



UNITED STATES PATENT AND TRADEMARK OFFICE

UNDER SECRETARY OF COMMERCE FOR INTELLECTUAL PROPERTY AND
DIRECTOR OF THE UNITED STATES PATENT AND TRADEMARK OFFICE

JAN - 4 2010

The Honorable Barbara A. Mikulski
Chairwoman
Subcommittee on Commerce, Justice
Science, and Related Agencies
Committee on Appropriations
United States Senate
Washington, D.C. 20510

The Honorable Richard C. Shelby
Ranking Member
Subcommittee on Commerce, Justice,
Science, and Related Agencies
Committee on Appropriations
United States Senate
Washington, D.C. 20510

Dear Chairwoman Mikulski, Ranking Member Shelby, and Members of the Subcommittee:

As 2010 begins, I would like to extend my best wishes for the New Year to you, your family, and your staff. As part of the United States Patent and Trademark Office's (USPTO) efforts toward greater transparency and open dialogue with Congress, I would also like to take this opportunity to provide you with an update on our activities.

The USPTO's work in fostering innovation is a crucial driver of job creation, economic recovery, and prosperity. We are working hard to make the USPTO more efficient, and to reduce the unacceptably long pendency periods patent applicants face. To do so, we not only need the many improvements contained in pending patent reform legislation, but we also urgently need to address the current financial situation at the USPTO.

The USPTO continues to face an unpredictable financial situation. As a result of substantial declines in our revenues from user fee collections during FY 2009, we were forced to cut spending sharply. Notably, without swift and decisive action from Congress in late FY 2009, the USPTO would have been forced to take even more drastic measures. Our financial constraints have carried over into FY 2010, forcing us to continue operating on a bare-bones budget. For example, as outlined more fully below, we will be able to replace only a small percentage of the almost 500 examiners we expect to lose in FY 2010.

Despite our budgetary concerns, I am pleased to report that we have made significant strides in engendering a renewed sense of partnership with our external stakeholders and our employees. We are in the midst of fine-tuning our strategic plan to address our backlog and focus on high-quality, efficient examination, and look forward to receiving Congressional input in that process. And, of course, we will continue to support your efforts to advance crucial patent reform legislation toward passage into law.

Our new leadership team at the USPTO has also undertaken a broad array of efficiency initiatives to improve the speed and quality of patent processing. These initiatives, detailed in Enclosure 1, include a "first in a generation" reform of the patent examiner incentive system. We expect this new incentive system to create an environment where examiners efficiently review applications and work with practitioners to come to correct decisions more quickly.

We announced a new program to provide accelerated examination for green technology innovations, thereby reducing significantly the pendency of applications relevant to climate change mitigation. We also launched a program specifically designed for small and independent entities, enabling this important job creating segment of the innovation community to benefit from accelerated examination of one patent application in exchange for abandoning a second unexamined application.

We are actively engaging overseas patent offices and our user community to obtain substantial benefit from work done by other patent offices on applications filed both overseas and in the USPTO, an effort that can improve the USPTO's efficiency significantly.

In addition, after a complete halt in hiring for many months, the USPTO has just begun to implement a limited and targeted hiring initiative designed to attract experienced former patent examiners and other experienced IP professionals. These professionals, who will be productive from the outset and require little or no training, will be essential to helping us stem the mounting backlog of unprocessed applications.

These initiatives, which enjoy bipartisan Congressional support, rely on the agency's access to its fee collections. Because we are funded entirely from fee revenues, the reduction in user fee income that occurred in FY 2009 has forced us to continue making hard choices -- including hiring at significantly less than the attrition rate as mentioned above, limiting overtime, and postponing critical upgrades to our information technology systems. We are losing patent examiners at the rate of 30-40 per month and are largely unable to replace them because of fiscal constraints. As a result, the deployment of innovative goods and services to the marketplace is delayed, and the USPTO cannot perform its core missions.

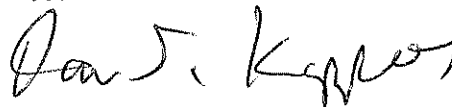
Fortunately, indications from the first two months of FY 2010 suggest that there may be some rebound in user fee collections. As Enclosure 2 details, if the rebound in fee collections continues, we expect to receive over \$100 million more in fees in FY 2010 than the estimate we gave to Congress in September 2009 (in response to your request in the report accompanying Public Law 111-8). This is encouraging news that would assist in funding USPTO operations and restoring program cuts from FY 2009.

However, Congress had already used the September 2009 estimate to designate USPTO spending levels for FY 2010. In addition, language allowing the USPTO to expend fees up to \$100 million above its designated spending level, which had been included in previous Commerce, Justice, Science appropriations bills in recent years, was removed for FY 2010. Thus, absent further Congressional action, the USPTO will not be able to benefit from the recent upswing in fee collections, and will not be able to expend this fee income to address its urgent fiscal needs.

As we have already begun to discuss with your staff, the USPTO envisions several potential short-term and long-term solutions that require Congressional action. These include: (1) ensuring appropriation amounts provide for full access to fees collected; (2) instituting a temporary surcharge to support operations; and (3) providing authority to adjust our fee structure. I look forward to meeting with you to discuss these proposals.

In closing, I would like to thank you for your continued support of the USPTO. I look forward to working closely with you and your staff in the weeks and months ahead.

Happy New Year and Best Wishes,



David J. Kappos
Under Secretary and Director

Enclosure 1 – USPTO Pendency, Backlog Reduction, and Quality Initiatives
Enclosure 2 – Revised FY 2010 Fee Collection Estimates

Enclosure 1

USPTO Pendency, Backlog Reduction, and Quality Initiatives

While patent reform legislation and USPTO funding move through Congress, the United States Patent and Trademark Office is working in parallel on the following initiatives that will help address its patent pendency, backlog, and quality issues:

21st Century Analysis, Measurement, and Tracking of Patent Quality: The USPTO is reengineering its quality management program from top to bottom to focus on improving the process for obtaining the best prior art, as well as improving the quality of the initial application and the entire examination and prosecution process. The USPTO is seeking public comment with respect to methods that may be employed by applicants and the USPTO to enhance the quality of issued patents, to identify appropriate indicia of quality, and to establish metrics for the measurement of the indicia. This is the first time that the public is being asked to comment on items that impact patent quality and to address patent process inefficiencies with the aim of simultaneously improving patent quality while reducing overall application pendency.

In addition, the USPTO is considering the monitoring of quality at each major step in the application, prosecution, and examination processes. The goal is to reduce duplication of work and increase examination efficiency and quality, and thereby reduce pendency.

Reformulate Performance Appraisal Plan (PAP) and Award Program for Supervisory Patent Examiners (SPE): The USPTO has established a task force with representation from all "technology centers" to craft a new SPE performance appraisal plan in alignment with the USPTO Strategic Plan that reflects our priorities: enhanced examination quality, reduced application pendency, and improved stakeholder responsiveness. The new SPE PAP provides increased recognition of key SPE activities in coaching and mentoring examiners while also recognizing the importance of contributions to agency-wide initiatives. In contrast with previous SPE PAPs, the new PAP reflects the varying roles and responsibilities of SPEs, and gives rating officials greater flexibility to provide fair and accurate assessments of SPE activities and accomplishments. An SPE Award program, consonant with the new PAP, is also being created by the task force to incentivize the achievement of SPE goals.

Increased International Worksharing, including through the Patent Prosecution Highway: Worksharing is an important tool for speeding the processing of applications filed in multiple jurisdictions by enabling patent offices to avail themselves of work done by other patent offices. Typically, applicants must file different applications for their inventions in each country in which they seek patent protection, leading to multiple searches and examinations in various countries. This process is inefficient, causing delays in processing, additional costs for applicants, and duplication of work in patent offices around the world. Through worksharing, an office can minimize redundancy by utilizing the work already done by another, thereby expediting the patent examination process.

The USPTO has implemented the Patent Prosecution Highway (PPH) with other major patent offices worldwide. In PPH, after an office of first filing determines that an application is patentable, the applicant may request that the second office fast-track examination in its corresponding application. In the more than two thousand PPH applications processed at the USPTO to date, the number of office actions is halved, the grant rate doubled, and the pendency period is reduced by between 8 and 18 months. The USPTO is now working cooperatively with the other offices and users to dramatically increase the usage of the PPH in order to maximize its benefits.

Further, the USPTO, in conjunction with the user community, is planning the implementation of a concept known as SHARE (Strategic Handling of Applications for Rapid Examination). SHARE enables the prioritization of examination work at the office of first filing (first filings are taken up first), so that the office of second filing has a much greater likelihood of finding available search and examination results when it takes the corresponding case up for action.

Revision to Patent Examiner Production System (Count System): The USPTO and its patent professional employee union have agreed to a new production crediting system that places its emphasis on complete and thorough initial examination, decreases redundancy, and encourages quicker resolution of issues in the patent application process. This fundamental design is aimed at improving quality and reducing rework, thereby resulting in a decrease in the application backlog and pendency over the long term.

Prioritizing Patent Applications—Application Acceleration Pilot for Small Entities (Project Exchange): Project Exchange, an application acceleration pilot initiative initially open only to small entities, empowers qualifying applicants having two or more pending patent applications to accelerate the review status for one of the applications by abandoning a second unexamined application. This initiative, which gives applicants greater control over the processing speed of their applications, helps the USPTO prioritize its workload while reducing the backlog of unexamined patent applications.

Prioritizing Patent Applications—Green Technology: The USPTO is providing accelerated examination of inventions involving green technology, thereby promoting innovation in green technologies and aggressively addressing the pendency of applications critical to climate change mitigation.

Training of Examiners: The USPTO is giving all of its patent examiners detailed training in efficient interview techniques, compact prosecution and negotiations -- all targeted to streamline the examination process by working with applicants to identify and resolve issues early in the process, thereby reducing patent application backlog and pendency.

PCT Processing: The Patent Cooperation Treaty (PCT) enables U.S. applicants to file a single international application in a standardized format, which is then received by PCT contracting foreign states. The USPTO is working to raise its PCT processing techniques to world-class levels to aid U.S. technology owners to obtain early and fair intellectual property protection internationally.

Transparency of Bulk Patent Data: The USPTO is working to release all patent and published patent application data. This will enable applicants and the entire innovation community to better understand trends in USPTO application handling, and to help the USPTO spot issues quickly and improve processing efficiency.

Transparency of USPTO Materials: The USPTO is promoting transparency by increasing the availability of its public information and by providing patent examiner training materials on the Web, for reference by the innovation community. The USPTO has launched a public “Directors Forum” blog, especially designed to improve the exchange of information between the USPTO and the public, and is establishing dedicated “Feedback Channels” to solicit public input on important initiatives like the count system changes, the application exchange pilot for small entities, and the Green Tech pilot. It is also in the process of launching an on-line “dashboard” that will provide a snapshot of key pendency metrics, thereby making pendency more transparent to the general public. Additionally, speeches by USPTO officials are being published on the Internet, and USPTO officials have dramatically increased their public speaking frequency.

Investing in IT Infrastructure: The USPTO is upgrading its Trademark IT infrastructure to improve the stability, availability, and performance of the systems that support trademark examination and the public. As part of this effort, the USPTO will re-architect its Trademark systems to provide scalable, redundant, and virtually hosted systems based on current technologies. This will make the trademark process more efficient and more transparent, and reduce trademark portfolio costs for the innovation community.

Re-engineering the Classification System: To improve quality and pendency and reduce costs, the USPTO is reviewing its patent classification system -- which is at the base of enabling effective assignment of applications for examination, and critical to enabling examiners to effectively locate prior art relevant to determining patentability -- and learning from and building upon best practices of our partners in foreign IP offices in order to provide its examiners with the best prior art available. This initiative will improve pendency and patent quality and reduce cost by putting the best prior art in the hands of examiners efficiently, and by partnering with our international counterparts to leverage resources.

Ombudsman Program: In late October, the USPTO announced a pilot patent ombudsman program and requested comments from its stakeholders. The pilot program is intended to provide patent applicants, attorneys and agents assistance with application-specific issues including concerns related to prosecution advancement. The aim of the program is to resolve issues quickly, and thereby to decrease pendency.

Training of Supervisors: In addition to the required supervisor training certificate program, patent managers and supervisors will be participating in a leadership development program. This program is designed to help managers and supervisors hone their mentoring and coaching skills so they can help patent examiners reach their full potential.

Stakeholder Survey: The USPTO is reaffirming its commitment to transparency and higher quality patents. Starting in January 2010, the USPTO will be expanding its patent quality survey to better measure the quality of services provided by the patent examining staff. This survey will

give applicants an opportunity to provide feedback on the patent process on a semi-annual basis. The survey design ensures each data-collection period covers a representative sample of patent filers, and that survey findings can be extrapolated to the applicant population as a whole. The survey provides a valuable complement to other quality initiatives, such as enhancing interview practice. The survey results, along with customer outreach efforts and other initiatives, will enable the USPTO to improve service quality based on the input collected through the survey process.

Enclosure 2

Revised FY 2010 Fee Collection Estimates

The United States Patent and Trademark Office (USPTO) is a fee-funded agency, and as such relies on fluctuating future income streams from user fee collections to fund current operations, including the examination and processing of patent and trademark applications. This enclosure provides you with our current, revised fee collection estimates for the fiscal year (FY) 2010.

Fee collection estimates submitted for FY 2010 (as requested in the report accompanying Public Law 111-8) as of September 2009 were \$1,887.0 million. We are pleased to report that we are now revising FY 2010 fee collection estimates to \$2,003.0 million. The \$116.0 million increase over the September estimate is attributable to higher actual collections in FY 2010 to date, as well as higher projections of demand for USPTO products and services going forward, principally patent renewals (maintenance of existing patents in force), and increased efficiencies in the patent examination process. The USPTO bases these revisions on current demand and discussions with our stakeholders about expected trends. However, given the sensitivity of demand for USPTO products and services, a strong economic recovery could lead to even higher fee collections during this fiscal year.

Unfortunately, the \$100.0 million "buffer" that would have enabled the USPTO to utilize fee revenues (up to that amount) in excess of the September 2009 estimate of 1,887.0 million was removed from the Omnibus Spending Bill. The ability to collect and use fees in excess of the projected estimate is critical in order for the agency to fulfill its strategic priorities, and we look forward to working with the Congress and your staff to address our current budget shortfall in the coming weeks.

If you, or your staff, have any questions, please contact the USPTO's Chief Financial Officer, Barry K. Hudson, at (571) 272-9200.