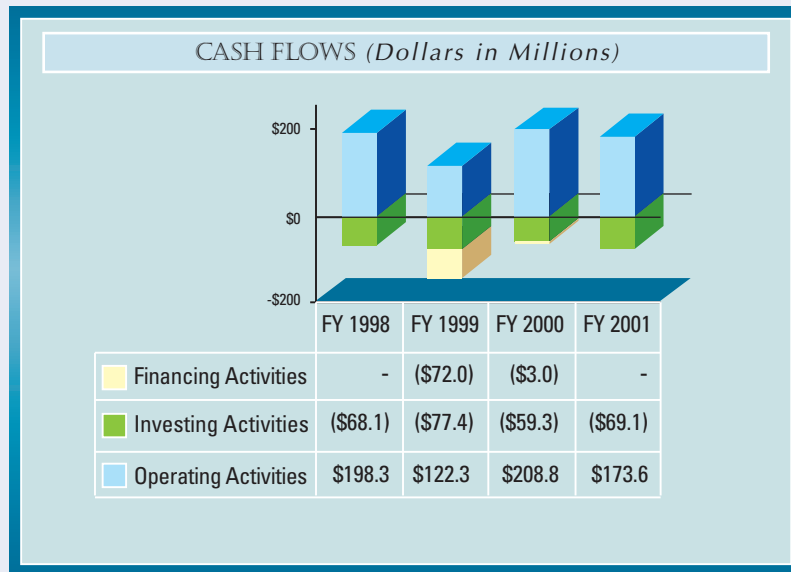
Cash and Fund Balance with Treasury

Cash and Fund balance with Treasury was \$934.9 million as of September 30, 2001, a 12.6 percent increase from the FY 2000 balance of \$830.4 million. Cash accounts and Fund balance with Treasury do not represent funds available for spending. Of the total \$934.9 million as of September 30, 2001, \$11.5 million represents cash or checks in transit and \$923.4 million represents Fund balance with Treasury. Of the \$923.4 million Fund balance with Treasury, \$309.6 million is set aside for the payment of existing obligations, \$233.5 million continues to be restricted as required by the OBRA, \$6.7 million is being held on behalf of the WIPO, and \$57.5 million represents funds held on deposit in trust for customers. After considering these amounts, only \$316.1 million remains to meet patent and trademark needs. This amount includes \$305.1 million that is restricted for use until subsequent FYs, \$1.8 million in unobligated funds that were not apportioned for use at the end of FY 2001, and only \$9.2 million, or 1.0 percent, available to meet FY 2001 needs.



During FY 2001, the USPTO generated a net of \$173.6 million in cash from patent and trademark fees and other operating activities, a decrease of \$35.2 million, or 16.9 percent, from the \$208.8 million generated during FY 2000.

Of the \$173.6 million generated from operating activities during FY 2001, \$69.1 million was invested in new property and equipment, principally automation and information technology. This amount represented an increase of \$9.8 million, or 16.5 percent, from the \$59.3 million of net cash invested in property and equipment during FY 2000. After funding FY 2001 investments in automation and information technology, the net cash provided was \$104.5 million. This represented a decrease of 28.7 percent from the \$146.5 million in cash provided during FY 2000.

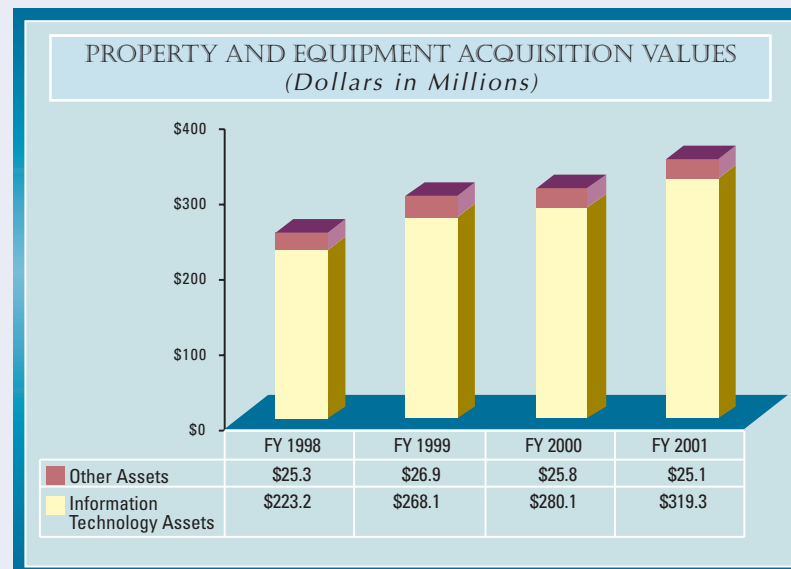


Cash Flow Return on Assets measures operating effectiveness in terms of cash generated from operations per dollar of total assets. Higher cash flow returns reflect greater operating performance. This return can fluctuate greatly as it is largely influenced by Congressional spending limitations on prior year and current year fee collections.

FINANCIAL RATIOS	FY 1998	FY 1999	FY 2000	FY 2001
Cash Flow Return on Assets	24%	15%	22%	16%
Cash Flow Return on Assets, Net of Surcharge	18%	21%	29%	21%

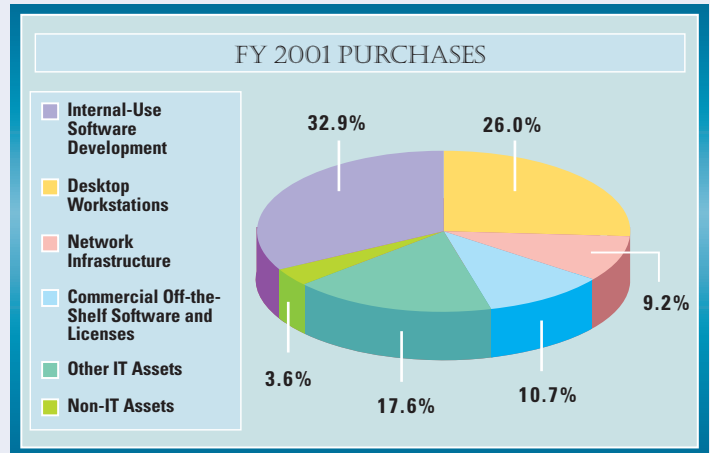
Property and Equipment

Property and equipment net was \$128.6 million as of September 30, 2001, representing the original acquisition value of \$344.4 million less accumulated depreciation of \$215.8 million. Although the net book value increased only \$3.8 million, or 3.0 percent, from the FY 2000 net balance of \$124.8 million, total acquisition value of property and equipment increased \$38.5 million, or 12.6 percent, over the FY 2000 balance of \$305.9 million.



The \$38.5 million increase is composed of \$69.1 million in assets purchased during the FY and \$30.6 million in assets disposed in the normal asset life cycle process.

As indicated to the right, IT assets continue to represent the vast majority of USPTO property and equipment acquisitions. The USPTO continues to make significant investments in development of internal-use software systems in the form of new modules and enhancements. These systems include examination workflow systems, automated search tools; on-line file submission and payment systems; application scanning tools; application tracking systems; customer inquiry systems; order fulfillment systems; and various systems to assist in agency administration and management. Major development efforts in FY 2001 included the following:

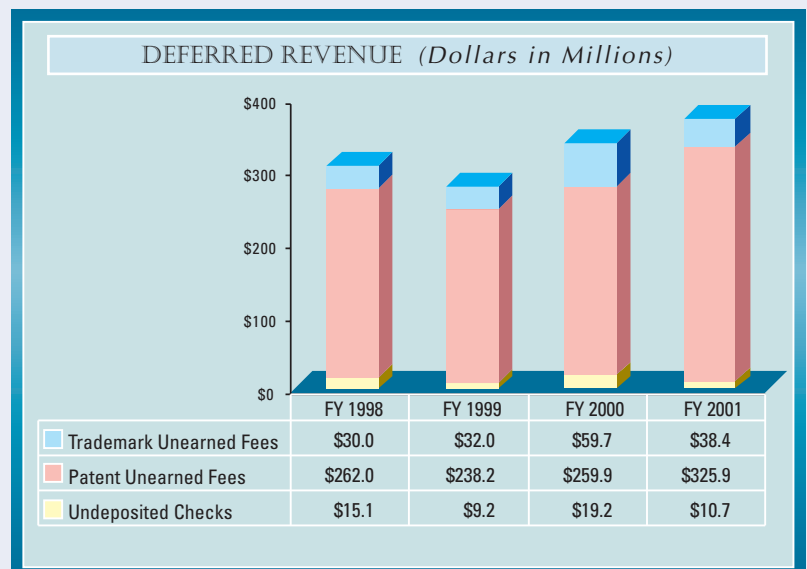


- Updating various systems to comply with the new legislation governing pre-grant publication of patents and the patent term adjustment requirements of the AIPA.
- Enhancing functionality in PALM and PCT Operations Workflow Electronics Review (POWER), the USPTO national and international patent workflow tracking and status reporting systems, respectively, to facilitate reengineered patent processes and implement electronic commerce initiatives. Specifically, there were continued efforts on migrating the legacy, mainframe-based PALM system to a modern open system architecture. This included preparing for the migration of the final PALM subsystem – Exam/Post-Exam. The new open system architecture will make future modification and enhancement initiatives less difficult and costly.
- Adding RAM functionality to allow EFT and additional credit card payments over the Internet.

The IT infrastructure continues to be improved to ensure employees have the necessary equipment to perform at the highest levels. The USPTO has begun the replacement of the agency network, PTONet, to ensure a faster, more robust, and secure computing environment. The replacement of desktop workstations with state-of-the-art equipment and reliable network service also has started.

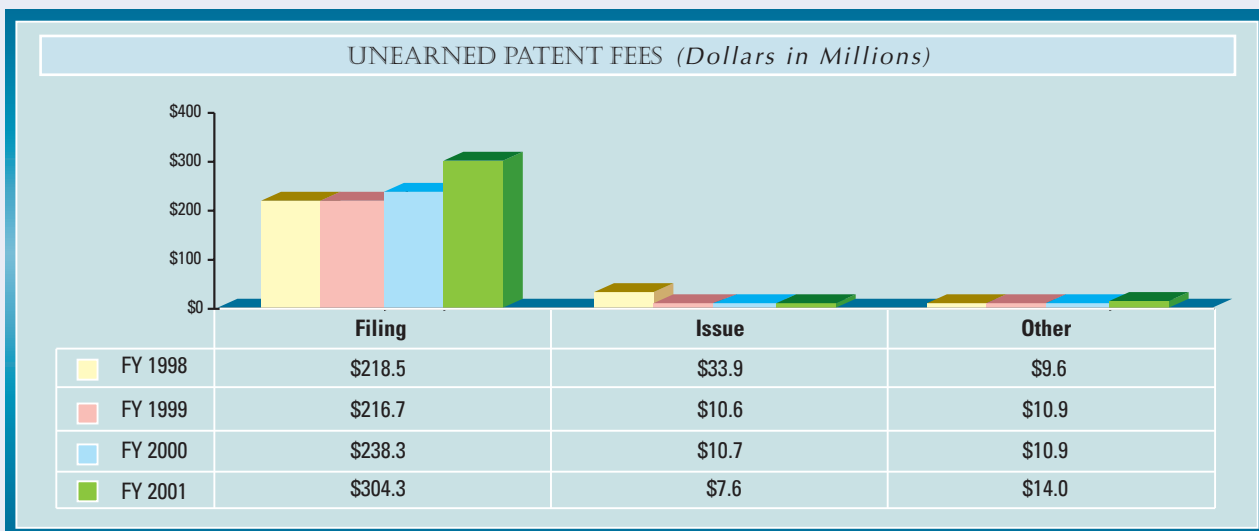
Deferred Revenue

Deferred revenue was \$375.0 million as of September 30, 2001, an increase of \$36.2 million, or 10.7 percent over the FY 2000 balance of \$338.8 million. The USPTO defers the recognition of income for fees collected for services that have not been provided yet. The deferred revenue liability includes undeposited checks as of the end of FY 2001, unearned patent fees, and unearned trademark fees.

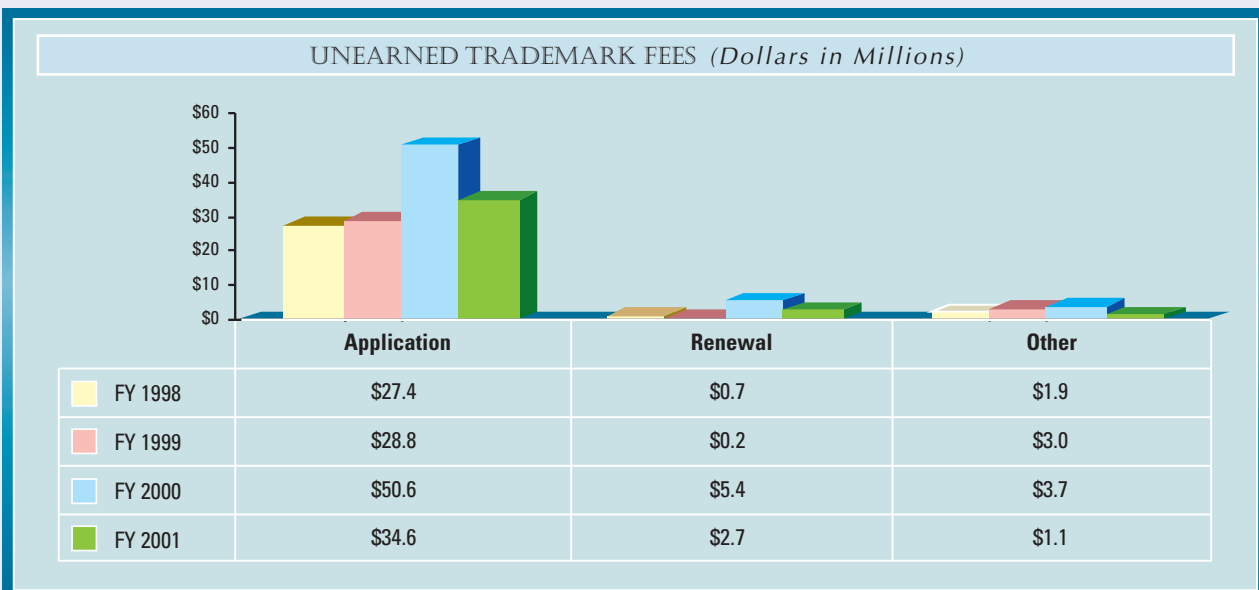


The undeposited checks component of deferred revenue decreased 44.3 percent from \$19.2 million at the end of FY 2000 to \$10.7 million at the end of FY 2001. FY 2000 undeposited checks were larger than normal due to a significant fee increase on October 1, 2000. When fees increase, customers traditionally file applications and pay maintenance fees in September to obtain "mail dates" prior to the fee increase set for October 1. The FY 2001 undeposited checks amount is more consistent with normal trends in check collections.

Unearned patent fees at the end of FY 2001 increased \$66.0 million, or 25.4 percent, over the prior year, due to an increase of over 10 percent in patent application filings during FY 2001 and due to an improvement in the methodology used to estimate deferred revenue. Of the \$66.0 million increase, \$21.9 million is a result of this change.



Unearned trademark fees decreased \$21.3 million, or 35.7 percent, from the prior FY. The large decrease is due to a decrease of more than 20 percent in trademark application filings during FY 2001, coupled with an increase in production. The \$21.3 million decrease was lessened by an improvement in the methodology used to estimate deferred revenue. Without this change, there would have been an additional \$6.2 million decrease in trademark unearned fees.



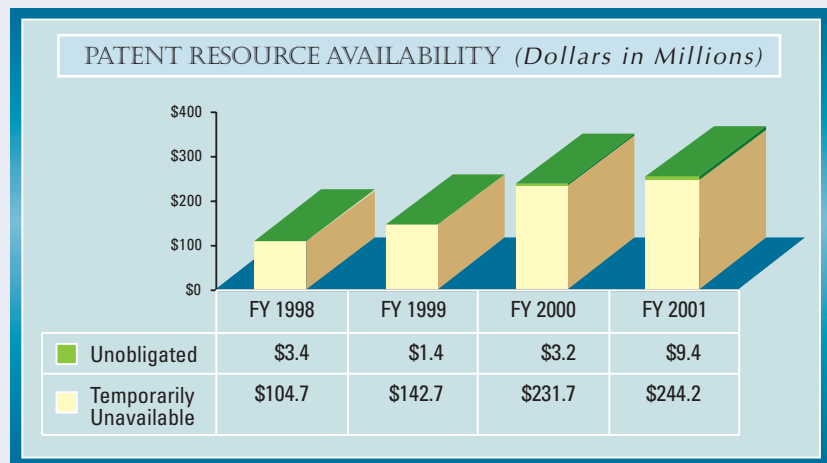
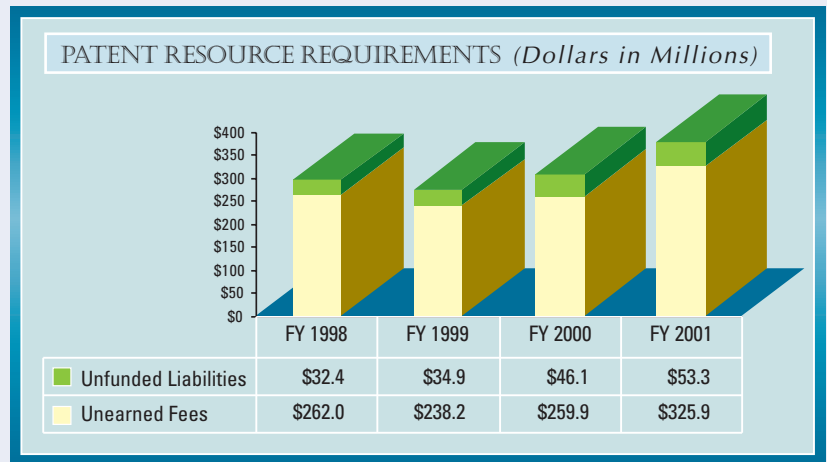
BUDGETARY RESOURCES AND REQUIREMENTS

Budgetary resources available for spending totaled \$1,049.8 million for FY 2001, a 16.3 percent increase over the FY 2000 total of \$903.0 million. The USPTO is a financially self-sufficient federal government agency that funds the cost of its operations from user fees rather than appropriations from taxes paid into the general fund of the U.S. Department of the Treasury. Major fees are set by statute and activity-based cost accounting techniques assist in approximating fee amounts necessary to recover the costs of our non-statutory fees. The USPTO is continually refining these cost accounting techniques and taking its fee analyses further to improve upon its assessment of fee requirements. As a government agency, the USPTO's goal is to realize budgetary resources provided through the collection of user fees that are equal to budgetary spending incurred to fill customer orders, as opposed to generating net income.

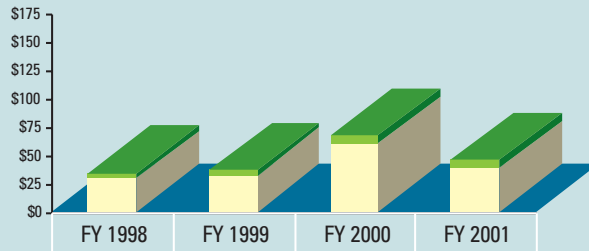
Temporarily unavailable fee collections occur when the Congress does not allow the USPTO to spend all fees collected during FY 2001. In FY 2001, the USPTO was appropriated \$254.9 million from fees collected in FYs 1999 and 2000, leaving only \$4.6 million in FY 2000 fees still not available for spending. The USPTO also was appropriated \$783.8 million for fees collected during FY 2001. However, during FY 2001, it collected an additional \$300.5 million that was not available for spending. Of the \$4.6 million and \$300.5 million not available for spending in FY 2001, \$282.3 million will be appropriated for spending in FY 2002. The USPTO does not know when the remaining \$22.8 million from FY 2001 fees will be appropriated.

Although no fees were rescinded during FY 2001, rescissions have reduced a sizeable portion of the fee resources in the past. These amounts were withheld in the annual congressional appropriations process for other government programs. Though Congress removed these amounts from USPTO funding permanently, it was still required to incur the cost to process the applications for which the fee amounts were paid, and conduct business as usual, using funds received from other applications.

The charts at right show the resources required to meet financial duties compared to the resources available for this purpose. Unfunded liabilities related to earned fee collections, as well as a liability for work to be performed on unearned fee collections, are a measure of commitment to vendors and customers for services the USPTO has already received and orders it has already taken.

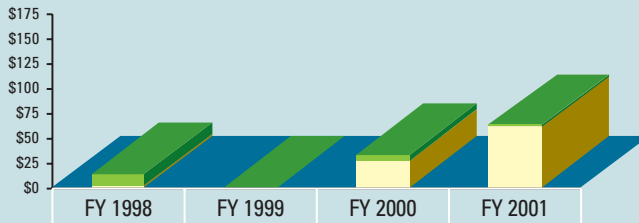


TRADEMARK RESOURCE REQUIREMENTS (Dollars in Millions)



■ Unfunded Liabilities	\$3.8	\$4.7	\$7.0	\$7.8
■ Unearned Fees	\$30.0	\$32.0	\$59.7	\$38.4

TRADEMARK RESOURCE AVAILABILITY (Dollars in Millions)



■ Unobligated	\$10.8	\$0.8	\$4.7	\$1.6
■ Temporarily Unavailable	\$2.7	-	\$27.8	\$60.9

COMPLIANCE WITH LEGAL AND REGULATORY FINANCIAL REQUIREMENTS

This section provides information on the USPTO's compliance with the following legislative mandates:

- Federal Managers' Financial Integrity Act (FMFIA).
- Inspector General (IG) Act Amendments.
- Federal Financial Management Improvement Act (FFMIA).
- OMB Financial Management Indicators.
- Prompt Payment Act.
- Civil Monetary Penalty Act.
- Debt Collection Improvement Act.
- Biennial Review of Fees.

Federal Managers' Financial Integrity Act

On the basis of the USPTO's comprehensive management control program, I am pleased to certify, with reasonable assurance, that USPTO's systems of accounting and internal control are in compliance with the internal control objectives in OMB's Bulletin Number 98-08, as amended. Our agency's systems of management control, taken as a whole, comply with section 2 of the Federal Managers' Financial Integrity Act of 1982. Our agency also is in substantial compliance with applicable federal accounting standards and the U.S. General Ledger at the transaction level and with federal financial system requirements. Accordingly, our agency fully complies with Section 4 of the Federal Managers' Financial Integrity Act of 1982.



Nicholas P. Godici
Acting Under Secretary of Commerce for Intellectual Property and
Acting Director of the United States Patent and Trademark Office

FMFIA requires federal agencies to annually provide a statement of assurance regarding management controls and financial systems. The above statement of assurance was based on the review and consideration of a wide variety of evaluations, internal analyses, reconciliations, reports, and other information, including Department of Commerce (DOC) Office of Inspector General audits, and independent public accountant's opinion on USPTO financial statements and reports on internal control and compliance with laws and regulations.

Inspector General Act Amendments

Section 106 of the IG Act Amendments (Pub. L. 100-504) of The Inspector General Act (as amended) requires semiannual reporting on IG audits and related activities as well as agency follow-up. The report is required to provide information on the overall progress on audit follow-up and internal management controls, statistics for audit reports with disallowed costs, and statistics on audit report with funds put to better use. The USPTO did not have audit reports with disallowed costs or funds put to better use.

The USPTO's follow-up actions on audit findings and recommendations are essential to improving the effectiveness and efficiency of our programs and operations. For FY 2001, management completed action on all outstanding recommendations on reports issued in FY 2000 and prior to FY 2000. In addition, action was taken to close six recommendations contained in two audit reports issued in FY 2001. These two audit reports still have three recommendations remaining open. Actions are under way to close these three recommendations during FY 2002.

Federal Financial Management Improvement Act

The Federal Financial Management Improvement Act (FFMIA) requires federal agencies to report on agency substantial compliance with federal financial management system requirements, federal accounting standards, and the U.S. Government Standard General Ledger. The USPTO complied substantially with the FFMIA for FY 2001.

OMB Financial Management Indicators

The OMB prescribes the use of quantitative indicators to monitor improvements in financial management. The USPTO tracks other financial performance measures as well. The table below shows the USPTO's performance during FY 2001 against performance targets established internally and by the OMB:

FINANCIAL PERFORMANCE MEASURE	FY 2001 Target	FY 2001 Performance
Percentage of Timely Vendor Payments	95%	99%
Percentage of Payroll by Electronic Transfer	90%	98%
Percentage of Treasury Agency Locations Fully Reconciled	95%	100%
Timely Posting of Inter-Agency Charges	30 days	29 days
Timely Reports to Central Agencies	95%	100%
Average Processing Time for Travel Payments	30 days	7.8 days
Audit Opinion on FY 2001 Financial Statements	Unqualified	Unqualified
Material Weaknesses Reported for FY 2001	None	None

Prompt Payment Act

The Prompt Payment Act requires federal agencies to report on their efforts to make timely payments to vendors, including interest penalties for late payments. In FY 2001, the USPTO did not pay interest penalties on 99.1 percent of our 11,943 vendor invoices, representing payments of approximately \$279.4 million. Of the 220 invoices that were not processed in a timely manner, the USPTO was required to pay interest penalties on 104 invoices, and was not required to pay interest penalties on 116 invoices, where the interest was calculated at less than \$1. The USPTO paid only \$12 in interest penalties for every million dollars disbursed in FY 2001. Virtually all recurring payments were processed by EFT in accordance with the EFT provisions of the Debt Collection Improvement Act of 1996.

Civil Monetary Penalty Act

There were no civil monetary penalties assessed by the USPTO during FY 2001.

Debt Collection Improvement Act

The Debt Collection Improvement Act prescribes standards for the administrative collection, compromise, suspension, and termination of federal agency collection actions, and referral to the proper agency for litigation. Although the Act has no material effect on the USPTO since it operates with minimal delinquent debt, the organization transferred all debt more than 180 days old to Treasury for cross-servicing.

Biennial Review of Fees

The Chief Financial Officers Act of 1990 requires a biennial review of agency fees, rents, and other charges imposed for services and things of value it provides to specific beneficiaries as opposed to the American public in general. The objective of the reviews is to identify such activities and to begin charging fees, where permitted by law, and to periodically adjust existing fees to reflect current costs or market value so as to minimize general taxpayer subsidy of specialized services or things of value (such as rights or privileges) provided directly to identifiable non-federal beneficiaries. The USPTO is a fully fee-funded agency without subsidy of general taxpayer revenue. For non-legislative fees, it uses activity-based cost accounting to evaluate the costs of activities and determine if fees are set appropriately. When necessary, fees are adjusted to be consistent with the program and with the legislative requirement to recover full cost of the goods or services provided to the public.

LIMITATIONS

The USPTO has prepared its FY 2001 financial statements in accordance with the requirements of OMB Bulletin Number 97-01, as amended, Form and Content of Agency Financial Statements, and supplementary guidance provided by the DOC. OMB Bulletin Number 97-01, as amended, incorporates the concepts and standards contained in the Statements of Federal Financial Accounting Concepts and the Statements of Federal Financial Accounting Standards (SFFAS) recommended by the Federal Accounting Standards Advisory Board (FASAB) and approved by the Secretary of the Treasury, the Director of the OMB, and the Comptroller General. On October 19, 1999, the American Institute of Certified Public Accountants Council

designated the FASAB as the accounting standards-setting body for federal government entities. Therefore, the SFFAS constitute accounting principles generally accepted in the United States (GAAP) for the federal government. These concepts and standards have been set by FASAB to help federal agencies comply with the requirements of the Chief Financial Officers Act of 1990 as amended by the Government Management and Reform Act of 1994. These two acts demand greater financial accountability from federal agencies and require the integration of accounting, financial management, and cost accounting systems.

The financial data in this report and the financial statements that follow have been prepared from the accounting records of the USPTO in conformity with accounting principles generally accepted in the United States. USPTO financial statements consist of the Balance Sheet, the Statement of Net Cost, the Statement of Changes in Net Position, the Statement of Budgetary Resources, the Statement of Financing, and the Statement of Cash Flows. The following limitations apply to the preparation of the financial statements:

- The financial statements were prepared to report the USPTO's financial position, net cost of operations, budgetary resources, and cash flows pursuant to the requirements of 31 U.S.C. 3515 (b).
- While the statements are prepared from books and records in accordance with the formats prescribed by the OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.
- The statements should be read with the realization that the USPTO is a component of the U.S. government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources to do so.

In addition, certain information contained in this discussion and analysis and in other parts of this report may be deemed forward-looking statements regarding events and financial trends that may affect future operating results and financial positions. Such statements may be identified by words such as "estimate," "project," "plan," "intend," "believe," "expect," "anticipate," or variations or negatives thereof, or by similar or comparable words or phrases. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in the statements. Such risks and uncertainties include, but are not limited to, the following: changes in U.S. or international IP laws; changes in U.S. or global economic conditions; the availability, hiring and retention of qualified staff employees; management of patent and trademark growth; government regulations; disputes with labor organizations; and deployment of new technologies. The USPTO undertakes no obligation to publicly update these forward-looking statements to reflect events or circumstances after the date hereof, or to reflect the occurrence of unanticipated events.

MANAGEMENT RESPONSIBILITIES

USPTO management is responsible for the fair presentation of information contained in the principal financial statements, in conformity with accounting principles generally accepted in the United States and the requirements of OMB Bulletin Number 97-01, as amended, and supplementary guidance provided by the DOC. Management also is responsible for the fair presentation of the USPTO's performance measures in accordance with OMB requirements. The quality of the USPTO's internal control rests with management, as does the responsibility for identifying and complying with pertinent laws and regulations.

Patent Application
Publication No. US
2001/0048262 for a "coil
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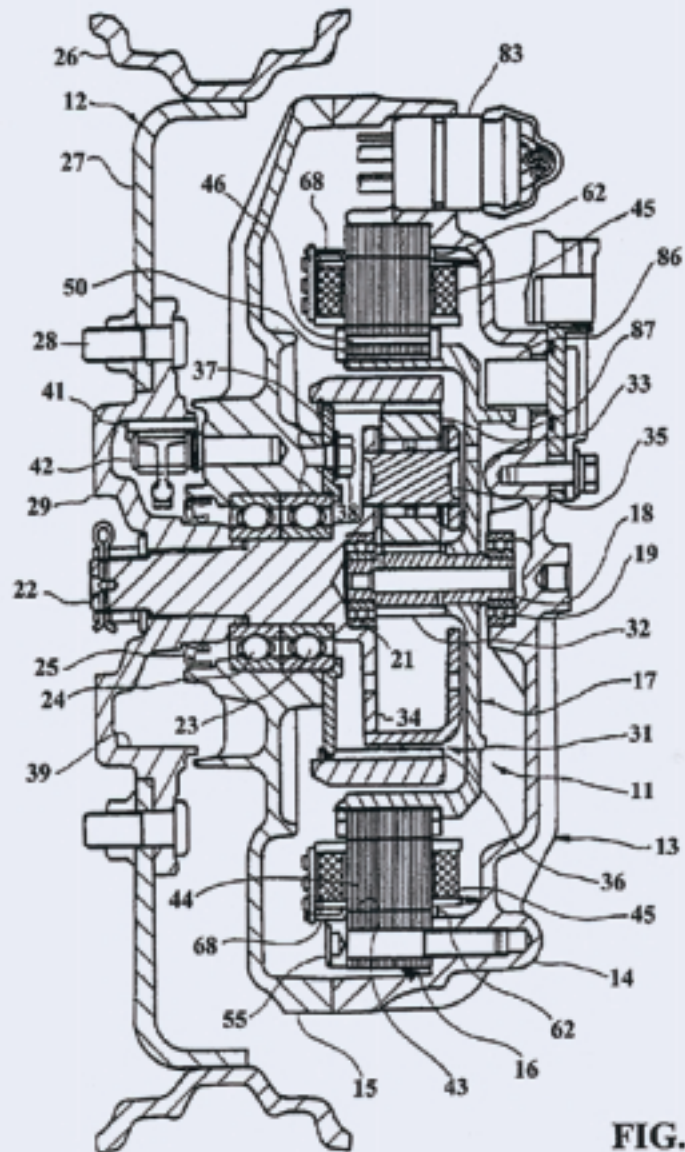


FIG. 1