Principal Financial Statements and Related Notes

U.S. PATENT AND TRADEMARK OFFICE CONSOLIDATED BALANCE SHEETS

As of September 30, 2001 and 2000

(Dollars in Thousands)	2001	2000
ASSETS		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	$ 923,361	$ 810,381
Accounts Receivable	1,547	2,405
Advances and Prepayments	4,523	2,785
Total Intragovernmental	929,431	815,571
Cash	11,515	19,968
Accounts Receivable, Net	1,245	398
Advances and Prepayments	1,805	1,754
Property and Equipment, Net (Note 3)	128,598	124,851
Total Assets	$1,072,594	$962,542
LIABILITIES		
Intragovernmental:		
Accounts Payable	$ 3,496	$ 3,575
Accrued Payroll and Benefits	5,293	4,654
Accrued Postemployment Compensation	970	958
Customer Deposit Accounts	3,504	3,218
Total Intragovernmental	13,263	12,405
Accounts Payable	64,177	55,210
Accrued Payroll and Benefits	45,061	39,018
Accrued Leave	30,414	25,280
Customer Deposit Accounts	53,955	51,929
Deferred Revenue (Note 5)	374,988	338,780
Actuarial Liability (Note 6)	5,526	4,581
Capital Lease Liability (Note 7)	3,032	5,793
Contingent Liabilities (Note 12)	3,590	—
Total Liabilities (Note 4)	594,006	532,996
NET POSITION		
Cumulative Results of Operations	245,059	196,017
Revenue Withheld	233,529	233,529
Total Net Position	478,588	429,546
Total Liabilities and Net Position	$ 1,072,594	$ 962,542

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

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

For the years ended September 30, 2001 and 2000

(Dollars in Thousands)	2001			2000
	PATENTS	TRADEMARKS	TOTAL	TOTAL
PROGRAM				
Enhance Quality and Minimize Processing Time				
With the Public	$ 675,351	$ 101,866	$ 777,217	$ 695,948
Intragovernmental	175,090	26,409	201,499	196,763
Total Program Cost	850,441	128,275	978,716	892,711
Earned Revenue	(859,028)	(181,230)	(1,040,258)	(956,556)
Net Program Income	(8,587)	(52,955)	(61,542)	(63,845)
Strengthen Intellectual Property Protection				
With the Public	25,488	4,618	30,106	14,514
Intragovernmental	6,608	1,197	7,805	4,103
Total Program Cost	32,096	5,815	37,911	18,617
Net Cost/(Income) from Operations	$ 23,509	$ (47,140)	$ (23,631)	$ (45,228)
TOTAL ENTITY				
Total Program Cost (Notes 9 and 10)	$ 882,537	$ 134,090	$ 1,016,627	$ 911,328
Earned Revenue	(859,028)	(181,230)	(1,040,258)	(956,556)
Net Cost/(Income) from Operations	$ 23,509	$ (47,140)	$ (23,631)	$ (45,228)

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

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

For the years ended September 30, 2001 and 2000

(Dollars in Thousands)	2001			2000
	PATENTS	TRADEMARKS	TOTAL	TOTAL
Net (Cost)/Income from Operations	$ (23,509)	$ 47,140	$ 23,631	$ 45,228
Other Financing Sources:				
Imputed Financing (Note 8)	21,930	3,481	25,411	22,827
Net Increase in Cumulative Results of Operations	$ (1,579)	$ 50,621	49,042	68,055
Non Operating Change - Rescission			—	(2,980)
Increase in Net Position			49,042	65,075
Net Position, Beginning Balance			429,546	364,471
Net Position, Ending Balance			$ 478,588	$ 429,546

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

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

For the years ended September 30, 2001 and 2000

(Dollars in Thousands)	2001	2000
BUDGETARY RESOURCES		
Budget Authority	$ 254,889	$ —
Unobligated Balances - Beginning of Period	12,479	144,928
Spending Authority from Offsetting Collections	1,084,667	1,006,658
Adjustments (Note 11)	(300,420)	(243,864)
Total Budgetary Resources	$ 1,051,615	$ 907,722
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred	$ 1,040,586	$ 895,243
Unobligated Balances - Available	9,223	7,716
Unobligated Balances - Not Available	1,806	4,763
Total Status of Budgetary Resources	$ 1,051,615	$ 907,722
OUTLAYS		
Obligations Incurred	$ 1,040,586	$ 895,243
Spending Authority from Offsetting Collections and Adjustments	(1,089,303)	(1,020,663)
Obligated Balance, Net - Beginning of Period	254,352	245,253
Obligated Balance, Net - End of Period	(316,289)	(254,352)
Total Net Collections	$ (110,654)	$ (134,519)

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

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

For the years ended September 30, 2001 and 2000

(Dollars in Thousands)	2001	2000
OBLIGATIONS AND NONBUDGETARY RESOURCES		
Obligations Incurred	$ 1,040,586	$ 895,243
Spending Authority from Offsetting Collections and Adjustments	(1,089,303)	(1,020,663)
Financing Imputed for Cost Subsidies	25,411	22,827
Exchange Revenue not in the Budget	(472)	—
Total Obligations, as Adjusted, and Nonbudgetary Resources	(23,778)	(102,593)
RESOURCES NOT FUNDING NET COST OF OPERATIONS		
Change in Amount of Goods, Services, and Benefits Ordered but not yet Received or Provided	(49,304)	(9,272)
Costs Capitalized on the Balance Sheet	(69,067)	(59,317)
Financing Sources that Fund Costs of Prior Periods	(926)	8
Financing Sources that Fund Costs of Future Periods	303,613	299,649
Total Resources not Funding Net Cost of Operations	184,316	231,068
NET COSTS NOT REQUIRING OR GENERATING RESOURCES		
Depreciation, Amortization, or Loss on Asset Dispositions	65,320	63,646
Revenue not Generating Resources	(258,901)	(250,273)
Other Costs not Requiring Resources	2	(746)
Total Net Costs not Requiring or Generating Resources	(193,579)	(187,373)
Financing Sources yet to be Provided	9,410	13,670
Net Income from Operations	$ (23,631)	$ (45,228)

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

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

For the years ended September 30, 2001 and 2000

(Dollars in Thousands)	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Increase in Cumulative Results of Operations	$ 49,042	$ 68,055
Adjustments Affecting Cash Flow:		
Decrease/(Increase) in Accounts Receivable	11	(632)
Increase in Advances and Prepayments	(1,789)	(1,448)
Increase/(Decrease) in Accounts Payable	8,888	(1,132)
Increase in Accrued Payroll and Benefits	6,682	5,854
Increase in Accrued Leave and Postemployment Compensation	5,146	3,451
Increase in Customer Deposit Accounts	2,312	4,940
Increase in Deferred Revenue	36,208	59,423
Increase in Actuarial Liability	945	882
(Decrease)/Increase in Capital Lease Liability	(2,761)	5,793
Increase in Contingent Liabilities	3,590	—
Depreciation, Amortization, or Loss on Asset Dispositions	65,320	63,646
Total Adjustments	124,552	140,777
Net Cash Provided by Operating Activities	173,594	208,832
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	(69,067)	(59,317)
Net Cash Used in Investing Activities	(69,067)	(59,317)
CASH FLOWS FROM FINANCING ACTIVITIES		
Rescissions	—	(2,980)
Net Cash Used in Financing Activities	—	(2,980)
Net Cash Provided by Operating, Investing, and Financing Activities	$ 104,527	$ 146,535
Fund Balance with Treasury and Cash, Beginning	$ 830,349	$ 683,814
Net Cash Provided by Operating, Investing, and Financing Activities	104,527	146,535
Fund Balance with Treasury and Cash, Ending	$ 934,876	$ 830,349
Fund Balance with Treasury	$ 923,361	$ 810,381
Cash	11,515	19,968
Fund Balance with Treasury and Cash, Ending	$ 934,876	$ 830,349

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

These financial statements include the USPTO's two core business activities that promote the use of intellectual property rights as a means of achieving economic prosperity - processing patent applications and registering trademarks. These activities not only give innovators, businesses, and entrepreneurs the protection and encouragement they need to turn their creative ideas into tangible products, but also provide protection for their inventions and trademarks.

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

Basis of Presentation

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

These financial statements were prepared in accordance with the guidelines specified by the OMB in Bulletin Number 97-01, Form and Content of Agency Financial Statements, as well as the accounting policies of the USPTO. They may therefore differ from other financial reports submitted pursuant to OMB directives for the purpose of monitoring and controlling the use of the USPTO's budgetary resources.

Basis of Accounting

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

- FASAB Statements and Interpretations plus AICPA and Financial Accounting Standards Board pronouncements if made applicable to federal governmental entities by a FASAB Statement or Interpretation;
- FASAB Technical Bulletins and the following pronouncements if specifically made applicable to federal government entities by the AICPA and cleared by the FASAB: AICPA Industry Audit and Accounting Guides and AICPA Statements of Position;
- AICPA Accounting Standards Executive Committee Practice Bulletins if specifically made applicable to federal governmental entities and cleared by the FASAB and Technical Releases of the Accounting and Auditing Policy Committee of the FASAB;
- Implementation guides published by the FASAB staff and practices that are widely recognized and prevalent in the federal government; and

- Other accounting literature published by authoritative standard-setting bodies and other authoritative sources (a) in the absence of other guidance in the first four parts of this hierarchy, and (b) if the use of such accounting principles improves the meaningfulness of the financial statements.

Budgets and Budgetary Accounting

Appropriated funds from general taxpayer revenue were gradually eliminated following the passage of the OBRA in 1990. The OBRA established revenue withholding on statutory patent fees. Subsequent legislation removed the reference to a specific surcharge withholding of 69 percent, required the USPTO to withhold and deposit exact amounts of revenue, and extended the revenue withholding through the end of FY 1998. This withheld revenue constitutes offsetting receipts, and was deposited into a restricted special fund receipt account at the U.S. Department of the Treasury (Treasury). The USPTO may use moneys from this account only as authorized by the Congress, and only as made available by the issuance of a Treasury warrant. Moneys not appropriated to the USPTO by the Congress are retained in the restricted receipt account at the Treasury. The U.S. Patent and Trademark Reauthorization Act, Fiscal Year 1999, as amended by Public Law 106-113, reset patent statutory fees without the OBRA surcharge. The USPTO has not collected or deposited any additional amounts in the restricted special fund receipt account since 1998. The special fund receipt account currently has no liabilities, and the entire fund balance will remain restricted until appropriated.

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. In FY 2001, due to better insights gathered through our Activity Based Cost Accounting (ABC) model, estimates used in the calculation of deferred revenue were revised. Based on information that tracks when costs are incurred, we were able to determine that a significant amount of costs occur after first action and before disposition.

Revenue and Other Financing Sources

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

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

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

Entity/Non-Entity

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

Fund Balance with Treasury

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

Accounts Receivable

Intragovernmental accounts receivable represent amounts due from other federal entities. Of total intragovernmental accounts receivable, $1,543 thousand as of September 30, 2001 and 2000 is due to a financing agreement that the USPTO and the DOC entered into during FY 1995 to fund the Commerce Administrative Management System.

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

The USPTO recorded a $13 thousand and $12 thousand allowance for uncollectible amounts to reduce the gross amount of its public accounts receivable to its net realizable value as of September 30, 2001 and 2000, respectively.

Advances and Prepayments

On occasion, the USPTO prepays amounts in anticipation of receiving future benefits. Although a payment has been made, an expense is not recorded until goods have been received or services have been performed. The largest prepayment is with the National Inventors Hall of Fame, a non-profit organization, with whom the USPTO entered into memorandums of understanding during FYs 1999 through 2001 for various cooperative efforts. In addition, the USPTO maintains deposit accounts with the Government Printing Office and the DOC to facilitate transactions of a recurring nature. The USPTO also advances funds to personnel for travel costs and expenses these amounts after travel has occurred.

Cash

Most of the USPTO's cash balance consists of undeposited checks for fees that were not processed at the Balance Sheet date due to the lag time between receipt and initial review. All such undeposited check amounts are considered to be cash equivalents. As of September 30, 2001 and 2000 the cash balance includes undeposited checks of $11,513 thousand and $19,953 thousand, respectively. Cash also is held outside the Treasury to be used as imprest funds. An imprest fund of $2 thousand and $15 thousand, respectively, was held as of September 30, 2001 and 2000.

Property and Equipment

The USPTO's capitalization policies are summarized below:

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

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

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

Postemployment Compensation

Claims brought by employees of the USPTO for on-the-job injuries fall under the Federal Employees Compensation Act (FECA) administered by the U.S. Department of Labor (DOL). The DOL bills each agency annually as its claims are paid, but payment on these bills is deferred two years to allow for funding through the budget process. As of September 30, 2001, the USPTO recorded a $917 thousand liability for claims paid on its behalf during the benefit period July 1, 1999 through September 30, 2001. As of September 30, 2000, the USPTO recorded an $880 thousand liability for claims paid on its behalf during the benefit period July 1, 1998 through September 30, 2000.

Employees of the USPTO who lose their jobs through no fault of their own may receive unemployment compensation benefits under the unemployment insurance program administered by the DOL. The DOL bills each agency quarterly as its claims are paid. As of September 30, 2001, the USPTO recorded a $53 thousand liability for the quarters ended June and September for claims paid by the DOL on the USPTO's behalf. As of September 30, 2000, the USTPO recorded a $78 thousand liability for the quarters ended June and September.

Annual, Sick, and Other Leave

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

Employee Retirement Systems and Benefits

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

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

For both FYs 2001 and 2000, the USPTO made contributions equivalent to approximately 8.5 percent and 10.7 percent of the employee's basic pay for those employees covered by CSRS and FERS, respectively, based on OPM cost factors.

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

For the period ended September 30, 2001 and 2000, respectively, the USPTO's retirement plan contributions for CSRS and FERS participants were $40,638 thousand and $36,606 thousand. The USPTO also contributed $25,922 thousand and $23,350 thousand for the years ended September 30, 2001 and 2000, respectively, to the Social Security Administration for FICA benefits.

Deferred Revenue

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

As more information and experience is acquired about the patent and trademark processes, the deferred revenue calculation has been further developed. The deferred revenue calculation is a complex accounting estimate, which requires a detailed and comprehensive understanding of numerous business and administrative processes as well as an in-depth knowledge of workloads and inventories. As the ABC model improves, the calculation now includes the portion of costs associated with various stages of the application process. The calculation previously included deferred amounts of applications prior to reaching first action. Beginning in FY 2001, the calculation has expanded to include work that has reached first actions, but not been registered, abandoned, or allowed.

Comparative Data

The USPTO incurs costs that directly contribute to a business line but are centrally managed for efficiency. In FY 2000, these costs were displayed as an "allocated cost" in Note 10. However, it was determined in FY 2001 that although these costs are centrally managed, they are better displayed as a "direct cost". Therefore, the FY 2000 presentation has been changed to display only the support costs that do not directly contribute to a business line, thus are indirect in nature, as an "allocated cost". In addition, the "other services" cost category has been included in the "contractual services" cost category as it was determined that the nature of the costs in the "other services" category is consistent with the costs in the "contractual services" category. The FY 2000 Note 9 and 10 presentations also include a reclassification of costs from "maintenance and repairs" to "contractual services." In FY 2001, it was determined that the nature of some of the work performed on our major contracts would be more appropriately classified in the "contractual services" cost category. Reclassification of the FY 2000 presentation was necessary for comparative purposes.

NOTE 2. FUND BALANCE WITH TREASURY

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

As of September 30, 2001 and 2000, the Fund balance with Treasury consisted of the following:

(Dollars in Thousands)	2001			2000
	Unrestricted Funds	Restricted Funds	Total	Total
Appropriated Funds (Obligated)	$ 309,610	$ —	$ 309,610	$ 248,366
Appropriated Funds (Unobligated)	316,083	—	316,083	267,353
Revenue Withheld	—	233,529	233,529	233,529
Subtotal Entity Funds	625,693	233,529	859,222	749,248
Intragovernmental Deposit Accounts	—	3,504	3,504	3,218
Other Customer Deposit Accounts	—	53,955	53,955	51,929
PCT WIPO/EPO Accounts	—	6,680	6,680	5,986
Subtotal Non-Entity Funds	—	64,139	64,139	61,133
Total Fund Balance with Treasury	$ 625,693	$ 297,668	$ 923,361	$ 810,381

NOTE 3. PROPERTY AND EQUIPMENT

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

(Dollars in Thousands)

Class of Fixed Asset	Depreciation/ Amortization Method	Service Life (Years)	Acquisition Value	Accumulated Depreciation/ Amortization	Net Book Value
ADP Equipment	SL	3-7	$ 192,345	$ 138,983	$ 53,362
Software	SL	3-11	108,296	59,000	49,296
Software in Progress	—	—	18,717	—	18,717
Furniture	SL	5	15,967	10,171	5,796
Equipment	SL	3-5	9,087	7,660	1,427
Total			$ 344,412	$ 215,814	$ 128,598

As of September 30, 2000, property and equipment consisted of the following:

(Dollars in Thousands)

Class of Fixed Asset	Depreciation/ Amortization Method	Service Life (Years)	Acquisition Value	Accumulated Depreciation/ Amortization	Net Book Value
ADP Equipment	SL	3-7	$ 167,725	$ 117,619	$ 50,106
Software	SL	3-11	92,754	46,959	45,795
Software in Progress	—	—	19,588	—	19,588
Furniture	SL	5	17,064	9,620	7,444
Equipment	SL	3-5	8,768	6,850	1,918
Total			$ 305,899	$ 181,048	$ 124,851

NOTE 4. LIABILITIES

The USPTO records as liabilities all amounts that are likely to be paid as the direct result of events that have already occurred. The USPTO considers liabilities covered by three types of resources, realized budgetary resources, unrealized budgetary resources that become available without further Congressional action, and cash and Fund balance with Treasury. Realized budgetary resources include obligated balances directly funding existing liabilities and unobligated balances as of September 30, 2001. Unrealized budgetary resources represent fee collections in excess of amounts appropriated for current fiscal year spending. When current fiscal year appropriation language makes these unrealized budgetary resources available on October 1 of the following fiscal year without further Congressional action, these resources are used to cover liabilities. In FY 2001 and FY 2000, collections in excess of amounts appropriated for current fiscal year spending were $305,056 thousand and $254,889 thousand, respectively. However, only the FY 2000 excess collections, which became available the following fiscal year, are displayed as covering liabilities as of the Balance Sheet date. In addition, cash and Fund balance with Treasury cover liabilities that will never require the use of a budgetary resource. These liabilities consist of deposit accounts, refunds payable to customers for fee overpayments, undeposited collections and amounts collected by the USPTO on behalf of other organizations.

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

As of September 30, 2001 and 2000, the following liabilities are covered by budgetary resources with the remainder not covered as follows:

(Dollars in Thousands)	**2001**	**2000**
Liabilities Covered by Resources		
Intragovernmental:		
Accounts Payable	$ 3,496	$ 3,575
Accrued Payroll and Benefits	5,293	4,654
Accrued Postemployment Compensation	—	78
Customer Deposit Accounts	3,504	3,218
Total Intragovernmental	12,293	11,525
Accounts Payable	64,177	55,210
Accrued Payroll and Benefits	38,485	39,018
Customer Deposit Accounts	53,955	51,929
Deferred Revenue	10,720	267,301
Capital Lease Liability	—	2,761
Total Liabilities Covered by Resources	179,630	427,744
Liabilities Not Covered by Resources		
Intragovernmental:		
Accrued Postemployment Compensation	970	880
Total Intragovernmental	970	880
Accrued Payroll and Benefits	6,576	—
Accrued Leave	30,414	25,280
Deferred Revenue	364,268	71,479
Actuarial Liability	5,526	4,581
Capital Lease Liability	3,032	3,032
Contingent Liabilities	3,590	—
Total Liabilities Not Covered by Resources	414,376	105,252
Total Liabilities	$ 594,006	$ 532,996

NOTE 5. DEFERRED REVENUE

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

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

As of September 30, 2000, deferred revenue consisted of the following:

(Dollars in Thousands)	Patents	Trademarks	Total
Unearned Fees	$ 259,848	$ 59,708	$ 319,556
Undeposited Checks	17,404	1,820	19,224
Total Deferred Revenue	$ 277,252	$ 61,528	$ 338,780

NOTE 6. ACTUARIAL LIABILITY

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

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

The DOL method of determining liability uses historical benefit payment patterns for a specific incurred period to predict the ultimate payments for that period. During FY 2000, the DOL updated the FECA liability projection to include claims incurred but not reported and extended the duration of the model. Also, during FY 2000, the DOL eliminated the use of mortality tables to reduce the life pension aspects of the model and make the FECA model more comparable to a private-sector casualty insurance model. Consistent with past practice, these projected annual benefit payments have been discounted to present value using the OMB's economic assumptions for 10-year Treasury notes and bonds. Interest rate assumptions utilized for discounting were as follows:

2001	2000
5.21% in year 1, 5.21% in year 2, and thereafter	6.15% in year 1, 6.28% in year 2, 6.30% in year 3, and thereafter

Based on information provided by the DOL, the DOC determined that the estimated liability of the USPTO as of September 30, 2001 and 2000 was $5,526 thousand and $4,581 thousand, respectively.

NOTE 7. LEASES

Capital Lease:

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

(Dollars in Thousands)	
Equipment	$ 12,473
Accumulated Depreciation	(6,230)
Total	$ 6,243

Under existing commitments as of September 30, 2001, the capital lease term extends through fiscal year 2002. Future minimum lease payments are as follows:

(Dollars in Thousands)	
FY 2002 Future Minimum Lease Payments	$ 3,120
Less: Imputed Interest	88
Net Capital Lease Liability	$ 3,032
Liabilities Covered by Budgetary Resources	$ —
Liabilities Not Covered by Budgetary Resources	3,032
Total	$ 3,032

Operating Leases:

The GSA negotiates long-term leases and levies rent charges, paid by the USPTO, approximate to commercial rental rates. These operating lease agreements negotiated by the GSA for the USPTO's office buildings expire at various dates between FY 2002 and FY 2023. During FYs 2001 and 2000 the USPTO paid $62,943 thousand and $61,013 thousand, respectively, to GSA for rent.

Under existing commitments as of September 30, 2001, the minimum lease payments through FY 2006, and thereafter, are as follows:

Fiscal Year	(Dollars in Thousands)
2002	$ 62,867
2003	62,771
2004	112,918
2005	73,947
2006	61,203
Thereafter	914,608
Total Future Minimum Lease Payments	$ 1,288,314

NOTE 8. IMPUTED FINANCING

The USPTO recognizes an imputed financing source and corresponding expense to represent its share of the cost to the federal government of providing pension and post-retirement health and life insurance benefits (Pension/ORB) to all eligible USPTO employees.

As of September 30, 2001 and 2000, the components of the imputed financing sources and corresponding expenses are as follows:

(Dollars in Thousands)	2001	2000
CSRS/FERS	$ 8,208	$ 7,511
FEHB	17,137	15,255
FEGLI	66	61
Total Pension/ORB	$ 25,411	$ 22,827

NOTE 9. PROGRAM COSTS

Program costs are accumulated by USPTO strategic goals and consist of both costs directly related to the individual business lines and overall support costs allocated to the business lines. Total program or operating costs for the years ended September 30, 2001 and 2000 by cost category are as follows:

(Dollars in Thousands)		2001		2000
	Direct	Allocated	Total	Total
Personnel Services and Benefits	$ 501,930	$ 41,217	$ 543,147	$ 490,122
Unfunded Personnel Services and Benefits	30,338	2,618	32,956	29,119
Travel and Transportation	1,428	3,282	4,710	3,474
Rent, Communications, and Utilities	63,417	13,565	76,982	71,390
Printing and Reproduction	55,480	1,333	56,813	53,638
Contractual Services	117,166	71,141	188,307	168,718
Training	4,317	2,118	6,435	5,851
Maintenance and Repairs	7,655	8,078	15,733	11,987
Supplies and Materials	8,347	1,171	9,518	6,711
Equipment not Capitalized	8,953	3,900	12,853	6,415
Insurance Claims and Indemnities	3,689	1	3,690	257
Imputed Interest	110	53	163	—
Depreciation, Amortization, or Loss on Asset Disposition	43,524	21,796	65,320	63,646
Total Program Costs	$ 846,354	$ 170,273	$ 1,016,627	$ 911,328

NOTE 10. PROGRAM COSTS BY CATEGORY AND RESPONSIBILITY SEGMENT

The program costs for the years ended September 30, 2001 and September 30, 2000 by cost category and business line are as follows:

(Dollars in Thousands)	2001			2000
	Patents	Trademarks	Total	Total
Direct Costs				
Personnel Services and Benefits	$ 431,901	$ 70,029	$ 501,930	$ 448,538
Unfunded Personnel Services and Benefits	26,088	4,250	30,338	26,251
Travel and Transportation	1,219	209	1,428	1,014
Rent, Communications, and Utilities	54,347	9,070	63,417	59,233
Printing and Reproduction	52,999	2,481	55,480	51,666
Contractual Services	103,564	13,602	117,166	103,975
Training	3,783	534	4,317	2,156
Maintenance and Repairs	6,142	1,513	7,655	4,739
Supplies and Materials	7,701	646	8,347	5,420
Equipment not Capitalized	7,995	958	8,953	3,299
Insurance Claims and Indemnities	3,689	—	3,689	254
Imputed Interest	96	14	110	—
Depreciation, Amortization, or Loss on Asset Disposition	38,567	4,957	43,524	51,972
Subtotal Direct Costs	738,091	108,263	846,354	758,517
Allocated Costs				
Automation	67,629	11,753	79,382	58,492
Resource Management	76,817	14,074	90,891	94,319
Subtotal Allocated Costs	144,446	25,827	170,273	152,811
Total Program Costs	$ 882,537	$ 134,090	$ 1,016,627	$ 911,328

NOTE 11. ADJUSTMENTS TO BUDGETARY RESOURCES

For the periods ended September 30, 2001 and 2000, the components of adjustments to budgetary resources are as follows:

(Dollars in Thousands)	2001	2000
Recoveries of Prior Year Obligations	$ 4,636	$ 14,005
Temporarily Not Available Pursuant to Public Law	(305,056)	(254,889)
Enacted Rescissions	—	(2,980)
Total Adjustments	$ (300,420)	$ (243,864)

NOTE 12. COMMITMENTS AND CONTINGENCIES

Commitments

In addition to the future lease commitments discussed in Note 7, the USPTO is obligated for the purchase of goods and services that had been ordered but not yet received. Total undelivered orders for all of the USPTO's activities were $224,535 thousand and $175,231 thousand as of September 30, 2001 and 2000, respectively. Of these amounts, $218,207 thousand and $170,695 thousand were unpaid.

Contingencies

The USPTO is a party to various routine administrative proceedings, legal actions, and claims brought by or against it, including threatened or pending litigation involving labor relations claims, some of which ultimately may result in settlements or decisions against the federal government. Management expects that as of September 30, 2001, it is reasonably possible that from $228 thousand to $668 thousand may be owed for awards or damages involving labor relations claims and $623 thousand may be owed for awards or damages involving other claims. In addition, $3,590 thousand was accrued for claims where an adverse outcome is probable. Although the ultimate disposition of any potential Judgment Fund proceedings cannot be determined, management expects that $590 thousand of the liability will be paid out of the Judgment Fund.