

U.S. DEPARTMENT OF COMMERCE
Office of Inspector General



**PUBLIC
RELEASE**

PATENT AND TRADEMARK OFFICE

***Board of Patent Appeals and Interferences:
High Inventory and Inadequate Monitoring
Threaten Effectiveness of Appeal Process***

Audit Report No. BTB-10628-8-0001 / September 1998

Office of Audits, Business and Trade Audits Division



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EXECUTIVE SUMMARY

The Office of Inspector General conducted a performance audit of the Board of Patent Appeals and Interferences of the Patent and Trademark Office. The board hears and decides appeals from adverse decisions of patent examiners concerning applications for patents, conducts interference proceedings, and makes final determinations concerning questions of priority of invention and patentability. The board also hears and decides questions regarding property rights in inventions in the atomic energy and space fields. The administrative patent judges (APJs) on the board may affirm or reverse the decision of the examiner in whole or in part, or remand the application for further examiner consideration. The board's decisions are subject to judicial review. The board is led by a Chief Administrative Patent Judge, who reports to PTO's Deputy Commissioner. At the end of FY 1997, there were 43 (41 full time) APJs and 40 support personnel at the board.

Productivity and staffing problems have caused a high inventory. At the end of FY 1997, the number of pending appeals totaled 9,201, an increase of 1,837 over the end of FY 1996. In the past five years the number of pending appeal and interference cases at the Board of Patent Appeals and Interferences has grown by more than 350 percent, from 2,668 to 9,649, an average increase of almost 1,400 cases per year. We concluded that despite its recent initiatives to combat the growing inventory, PTO waited too long to take action. As a result, appeal and interference pendency has increased, the effectiveness of the appeal process is threatened, and infringement on patents may occur during the delay.

We identified several productivity and staffing issues that contribute to the board's high and increasing caseload: (1) APJs are not maximizing their production capability; (2) the quality of appealed decisions appears to be declining; (3) case review policies are adversely affecting board productivity; (4) PTO and the board are not adequately planning resource needs to meet the workload; and (5) APJs are not accurately accounting for time spent on non-processing activities.

PTO needs to take a number of actions, including (1) developing a strategy to reduce the inventory to a manageable level of one-half year's production (currently approximately 2,000 cases) within five years; (2) clarifying case review policies; (3) vigorously pursuing the planned hiring of additional APJs; and (4) developing a professional track for examiners to become judges. Our complete recommendations are on page 13.

Board should improve its case monitoring. We concluded that the board is not adequately tracking and assigning cases or maintaining a reliable filing and retrieval system. As a result, the board is compromising its ability to effectively and efficiently manage its workload. The board needs to (1) process all cases on a first-in, first-out basis and develop a rationale for assigning new ones, (2) conduct an annual physical inventory of case files, and (3) give highest priority to active cases and archive inactive cases. These and other factors also led us to conclude that the board

should select a Chief Administrator to better manage the board's workload. Our complete recommendations are on pages 24 and 25.

In its reply to our draft audit report, PTO agreed to, or has initiated action consistent with, 12 of the 17 recommendations in the draft report. PTO disagreed with two of the five remaining recommendations, asserted that it would not benefit from implementing two other recommendations, and requested a modification to another recommendation. PTO has begun to address many of these issues through the creation of the Board of Patent Appeals and Interferences Strategic Plan, which outlines several strategies to reduce the high inventory and eliminate other risks that threaten the effectiveness of the appeal process.

According to PTO, the board is reducing the inventory during FY 1998, and APJ productivity is at its highest level since 1993. PTO noted management measures that should reduce the inventory, including (1) using incentives to reward and encourage high productivity, while rating those APJs demonstrating poor quality and productivity at an appropriate level, (2) a proactive approach to improving the quality of the examiner's product reaching the board, (3) an aggressive plan for hiring new APJs, and (4) accurate accounting of time devoted by APJs to PTO projects. PTO stated that it has already begun to improve its case monitoring by (1) developing a new assignment and docketing system, (2) acquiring new file storage space, (3) conducting semi-annual case inventories, and (4) considering the addition of a program analyst or chief administrator to assist the Chief Judge.

PTO's desire to improve the management, performance, and quality of the appeals process is evident. We are encouraged by the significant increase in productivity in FY 1998, the board's new Strategic Plan, and the swiftness with which older cases have been assigned and processed.

We have modified two of our recommendations to reflect information provided by PTO in its response. We also deleted one recommendation based on information provided by PTO since the draft audit report. However, some of the actions that PTO plans will not, in our opinion, resolve all of the problems cited in our draft report. For instance, the Strategic Plan does not propose to reduce the inventory to one-half year's production within five years. Moreover, the board has been unable to implement many of its own initiatives in the past; the board must have PTO management's support to successfully execute its current plan. We have therefore reiterated 14 of our recommendations without change.

We have addressed PTO's response to each set of findings and recommendations in detail, beginning on pages 14 and 25. We have also attached PTO's complete response to the draft report, including the Strategic Plan.

INTRODUCTION

The Office of Inspector General has completed its performance audit of PTO's Board of Patent Appeals and Interferences. The board hears and decides appeals from adverse decisions of patent examiners concerning applications for patents, conducts interference proceedings, and makes final determinations concerning questions of priority of invention and patentability.

Performance audits are objective and systematic examinations of evidence to independently assess an organization, program, activity, or function, and to provide information to improve accountability and facilitate decision making by parties with responsibility to oversee or initiate corrective action. By identifying systemic strengths and weaknesses, the OIG will help the Department's managers implement more efficient and effective operations to better serve the Department's customers.

PURPOSE AND SCOPE OF AUDIT

The purpose of our audit was to (1) evaluate the effectiveness and efficiency with which the board has managed its caseload, (2) review the status of PTO's efforts to address the inventory of cases, and (3) determine what the board should do in the long run to reduce the inventory. We:

- reviewed relevant portions of 35 U.S.C. §7, Part 37 of the Code of Federal Regulations, and the board's standard operating procedures;
- analyzed workload statistics, historical production data, and staffing levels;
- reviewed how the board receives, records, assigns, and monitors cases;
- examined numerous internal memorandums; and
- observed the board's facilities for storing case files.

We also:

- interviewed 9 of the 43 administrative patent judges (APJs), including the Chief Judge and the Vice Chief Judge;
- interviewed other key board personnel, including three of the four resource administrators and the Chief Clerk;
- interviewed PTO officials, including the Acting Deputy Commissioner; the Assistant Commissioner for Patents; the Director, Office of Patent Quality Review; and the Director, Group 1800 of the examining corps;
- obtained the views of outside attorneys and representatives from the American Intellectual Property Law Association and Intellectual Property Organization; and
- contacted chief administrative law judges and administrative personnel at several agencies with quasi-judicial functions.

To achieve the audit objectives, we relied upon certain computer-generated data provided by the board in support of its workload. We did not evaluate internal controls over this data; however, we performed sufficient tests to satisfy ourselves that the data was reliable. Between April and June 1997, board personnel conducted a physical inventory of case files and subsequently updated previously published workload statistics. We reviewed the board's inventory methodology and related documentation to obtain reasonable assurances that the data was reliable. Nothing came to our attention to contradict the conclusions of the inventory.

We conducted tests of the board's compliance with applicable laws and regulations, including 35 U.S.C. §7, and 37 C.F.R. §§1.191-1.198, which authorize its proceedings. We concluded that the board acted in accordance with these laws and regulations.

We conducted our fieldwork from December 1997 through April 1998 at PTO's headquarters in Crystal City, Virginia. Our review was conducted in accordance with generally accepted government auditing standards and was performed under the authority of the Inspector General Act of 1978, as amended, and Department Organization Order 10-13, dated May 22, 1980.

BACKGROUND

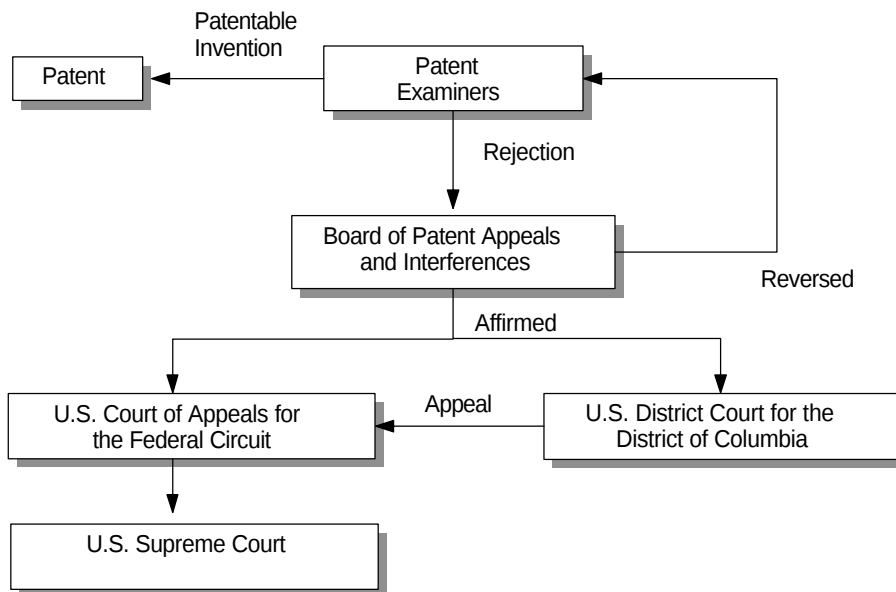
Title 35 of the United States Code grants the Board of Patent Appeals and Interferences the authority to hear and decide appeals from adverse decisions of patent examiners concerning applications for patents, conducts interference proceedings, and make final determinations concerning questions of priority of invention and patentability. The board also hears and decides questions regarding property rights in inventions in the atomic energy and space fields. Under 37 C.F.R. §1.196(a), the board may affirm or reverse the decision of the examiner in whole or in part or remand the application to the examiner for further consideration. The board's decisions are subject to judicial review. Dissatisfied parties may bring a civil action in U.S. District Court or appeal to the U.S. Court of Appeals for the Federal Circuit. The flowchart below outlines the appeals process (see Figure 1 on page 3).

The board hears two types of cases:

- In **“ex parte” appeal** cases, a panel of APJs affirms or reverses the examiner's rejections of patent applications (decisions known as affirmations, affirmations-in-part, or reversals). It may return to the patent examiners cases that are not ready for appeal proceedings (decisions known as remands). Appeals may be withdrawn or abandoned by the appellant before the board's decision.
- In **“inter parte” interference** cases, APJs determine any question of patentability and priority of invention between two or more parties claiming the same patentable invention. An interference may be declared between two or more pending applications when the

applications, or any application and any unexpired patent, contain claims for the same patentable invention.

Figure 1: Overview of the Patent Appellate Review Process¹



In FY 1997, the board received 4,639 appeals and disposed of 2,132. At the end of FY 1997, the number of pending appeals totaled 9,201, an increase of 1,837 over the end of FY 1996. The board declared 287 new interference cases and terminated 115 such cases, resulting in a total of 448 pending interference cases at the end of FY 1997. At any time, the board has about 400 interference proceedings in various stages of prosecution.

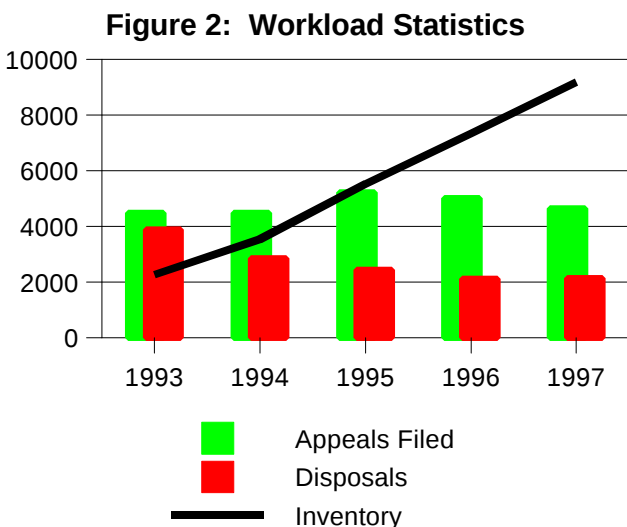
The board is led by a Chief Administrative Patent Judge, who reports to PTO's Deputy Commissioner. At the end of FY 1997, there were 43 (41 full time) APJs and 40 support personnel at the board. Non-APJ positions include resource administrators, paralegal specialists, legal technicians, and office clerks. The resource administrators perform a variety of functions, including communicating with the public and patent examiners, keeping computers running, tracking cases, producing statistics, and generating routine procedural orders. The remaining support staff work primarily on preparing cases for decision. The board's FY 1998 operating budget is \$9.57 million.

¹ Source: Chief Administrative Patent Judge of the Board of Patent Appeals and Interferences. Chart includes only final actions, not remands for further consideration.

FINDINGS AND RECOMMENDATIONS

I. PRODUCTIVITY AND STAFFING PROBLEMS HAVE CAUSED HIGH AND INCREASING INVENTORY

In the past five years, the number of pending appeal and interference cases at PTO's Board of Patent Appeals and Interferences has grown by more than 3½ times, from 2,668 in FY 1993 to 9,649 in FY 1997, an average increase of almost 1,400 cases per year (see Figure 2). At the end of FY 1997, the inventory, the board's largest in at least 15 years, consisted of 9,201 appeal and 448 interference cases. Average appeal pendency increased from 20.7 months in FY 1997 to 23.1 months through the first quarter of FY 1998. Interference pendency increased from 23.5 months in FY 1996 to 31.3 months in FY 1997. Despite recent initiatives to reduce the growing inventory, PTO has waited too long to take action, threatening the quality of the appeal process.



The board's annual production has fallen sharply since 1993. The annual number of disposals has declined by 45 percent, dropping by an average of 592 per year from 1993 to 1996, before increasing slightly in 1997. PTO reduced the number of APJs in 1994, but the number of APJs has remained relatively constant since then. But disposals per APJ have declined by over 18 percent since 1993 (see Table 1, page 5).

Yet even if the board had maintained the same level of production as it had in 1993, it would not have eliminated the inventory. At the 1993 level of productivity, total disposals

would have increased during this period by 6,035. However, filings would have still exceeded disposals by 4,360 cases, an average of 872 per year. If board production remains constant and incoming filings for appeals and interferences had ceased at the end of FY 1997, the board would need almost 2½ years to eliminate the inventory.

Moreover, PTO plans to hire 1,050 patent examiners by the end of FY 1999, which we believe will eventually increase the inventory unless PTO takes immediate action. To illustrate, the addition of 500 examiners represents an approximate 23-percent increase in the size of the examiner corps. Assuming a corresponding increase in patent production takes place the following year, we estimate that the board would receive 6,552 appeals, an increase of 1,716 over the average number of filings during the past five years. Clearly, PTO must take immediate and strong measures to address the current inventory before the wave of new examiners adds to it.

Table 1: Disposals Per Administrative Patent Judge (Appeals Only)

	1993	1994	1995	1996	1997	% Change Since 1993
Appeals Filed	4,487	4,481	5,225	4,998	4,639	up 3.4%
Disposals	3,894	2,844	2,444	2,119	2,132	down 45%
Appeal APJs	42	32	33	36	35	down 16.7%
Disposals per APJ	93	89	74	59	61	down 18.3%

^a Does not include remands. The board began recording remands in FY1994.

We identified the following productivity, quality, and staffing issues that contribute to the inventory: (1) APJs are not maximizing their annual production; (2) the quality of examiner decisions is declining; (3) board review policies are hurting board productivity; (4) PTO and the board are not adequately planning resource needs to meet the workload; and (5) APJs are engaging in non-processing activities, but are not accounting for the time devoted to those activities.

A. Administrative Patent Judges Are Not Maximizing Their Annual Production

Board production increased significantly during the last quarter of each of the past three fiscal years. During the last quarter of FY 1997, for example, the board produced 1,221 disposals (including remands), or 43 percent of total production. Similarly, in FY 1996 and FY 1995, the board's level of production during the last quarter represented 32 and 30 percent of those years' total production, respectively. According to the Chief Judge, production during the final quarter of the fiscal year is traditionally higher than during other quarters throughout PTO, including at the board, because it is the last chance for APJs to improve production statistics. He also stated that the surge in FY 1997 was due in large part to an office-wide campaign to increase production.

Production goals for the fully successful level of production are the same today as they were three years ago. But the quantity of production required for the commendable and outstanding performance levels has been lowered. For instance, while an APJ processing mechanical cases previously had to author 140 decisions to obtain an outstanding rating, today the APJ must author only 120. The previous Chief Judge reduced the goals because he believed that the quality of, and confidence in, the board decisions were declining. He also wanted to take into account the assistance given by the APJs to other PTO units.

The Chief Judge added that production goals were lowered because board officials sought to emphasize the importance of generating high quality decisions at the board, improving morale, and developing cohesiveness among the judges while maintaining production. Since the goals were reduced, two key indicators that measure quality, the number of board reconsiderations² and the number of board decisions reversed by the courts, have steadily declined, indicating that quality has improved. For example, the board processed 319 reconsiderations in FY 1993 but only 68 in FY 1997. The U.S. Court of Appeals reversed 13 board decisions in FY 1994 and 5 in FY 1997.

Past production data indicates that the board has exceeded current production levels and can reduce the inventory. The board was last confronted with a workload crisis comparable to the current inventory in FY 1986. At the end of that year, the board had a total inventory of 8,539 appeals and interferences. It took the board five years, while producing an average of 5,234 disposals per year, to reduce the inventory to a manageable level of 1,914 cases by the end of FY 1991 (about one-half of one year's total disposals).

We agree that board quality is an important consideration in setting production levels. But the board did not have data clearly indicating whether board quality suffered during the reduction in inventory between 1986 and 1991, and we think the board can pursue both simultaneously.

Moreover, the board does not have a Strategic Plan, including specific goals, for reducing the inventory and maintaining quality. The Government Performance and Results Act of 1993 specifies that an agency's annual performance goals should define an objective and measurable target level of performance for each program activity. PTO is developing and implementing a performance measurement system applicable to its three major business and executive areas. But it should establish performance goals that specifically define the results it expects the board to achieve and performance measures that determine whether the board attains high levels of both production and quality. To focus efforts on reducing the inventory, PTO should consider instituting incentives to meet higher production goals than those currently in place.

B. Board Members Note Decline in Quality of Appealed Patent Decisions

A key factor affecting production is the quality of patent application rejections that are appealed to the board. Board personnel told us that the quality of the cases they are reviewing is declining. They cited the lack of accountability of patent examiners for cases that are appealed and the examiners' declining experience base as contributing factors.

² 37 CFR §1.197 states that after a decision by the board, a single request for reconsideration or modification of the decision may be made by the appellant. The request shall state with particularity the points believed to have been misapprehended or overlooked in rendering the decision and also state the grounds upon which reconsideration is sought.

Board personnel whom we interviewed stated that cases they receive from the examining corps often contain administrative errors, inadequate support for the examiner's final rejection, and other unanswered questions or omitted information about the patent's claims that should have been addressed. As a result, APJs are spending time searching prior art (technical literature including prior-issued patents and foreign patents, related documents, and non-patent literature such as journal articles and abstracts), a task which is normally an examiner responsibility. Board workload data supports their assertions. Reversals of examiner decisions and remands for additional examiner review combined for 41 percent of the board's total disposals in FY 1994, but 54 percent in FY 1997. Furthermore, rejections due to the examiner having overlooked prior art have averaged 12 percent of the board's decisions over the same period. In effect, overall production is cut because APJs are spending more time processing appeals in order to make these determinations.

APJs also stated that the gain-sharing system, used to determine examiner compensation based on a variety of production goals and incentives, does not hold examiners accountable for rejections that are appealed. They told us that examiners have an incentive to reject difficult cases requiring more time to research because they receive credit for processing the application regardless of whether they approve or reject it. One senior patent official confirmed the board's assertions that the system has a built-in bias toward rejections.

A review of the gain-sharing system and the quality of the examining process was beyond the scope of our audit, but these assertions indicate a problem beyond the board's jurisdiction. Board officials should meet with senior patent officials to discuss ways to improve the process. In the past, after an appeal brief was filed by the appellant, the primary examiner was required to conduct an appeal conference with the appellant in order to review the case more closely and determine whether it was ready for a decision by the board. PTO management eventually eliminated the one hour per week given to examiners to hold the conferences because of concerns over lost production. Today, one examining group is again using appeal conferences to reopen the examination of several hundred cases that were sent to the board. Board officials and PTO management generally support the idea of appeal conferences and should review the merits of reinstating them, especially for the chemical discipline, the area generating the majority of appeals (an inventory of 5,285 cases as of the end of FY 1997).

C. Review Policies Followed by Board Are Hurting Productivity

Based on documentation we reviewed and interviews with board members, we found that APJs spend excessive time disposing of interference cases due to its policy of hearing "inequitable conduct" issues. Application of this policy has reduced the board's overall productivity.

PTO decided in 1991 to consider whether parties in interference cases had engaged in "inequitable conduct" by failing to meet the duty of full disclosure required under patent regulations. Under

the regulations, applicants and patentees must disclose all information material to patentability, and patents will not be granted in the event of fraud or intentional misconduct.³ As a result of the 1991 decision, APJs must schedule evidentiary hearings to consider such issues and assess the demeanor of the parties. We did not attempt to quantify the impact that this practice has on interferences. However, according to board personnel, evidentiary hearings can delay interference proceedings by months or even years.

The board has not always considered whether parties to interference cases had engaged in inequitable conduct through fraud or misconduct. In the last 10 years, PTO has changed its policy twice with respect to this issue. In October 1988, PTO announced it would no longer consider duty of disclosure issues in interference cases due to the time and expense involved:

“It is the courts and not the Office that are in the best position to fashion an equitable remedy to fit the precise facts in those cases where inequitable conduct is established. Inequitable conduct is not set by statute as a criteria for patentability but rather is a judicial application of the doctrine of unclean hands which is appropriate to be handled by the courts rather than by an administrative body. Office determinations significantly add to the expense and time involved in obtaining a patent with little or no benefit to the patent owner or any other parties with an interest.”

But in October 1991, PTO reversed that policy and again considered fraud and inequitable conduct issues in interferences. In a November 1997 memo to the Commissioner to address board productivity, the Chief Judge included a proposal to eliminate consideration of inequitable conduct issues because “the PTO is not equipped to deal with inequitable conduct issues in a fair and effective manner.” The board has not taken any action to change this policy, in part because it would encounter some resistance from outside organizations. But the Chief Judge maintains that this is a costly practice for the board and PTO. In FY 1997, interference cases accounted for only 5 percent of the inventory, but the board dedicated almost 25 percent of its judges to process them.

D. PTO Has Not Adequately Planned for Resources to Handle Board Workload

We concluded that PTO and the board have not adequately planned for the board’s future workload. The delayed recruitment of APJs, potential retirements, and underestimates of the inventory have left the board in a precarious position. PTO must engage in better strategic planning for using the board’s resources if the inventory is to be reduced to a manageable level.

³ 37 CFR §1.56 sets forth criteria governing an applicant’s duty to disclose information material to patentability: “...no patent will be granted on an application in connection with which fraud on the Office was practiced or attempted or the duty of disclosure was violated through bad faith or intentional misconduct.”

Delays in recruiting judges have resulted in lost production

Fourteen APJ positions have been vacant for more than a year and will take at least another year to fill. As a result, we estimate that by the end of FY 1998, the board will have lost 28 staff-years of production, equivalent to approximately two-thirds of one full year of production by the board, or 2,400 cases.

In FY 1996, the board's authorized level of permanent APJ positions was increased from 43 to 57 in order to prevent any further increase in the inventory of pending appeals. Notwithstanding the 8 previously vacant APJ positions filled during 1996, the board sought but was not permitted to hire 14 additional APJs. According to board officials, they were not permitted to hire in part because the new APJs would likely come from the examining corps, and PTO management did not want to lose examiners to the board.

In November 1997, after the board continued to seek approval to hire, the Commissioner instructed the board to fill all 57 APJ positions. In February 1998, the Department approved PTO's plans to fill these positions. But board officials informed us that because the processing needed to fill APJ positions takes about a year, they were not confident that any of the 14 vacant positions would be filled until the end of 1998. They also informed us that the board can absorb about eight new APJs at a time. If they are correct (we did not review their assertions), we anticipate that hiring of the APJs will continue into 1999, resulting in continued lost production.

One possible way to help reduce the inventory would be to reinstate a past practice of using temporary judges or detailees. Under 35 U.S.C. §7(c), "Whenever the Commissioner considers it necessary, in order to keep current the work of the [board], the Commissioner may designate any patent examiner of the primary examiner grade or higher, having the requisite ability, to serve as [an APJ] for periods not exceeding six months each." For many years, the examining corps regularly detailed examiners to the board. According to the Chief Judge, the longer they stayed, the more productive they became. As a result of pressures on the examining corps to issue more patents, the use of detailees was drastically reduced and ended in FY 1997.

Retirements impede board continuity and production

A wave of retirements over the past four years, as well as potential retirements, continue to impede board continuity and production. A total of 21 APJs have retired over the past four years: 13 in 1994, 3 in 1995, 3 in 1996, 1 in 1997, and 1 in 1998. As of January 9, 1998, there were 43 full-time permanent APJs. Of these, 8 are eligible for immediate retirement. The board also employs two part-time APJs as retired annuitants, and they can leave immediately. We also noted that the board could be impacted should PTO offer early retirement provisions, an option not under consideration at this time. Of the remaining 37 APJs, 21 would be eligible under those provisions, unless PTO excludes the board from participation.

As a result, not only is the board's experience based on APJs who are eligible to retire, but incumbent APJs' are now shouldering responsibility for training new APJs. The situation facing the board as a result of the potential departure of many experienced APJs and the arrival of numerous inexperienced APJs was summarized in a 1996 memo from the Chief Judge to the Chairman of PTO's Performance Review Board:

“Five of the APJs employed by the board at the end of FY 1996 were not employed at the board during any part of FY 1995 and three more were not employed at the board during any part of FY 1994. Two more APJs began board service in August 1994 and eight others began in May 1994. Thus, eighteen of the 45 permanent APJs at the board at the end of FY 1996 were not at the board in March 1994.”

The Chief Judge has also asked appeal APJs to work on interference cases so they can become familiar with ongoing cases before incumbent interference APJs retire. The sudden departure of the 10 full- and part-time APJs eligible to retire would disrupt board operations and further reduce production, because each year a typical appeals judge authors decisions for 75 to 100 cases and participates in another 200 to 300 cases as a panel member. Because it takes one year for a new APJ to become fully productive, the board could not immediately compensate for the loss of such production.

Turnover due to retirements has been a problem in the past and will continue to be a problem in the future. Being a judge requires years of experience in patent law, so APJs tend to be older than the average worker, and the need to strategically plan for their inevitable retirements is imperative. The planned hiring of 14 APJs will help in the long run, but it will be necessary to stagger their arrival if, as we were told, the board can absorb only eight new hires at a time without seriously disrupting operations. PTO should also consider hiring additional APJs (above the 14 planned hires) in anticipation of the retirements.

Underestimates of inventory have contributed to staffing dilemma

We compared PTO's budget submissions for the past five years to historical production data and found that the board had consistently underestimated its future workload. While the board underestimated filings by an average of only 190 cases per year, it overestimated disposals by an average of 1,706 cases per year. In reality, the board's declining productivity caused previous estimates to be very inaccurate. The following table compares budget projections with the actual inventory.

Table 2: Projected Vs. Actual Inventory (From Budget Submissions)

	1993	1994	1995	1996	1997
Projected Inventory	2,242	2,918	3,168	5,308	6,607
Actual Inventory	2,688	3,925	5,867	7,640	9,649

The board must do a better job of estimating its inventory so that PTO, the Department, the Office of Management and Budget, and the Congress have a better appreciation of the problem.

Board lacks a career development program for potential APJs

PTO does not have a formal career development track for aspiring APJs, other than experience obtained as a patent examiner. According to the Chief Judge, few examiners possess the necessary qualifications to become an APJ (a J.D. and a B.S. in chemistry, biology, physics, or some form of engineering). In 1996, board officials contemplated adopting an approach similar to the federal courts' "chambers" program. Under the proposed program, the board would have created several senior patent legal and technical advisors who would serve as law clerks to judges; this would have helped the advisors to become familiar with cases and drafting opinions. The board planned to hire eight assistants from within PTO. In their opinion, the program represents the most straightforward approach to maximizing the output of individual judges, while minimizing the increase in the number of judges.

But one year after conceiving the program, the board was given the authority to hire only two assistants. PTO-wide limitations on adding positions, as well as PTO management's reluctance to detail examiners to the board, essentially nullified the program. The Chief Judge decided that with only two positions, the success or failure of the program could not be determined and postponed it indefinitely. Board officials estimated that the cancellation cost the board 400 additional decisions in 1997 (based on eight planned assistants).

Because of this, the board was deprived of an excellent opportunity not only to increase productivity, but also to consider the merit of these positions as a means of identifying, training, and evaluating potential APJs. Given the number of judges eligible to retire, PTO management should reconsider the benefits of the "chambers" program, and should also establish a long-term program for developing future APJs from the examiner ranks and eligible attorneys outside PTO.

E. Administrative Patent Judges Are Performing Non-Processing Activities Without Accounting for Their Time

Despite the existence of separate timekeeping codes for work-related activities other than processing appeals and interferences, APJs are not accurately accounting for time spent on such

activities. As a result, the board cannot determine how much time the APJs spent on activities in support of PTO's mission, activities board officials have cited in the past when defending the board's production. If APJs do not accurately record their time, board management in turn does not have accurate information to measure production and evaluate their performance.

We reviewed summary timekeeping reports for FY 1996 and FY 1997, which included separate codes for processing appeals, declaring and processing interferences, determining patentability, and working on special projects and studies. The reports showed that board members charged a total of 2,801 hours in FY 1996 and 18 hours in FY 1997 to special projects/studies. We could not quantify those hours not recorded by board members. But based on our discussions with board officials and review of documentation describing other outside projects of APJs, we concluded that the hours reported in FY 1997 were not accurate.

Board officials could not explain the discrepancy, but agreed that 18 hours significantly understated the time they thought APJs actually spent on non-processing activities in FY 1997. As pressures mount on the board to be more productive while continuing to make its resources available to assist other PTO units on outside projects, it should accurately document and record time spent on these activities.

**F. Remedial Actions Should Help Reduce Inventory,
But Will Not Have Major Impact**

To its credit, the board has implemented emergency measures to try to close the growing gap between incoming cases and disposals. For example, in 1997 the Chief Judge initiated a campaign to increase production. Interference judges now spend a percentage of their time processing appeals, a change that we estimate should result in approximately 500 additional disposals in FY 1998. Policies concerning summary affirmances and reversals were modified to expedite cases. Board officials informed us that with the Commissioner's approval, they have now placed a renewed emphasis on productivity.

Other organizational units have also taken steps to help reduce the inventory. The examining corps is reviewing selected cases at the board that may eventually be returned to the corps. The Office of Patent Quality Review is proposing to review cases before they are sent to the board. In addition, Associate Solicitors from the Office of the Solicitor help APJs prepare appeal decisions.

However, we believe that these measures will not appreciably reduce the inventory. Across the patent business environment, production efficiency has not kept pace with filing increases. We recognize that there are factors beyond the board's control that have inhibited its productivity, but it must find effective ways to reduce the inventory. Part of the inventory problem stems from issues involving other PTO staff, including poorly researched decisions made prematurely, board recruitment efforts delayed because of concerns about their impact on the patent corps'

production, and APJs spending time assisting other PTO units. Any solution to the problem will require PTO top management to recognize how its policies related to the patent corps contribute to the problem.

G. Recommendations

We recommend that the Deputy Commissioner of Patents and Trademarks:

1. Develop a strategic plan to reduce the inventory of cases to the equivalent of one-half year's production (approximately 2,000 cases at the end of FY 1998) within five years. The plan should establish annual performance goals that specifically define the results PTO expects the board to achieve and performance measures that determine whether the board attains high levels of both production and quality.
2. Assess the merits of instituting incentives for APJs to meet higher production goals than those currently in place.
3. Meet with senior patent officials to consider ways to improve the appeal process, including the merits of reinstating appeal conferences and developing additional quality measures.
4. Review whether the board is obligated and adequately staffed to handle inequitable conduct issues in interference cases.
5. Hire new APJs up to the board's authorized level as quickly as possible, but attempt to stagger their arrivals in order to minimize the training workload on incumbent APJs. Consider hiring additional APJs in anticipation of retirements.
6. In consultation with senior patent officials, consider using temporary judges or detailees until the board is fully staffed and the inventory has been reduced to a manageable level.
7. In the future, make projections of inventory based on actual historical data and current levels of production.
8. In consultation with senior patent officials, implement a long-term development program for eligible patent examiners and outside attorneys interested in becoming APJs.
9. Instruct APJs to accurately account for the time they spend on work not related to processing appeals and interferences.

PTO's Response to Draft Report and OIG Analysis

In its reply to our draft report, PTO agreed to, or has taken action consistent with, seven of our recommendations, disagreed with two other recommendations, and asked that we modify another. PTO's desire to improve the management, performance, and quality of the appeals process is evident. We are encouraged by the board's increased productivity in FY 1998 and the new Board of Patent Appeals and Interferences Strategic Plan, which outlines strategies to reduce the inventory and eliminate other risks that threaten the effectiveness of the appeal process.

A summary of general comments made by PTO under each major finding heading (and OIG comments) is followed by a summary of PTO's position on each recommendation as stated in the draft report (and OIG comments). A copy of PTO's complete response is attached.

PTO General Comments:

1. PTO stated that excluding remands from our analysis does not present a completely accurate picture of the board's output. Specifically, the OIG's inclusion of only disposals neglects significant numbers of appeals that are remanded, dismissed, or withdrawn, all of which require a certain amount of analysis and effort on the part of the board. The board remanded 532 appeals during FY 1997. In addition, 138 appeals were dismissed or withdrawn.

PTO stated that projections for the remainder of FY 1998 indicate that productivity per full-time APJ is expected to be very nearly as high as productivity per APJ in FY 1993. PTO said that, in some instances, we used erroneous numbers for the number of "appeal" APJs and failed to take into account the not infrequent crossover between appeal and interference work. PTO included a "Board Activity" table that combines the statistics of all APJs to show the number of proceedings in which APJs were required to reach a decision or determination during the year. The table shows there were 103 proceedings per APJ in FY 1993 and 102 proceedings per APJ projected for FY 1998.

2. PTO stated that use of the term "maximizing" in the finding heading, "Administrative Patent Judges Are Not Maximizing Their Annual Production," suggests an emphasis on quantity of production to the detriment of quality of the work produced, and suggested that the term "optimizing" be used.

3. PTO also provided additional information to explain the board's rating systems from FY 1995 to FY 1997. PTO acknowledged that the *de facto* pass/fail system used during this period resulted in a number of APJs not being challenged to produce at high levels of productivity and undercut the value of lowering the numerical level required for commendable and outstanding performance ratings. PTO stated those problems have been remedied in FY 1998 by a return to the five-level performance plan and a corresponding rate of production not seen since FY 1993.

PTO said this demonstrates that the board is every bit as capable today of performing as well as it did in FY 1993.

4. PTO stated it would be more accurate for the finding heading, "Board Members Note Decline in Quality of Appealed Patent Decisions," to instead indicate that board members have noted a decline in the quality of the examination or a decline in the quality of examination as represented in the Examiner's Answers reaching the board.

5. PTO stated that the finding heading, "Board Review Policies Are Hurting Productivity," is misleading to the extent that it suggests that the identified "policies" are those of the board. PTO asserted that the "policies" are the products of actions taken by former Commissioners, whether by rulemaking or by Official Gazette notice.

6. PTO responded that one of our principal conclusions, that PTO and the board have not adequately planned for resources to handle the board's workload, is not wholly correct. PTO asserted that we did not take into account restrictions regarding the number of FTE employees imposed on PTO, which necessitated hard decisions as to the allocation of FTEs within the PTO. PTO said that FTE restrictions appear to have played a significant role in the decision not to satisfy the board's requests to fill 14 vacant positions with either APJs or other patent professionals. That decision deprived the board and the public of nearly a full year of production by the board, or about 3,000 to 4,000 decisions.

OIG Comments:

1. We reviewed production statistics provided by the board for the first 11 months of FY 1998 and agree with PTO that the board has increased its production to a level comparable to FY 1993.

Our analysis of APJ productivity was limited to disposals for one reason: remands require a certain amount of analysis and effort by the board, but not always by an APJ. We were informed by the Chief Clerk that many cases are remanded before they are assigned to an APJ. Because board production statistics do not differentiate between substantive and non-substantive remands, we were reluctant to attribute all of them to APJs. Our report already discusses the importance of remands and impact they have on board production (see page 6).

We did not include interference proceedings in our analysis of APJ productivity because they account for a very small percentage of the board's overall inventory (4.6% in FY 1997). We estimated the number of appeal APJs based on data provided to us by the board. Those estimates were also based, in part, on the assumption that there were approximately 11 interference APJs during each of those years (we should point out that productivity projections set forth in the board's Strategic Plan are based on the premise it will have 11 interference APJs). We also

believe that our numbers depict fairly the significant turnover of APJs from FY 1994 to FY 1996 (see page 10). Because interferences account for such a small percentage of the board's overall inventory, combining appeals and interferences and dividing by the total number of APJs camouflages the declining productivity of appeal APJs during that time.

2. The word "maximize" is appropriate in the context of increased disposals in the last quarter of fiscal years, the lowering of production goals, and comparisons to historical production data. It is not intended to diminish the importance of quality in board decisions.

3. We agree that it appears the board's decision to return to a five-level rating system has resulted in increased productivity in FY 1998. We revised the report in all instances to reflect that APJs have goals, not quotas.

4. We consider the finding heading already reflects that we are referring to the quality of those examiners' decisions appealed to the board.

5. We acknowledge that the finding heading implies the relevant policies originated at the board and have revised it to read: "Review Policies Followed by Board Are Hurting Productivity."

6. Our report acknowledges the continuous efforts by the board to hire additional APJs. Although we did not assess PTO-wide FTE allocation decisions during this time, we are indirectly questioning decisions made that were detrimental to the board during several critical years when the inventory was escalating.

Our estimate of lost production from the 14 vacant positions is lower than PTO's. We did not count an additional year of their potential production due to the year-long period needed to hire them. Given the inexactness of the hiring process, the actual lost production probably falls somewhere between these estimates.

Recommendation #1:

Develop a strategic plan to reduce the inventory of cases to 2,000 within five years. The plan should establish annual performance goals that specifically define the results PTO expects the board to achieve and performance measures that determine whether the board attains high levels of both production and quality.

PTO Response: PTO agreed it must take immediate and strong measures to address the current inventory and stated it has already begun to do so through the creation of the Board of Patent Appeals and Interferences Strategic Plan. The plan includes several strategies to reduce the

number and increase the quality of appeals and interferences reaching the board as well as increase board output. It will be further refined and developed as time goes on.

OIG Comments: We concur with PTO's response and consider the Strategic Plan as an initial positive response to our recommendation. PTO should include the latest version in its audit action plan.

The improvement in productivity only slightly reduces the inventory during this fiscal year, and the Strategic Plan does not propose to reduce it to a more manageable level. PTO projects that the board will process a total of 6,386 appeals during FY 2003, leaving an inventory of 3,973 appeals. Given the projected increases in the number of appeal APJs, and assuming the board can retain them, the plan's projections are reasonable, but point towards additional measures, including possibly hiring APJs beyond those projected in the plan. We have revised our original recommendation to propose a reduction to an amount equal to one-half of one year's production by the board (currently approximately 2,000 cases).

Recommendation #2:

Consider increasing APJ production goals to ensure that production goals are achieved.

PTO Response: PTO does not consider it appropriate to increase APJ goals because it would signal to the APJs that PTO is more concerned with quantity than quality of production. The board intends to focus its efforts on what it describes as "reality based performance appraisals." Under this approach, APJs achieving high quality performance and productivity will be rewarded and encouraged while those APJs demonstrating poor quality performance and productivity will be appropriately rated. APJs will be encouraged to increase their annual production through use of the incentive award system. PTO states that the use of a *de facto* pass/fail system over the FY 1995 - FY 1997 period, during which no APJ was rated higher than fully successful, appears to have resulted in a number of APJs not being challenged to produce at high levels of productivity. PTO stated that goals that are achievable, awards that encourage high productivity and quality, and willingness by management to reward and hold employees accountable, are more likely to produce the desired outcomes than an increase in the goals.

OIG Comments: We concur with PTO's response that incentives to meet realistic goals are more likely to raise APJ production than just an increase in the goals. We have therefore amended our recommendation to encourage incentives to meet higher production goals. As we state in the report, such goals are required by GPRA.

Recommendation #3:

Meet with senior patent officials to consider ways to improve the appeal process, including the merits of reinstating appeal conferences and developing additional quality measures.

PTO Response: PTO agreed with our recommendation. PTO responded that the Chief Judge and other APJs have already begun meeting with senior patent officials to discuss problem areas and consider ways to improve the appeal process. There is an ongoing effort to encourage the practice of holding appeal conferences within the patent examining operation. PTO stated that the practice is spreading with positive results.

PTO also stated that, in an effort to educate the examining corps and its management about board practices, a seminar series for managers and a lunchtime educational series for examiners are being developed and implemented. The initial management seminar sessions have been held with positive results.

OIG Comments: We concur with PTO's response to our recommendation.

Recommendation #4:

Review the applicability of 37 C.F.R. §1.196(b) rejections on new grounds and determine whether more definitive guidelines should be developed for its application.

PTO Response: PTO disagreed that more definitive guidelines concerning the use of rejections under 37 C.F.R. §1.196(b) are required. The APJs are high-level agency employees who are required to interpret statutes and rules on a daily basis. PTO stated that although more direct guidance to APJs concerning discretionary functions could improve board productivity, following that course risks compromising the quality of PTO's product. The Chief Judge continues to be reluctant to issue guidelines constraining the judgment and discretion entrusted to APJs. However, PTO believes that the reemphasis on production coupled with a willingness to remand appeals that are not ready for efficient consideration (rather than assuming the duties of the examiner) has begun to provide an alternative solution to this problem without unduly impacting APJ discretion.

OIG Comments: PTO's response is responsive to our recommendation. Our recommendation did not state that PTO should issue guidelines, but that further review was warranted due to the drop in production. It was based on a perceived lack of understanding among board members and inconsistent application of the rule. After further discussion with board officials, we are satisfied that, at this time, the board is applying this rule in a manner that is consistent with the goal of maximizing production. Therefore, we are deleting the recommendation. However, the board

should review the applicability of this rule during FY 1999 if the APJs do not maintain the recent increase in production.

Recommendation #5:

Review whether the board is obligated and adequately staffed to handle inequitable conduct issues in interference cases.

PTO Response: PTO stated that based on case law limiting board discretion to bypass patentability issues in interferences (which are essentially and historically priority contests), it is conceivable that its court of review might not permit the board to avoid consideration of inequitable conduct issues in an interference even if the Commissioner decided to rescind the current policy.

OIG Comments: PTO did not adequately address our recommendation. We are unclear as to what corrective actions, if any, PTO plans to pursue regarding this issue.

Recommendation #6

Hire new APJs up to the board's authorized level as quickly as possible, but stagger their arrivals in order to minimize the training workload on incumbent APJs. Consider hiring additional APJs in anticipation of retirements.

PTO Response: PTO agreed with our recommendation, but requested that staggering the arrival of APJs be viewed as an essential, but not mandatory, requirement. The board is on the verge of filling vacant positions and expects to have 17 new APJs (a net increase of 13) early in FY 1999. Based on the individuals involved, the board may be able to rapidly assimilate these new hires. Board officials recognize that there will be some disruption to experienced APJs. According to its Strategic Plan, the board also plans to hire 11 APJs and 5 APJs by the end of FY 1999 and FY 2000, respectively.

PTO also stated that board officials have proposed to immediately begin advertising for additional APJ candidates in the chemical and biotechnology disciplines, using an advertisement kept open in an effort to create a flow of candidates.

OIG Comments: We concur with PTO's response to our recommendation and have revised the recommendation accordingly.

Recommendation #7:

In consultation with senior patent officials, consider using temporary judges or detailees until the board is fully staffed and the inventory has been reduced to a manageable level.

PTO Response: PTO agreed with our recommendation. The board is moving to address these matters through development and implementation of its Strategic Plan. Specifically, the board will seek creative ways in which opinions may be effectively prepared by exploring (1) employment of contract “ghostwriters” such as retired APJs, (2) assignment of opinions to be authored to qualified Supervisory Patent Examiners and Quality Assurance Specialists, (3) expanded use of solicitor’s staff as “ghostwriters”, and (4) use of examiners in work assignments at the board.

OIG Response: We concur with PTO’s response to our recommendation and expect senior PTO management to support the board in implementing it.

Recommendation #8:

In the future, make projections of inventory based on actual historical data and current levels of production.

PTO Response: PTO agreed with our recommendation. But PTO added that the board has not traditionally forecast the number of appeals to be received each year or its own output. Engaging in such forecasts, except as an extrapolation of earlier years’ results and providing generalized guesses regarding trends based on changes in the law, would be outside the board’s normal area of expertise.

OIG Comments: We concur with PTO’s response. The purpose of this recommendation was to ensure that various organizational units that monitor the board’s workload and assist in preparing budgets will more closely examine the board’s inventory and productivity in the future. We note that the Strategic Plan attached to the response forecasts the number of appeals received and the projected production for the next five years, as required by GPRA. We expect that the Strategic Plan will be the basis for resource allocations over that period.

Recommendation #9:

In consultation with senior patent officials, implement a long-term development program for eligible patent examiners and outside attorneys interested in becoming APJs.

PTO Response: PTO agreed with our recommendation. In its Strategic Plan, the board states it will explore creation of a career track at the board for legal/technical advisors.

OIG Comments: We concur with PTO's response to our recommendation and expect senior PTO management to support the board in implementing it. PTO should include more details of the planned career track in its action plan.

Recommendation #10:

Instruct APJs to accurately account for the time they spend on work not related to processing appeals and interferences.

PTO Response: PTO agreed with our recommendation. PTO stated that APJ productivity goals are not typically affected by "other time." Unless truly significant amounts of time are involved in a special project, or lost to illness, etc., APJs are expected to make their production goals as stated in the performance plan, irrespective of leave time use, etc. As a result, accounting for time apart from leave has received minimal attention.

PTO stated that it is evident the board must do a significantly better job of accounting for time spent on other than decisional duties if the true cost of assisting other PTO organizations is to be recognized. Accordingly, steps have been taken in FY 1998 and will be renewed in the coming years to emphasize the need to carefully account for all time.

OIG Comments: We concur with PTO's response to our recommendation. PTO should address in its action plan what steps are being taken to ensure APJs are carefully accounting for their time.

II. BOARD DOES NOT ADEQUATELY MONITOR CASES AND NEEDS AN ADMINISTRATIVE MANAGER

During our audit, we identified several issues concerning the board's monitoring of cases that warrant management's attention. Specifically, the board is not adequately tracking and assigning cases or maintaining a reliable filing and retrieval system. As a result, the board is not managing its workload efficiently and effectively.

These and other factors discussed earlier in our report led us to conclude that the board should select a Chief Administrator to better manage the board's workload. The Chief and Vice Chief, who attempt to balance their responsibilities between being judges and office managers, spend about 50 percent of their time on administrative matters. We believe that adding a Chief Administrator would enable them to focus more on the board's primary mission--processing appeals and declaring and terminating interferences.

A. Board Is Not Adequately Tracking and Assigning Cases

According to the board's appeal case tracking system, as of March 31, 1998, the board had yet to assign 8,555 appeals to the APJs, including cases received as far back as 1991. We reviewed a printout of the board's unassigned docket, as well as APJ docket reports, and concluded that the board was processing hundreds of cases with more recent appeal numbers ahead of many older cases. For example, 205 cases received in 1997 and 1998 were assigned, while 229 cases received before or during 1994 were still unassigned (see Table 3). As a result, the older cases have incurred unnecessary delays before formal proceedings begin. Based on these findings, we have concerns about the board's ability to manage its caseload.

Table 3: Assigned and Unassigned Appeals, FY 1991 to FY 1998

	1991	1992	1993	1994	1995	1996	1997	1998 ^a	Total
Unassigned Cases	1	3	38	187	975	2,316	3,659	1,376	8,555
Assigned Cases	0	0	28	320	465	354	203	2	1,372
Total	1	3	66	507	1,440	2,670	3,862	1,378	9,927

^aFY 1998 totals as of March 31, 1998.

The statutory provisions governing appeals do not set forth time periods the board must follow, and this has likely contributed to the high number of unassigned cases. The board also lacks a policy to ensure that appeals are assigned within a certain time period. According to board officials, the board's policy is to generally process cases in the order in which they were received

and docketed at the board. The resource administrators track and assign cases to the APJs and are supposed to assign older cases first. These administrators offered several reasons why older cases had not been assigned, including (1) cases were overlooked and not assigned; (2) erroneous data by board personnel made cases difficult to locate; (3) cases were misplaced; and (4) cases were remanded back to the patent corps, where the file was forgotten or the corps did not inform the board of case resolution, and hence, the record was not closed out. These explanations themselves raise serious concerns as to whether the board is adequately monitoring case files.

Monthly production reports prepared by the resource administrators do not include data on unassigned cases so neither the Chief Judge nor Vice Chief were aware that the older cases existed. They agreed that they should have been assigned. They informed us that they were reviewing the status of the older cases and would begin immediately assigning those found to be in the board's possession. The board should implement a policy to ensure that all cases it receives are assigned to an APJ within specific time periods to be determined for each discipline. Further, the board should conduct at least one physical inventory of case files annually.

As we ended our audit, PTO officials told us that the board is upgrading the appeal case tracking system to improve overall management of its inventory. In addition, the board plans to conduct inventories on a more frequent basis. We agree that increasing the number of inventories taken annually will help the board manage its inventory.

B. Case Files Are Overwhelming Board's Storage Capacity

The large volume of case files, especially interference files, currently stored by the board, are overwhelming its storage capacity. Although we did not conduct an inventory of the board's case files, we observed the board's storage areas and found them nearly filled to capacity. In addition, we noted files located in common areas and vacant offices. Interference cases usually generate boxes of files and require more space to store than appeal cases. For example, board personnel had one office completely occupied by files from a single case. Also, the board has been storing interference files for several years for some cases now being argued in court. Without adequate space and better organization of these files, the storage and retrieval of case files will continue to delay the processing of appeals and interferences.

Several interference judges criticized the current filing system because it makes locating files difficult. One APJ described the situation as a "disaster." The Chief Clerk stated that "retrieving cases should take 10 to 15 minutes, but it usually takes anywhere from a few hours to several days to find a file" because they are so spread out around the office. Board personnel are currently reorganizing the filing system by appeal number, which will also enable the paralegals, legal technicians, and clerks to locate files.

During our audit, the board was informed that it would be receiving additional space on the same floor it occupies now. The additional space should improve the board's storage capability and organization of case files. Once the space is available, the board should separate interference files from appeal files and attempt to dispose of those files it is no longer required to maintain.

C. Board Needs an Administrative Manager

The board lacks a professional manager who has primary responsibility for all non-judicial matters. Consequently, key aspects of the board's administrative support operations are not being managed effectively and efficiently. Not only is the board not adequately monitoring cases or maintaining a reliable filing system, but current operations are not satisfactorily streamlined to handle the anticipated increases in its workload.

Responsibility for carrying out administrative functions such as organizing case files, assigning cases, managing space, maintaining the database, and preparing budgets are scattered among the Chief Judge, Vice Chief, four resource administrators, and Chief Clerk. We expect the administrative support staff's responsibilities will increase as the board's workload increases. The board has an unprecedented and growing inventory of cases. The addition of 14 APJs will increase the size of the board to more than 90 FTEs in FY 1998. As a result, the corresponding increase in "cases in process" will place more pressure on support personnel. We also concluded that the board needs to conduct an annual inventory of its case files to ensure their integrity.

Selecting a Chief Administrator would enable the Chief Judge and Vice Chief, who say they spend about 50 percent of their time on administrative matters, to focus more on the board's mission. We proposed this idea to the Chief Judge and Vice Chief, who said that they have discussed it, but have not decided whether to create such a position. We are not stating that a new position needs to be created, but that an administrative manager is needed.

D. Recommendations

We recommend that the Deputy Commissioner of Patents and Trademarks:

1. Determine the status of the older cases and immediately assign them to APJs.
2. Establish a policy to ensure that all cases arriving at the board are assigned to an APJ within specific time periods for each discipline.
3. Provide quarterly status reports to the Commissioner on the inventory that include the status of unassigned cases and an assessment of the adequacy of current resources. Board monthly production reports should also include the status of unassigned cases.

4. Ensure that the status of unassigned cases is included in all monthly production reports.
5. Conduct at least one physical inventory of case files annually.
6. As case files are reorganized and relocated, give highest priority to active appeal and interference cases files, and archive inactive case files.
7. Select a Chief Administrator to oversee administrative functions at the board.

PTO's Response to Draft Report and OIG Analysis

In its reply to our draft report, PTO agreed to, or has taken action consistent with, five of our recommendations and asserted that it would not benefit from implementing two recommendations.

PTO General Comments:

1. PTO stated that in FY 1998 board management has been working to reengineer the way in which cases and APJ dockets are monitored. Since the time of the audit, the board has implemented a new system for filing, tracking and assigning appeal cases. According to PTO, the new system in place since February 1998 appears to be giving highly reliable and timely information.

PTO described several aspects of the new system. Appeal cases have been arranged and filed in appeal number order, replacing the former serial number filing order, to allow easier identification of the oldest appeals and permit adherence to "first in, first out" principles. A May 8-12, 1998 inventory of all pending appeal cases in APJs' offices formed the baseline for each individual APJ's new docket. When an appeal is assigned to an APJ's docket, the relevant information is sent to the Chief Judge by a paralegal specialist. The Chief Judge adds the information to the summary containing the individual APJ's docket. At the end of the month, decided cases are reported to the Chief Judge. The Chief Judge prepares a production report for each APJ and deletes from the APJ's docket all decided cases. Docket reports are sent to each APJ at the start of each month and production reports covering the preceding month are e-mailed to each APJ by the Chief Judge on the first day of each month.

This system allows the Chief Judge to make sure that the oldest appeal numbers are indeed being assigned to the APJs and that these are being decided on a continuing basis. PTO stated that it also allows the Chief Judge and Vice Chief Judge to keep a close watch on individual APJ production.

2. PTO stated that the board is working to resolve the storage capacity problem. Appeal case files are no longer being stored in vacant offices. With the acquisition of additional space on the 12th floor, the board has vacated the office space presently occupied on the 4th floor. This space will soon be reconfigured as a repository for the infrequently used interference files and evidence boxes. Installation of shelving is expected to occur in October 1998. These changes will permit the central files area to house, in an orderly and retrievable manner, the appeals cases waiting assignment and the active interference files. All changes are expected to be complete by December 31, 1998.

OIG Comments:

1. The board should be commended for taking steps to improve its case tracking system. Board officials informed us that they are assuming a more active role in monitoring the status of individual APJ dockets until the new system has proven to be effective and those responsibilities can be delegated accordingly. These steps should alleviate monitoring problems that prevailed under the old system. These efforts also negate the need for the board to take corrective actions with respect to two of our recommendations, as discussed below.

2. Near the conclusion of our audit, the board had begun to address the space problem. As we state in our report, the additional space should improve the board's storage capability and organization of case files. We consider the board's efforts responsive to our recommendations.

Recommendation #1:

Determine the status of the older cases and immediately assign them to APJs.

PTO Response: PTO responded that the status of older cases has already been determined and those cases have already been assigned to APJs for decision. PTO added that as a result of changes to its case monitoring system, it is expected that by the end of FY 1998, with few exceptions, there should be no appeals that arrived prior to FY 1995.

OIG Comments: Based on our review of additional documentation provided by the board, we concur with PTO's response to our recommendation. Board officials reported that as of September 23, 1998, all 229 unassigned cases which had arrived at the board prior to FY 1995 have been assigned to an APJ. In addition, of those cases only 28 were still pending.

Recommendation #2:

Establish a policy to ensure that all cases arriving at the board are assigned to an APJ within specific time periods for each discipline.

PTO Response: PTO stated that with the continued use of “first-in, first-out” principles, it is unnecessary to establish a separate policy of assigning appeals within a specific time period. Assigning cases for decision on that basis allows the oldest case in any discipline to be assigned to the next available APJ in that discipline, resulting in earlier decision.

OIG Comments: We do not concur with PTO’s response to our recommendation. Since the Strategic Plan projects a continuing high inventory (almost 4,000 cases five years from now), we recommend that the board institute such time limits as a means of assessing the board’s case management.

Recommendation #3:

Provide quarterly status reports to the Commissioner on the inventory that include the status of unassigned cases and an assessment of the adequacy of current resources. Board monthly production reports should also include the status of unassigned cases.

PTO Response: PTO agreed with our recommendation. PTO stated that the board will gladly provide reports to the Commissioner at whatever interval is desired concerning all relevant matters. PTO stated that the board presently provides monthly reports to the budget office and quarterly reports to the Commissioner concerning the input, output, and inventory of appeals and interferences.

OIG Comments: We concur with PTO’s response to our recommendation.

Recommendation #4:

Ensure that the status of unassigned cases is included in all monthly production reports.

PTO Response: PTO responded that as long as “first-in, first-out” principles are followed to assign cases, there is no benefit gained by including the status of unassigned cases in monthly production reports.

OIG Comments: We do not concur with PTO’s response. The use of “first-in, first-out” principles does not negate the need to report the status of unassigned cases in light of the continuing high inventory. Senior board management should be aware of trends in case management. We are therefore reiterating our recommendation.

Recommendation #5:

Conduct at least one physical inventory of case files annually.

PTO Response: PTO agreed with our recommendation to conduct an inventory semi-annually.

OIG Comments: We concur with PTO's response to our recommendation.

Recommendation #6:

As case files are reorganized and relocated, give highest priority to active appeal and interference cases files, and archive inactive case files.

PTO Response: PTO agreed with our recommendation. PTO stated that no later than December 31, 1998, the board will complete reorganizing its files to give highest priority to active appeal and interference files, while archiving inactive case files and infrequently used files.

OIG Comments: We concur with PTO's response to our recommendation.

Recommendation #7:

Select a Chief Administrator to oversee administrative functions at the board.

PTO Response: PTO stated that the advisability of adding a "chief administrator" to assist the Chief Judge is interesting and warrants investigation. An assistant such as a program analyst may permit the Chief Judge, aided by the Chief Clerk, to efficiently accomplish the same ends served by the selection of a chief administrator at lessor expense. During the first half of FY 1999, PTO will explore both the benefits and costs of (1) hiring a program analyst to assume the data collection aspects of the production and docketing system and (2) creating a chief administrator position.

OIG Comments: We concur with PTO's response to our recommendation. We continue to favor the selection of a chief administrator. While the addition of a program analyst may benefit PTO in some respects, we believe that the size of the board and its workload warrant the addition of an individual who possesses the authority to assume significant responsibilities on a daily basis. Our recommendation is also intended to reduce administrative responsibilities for the Chief Judge and Vice Chief Judge. PTO should document its progress to address this recommendation in its action plan.



UNITED STATES DEPARTMENT OF COMMERCE
Patent and Trademark Office
ASSISTANT SECRETARY AND COMMISSIONER
OF PATENTS AND TRADEMARKS
Washington, D.C. 20231

September 1, 1998

MEMORANDUM

TO: George E. Ross
Assistant Inspector General for Auditing

FROM: Office of the Comptroller

SUBJECT: Draft Audit Report: Board of Patent Appeals and Interferences (BDT-10628-8-XXXX)

Attached are the comments of the Patent and Trademark Office on the draft audit report, same subject, dated July 23, 1998.

We look forward to working with your staff on implementation of the recommendations of the report. If you have any questions, please contact me or my associate, John Webb, on (703) 308-5125.



James R. Lynch
Comptroller

Attachment

Cc: Mr. Dickinson
Mr. Stoner
Mr. Kazenske
Mr. Cochran

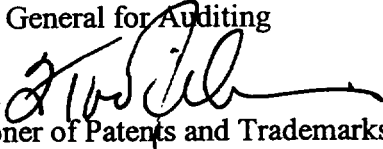


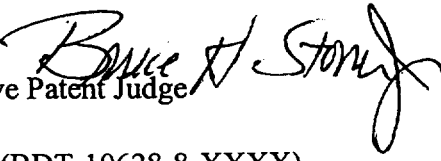
UNITED STATES DEPARTMENT OF COMMERCE
Patent and Trademark Office
ASSISTANT SECRETARY AND COMMISSIONER
OF PATENTS AND TRADEMARKS
Washington, D.C. 20231

September 1, 1998

MEMORANDUM

TO: George E. Ross
Assistant Inspector General for Auditing

FROM: Q. Todd Dickinson 
Deputy Commissioner of Patents and Trademarks

Bruce H. Stoner, Jr. 
Chief Administrative Patent Judge

SUBJECT: Draft Audit Report (BDT-10628-8-XXXX)

The following memorandum constitutes written comments on Draft Audit Report BTD-10628-8-XXXX) concerning the Board of Patent Appeals and Interferences (board).

We are grateful for the care and attention to detail that the draft audit report reflects. We think that you will be pleased to see in our responsive comments the positive manner in which many of your suggestions are already being addressed. We appreciate the spirit of cooperation evident in all our dealings with the representatives of your office, and hope that you have found us cooperative and forthcoming as well.

The format of this memorandum is as follows. Each section begins with an identification of that portion of the draft under consideration by page number and descriptive title. Thereafter, a passage from the draft report is reproduced in italicized single spaced paragraphs in a reduced-size typeface. Comments follow, in double-spaced numbered paragraphs. We hope that this will permit ready association of our comments with the portion of the draft under consideration.

No comments are provided concerning either the Table of Contents or the Executive Summary since these will be dependent upon the content of the final report. This memorandum includes a substitute "executive summary" which capsulizes the key points we believe should be drawn from the findings. Also included is a draft of the board's Strategic Plan, accompanied by productivity projections.

Comments in Response to Draft Audit Report BTD-10628-8-XXXX

Draft Report Page 1: "Introduction"

INTRODUCTION

The Office of Inspector General has completed its performance audit of PTO's Board of Patent Appeals and Interferences. The board hears and decides appeals from adverse decisions of patent examiners concerning applications for patents, conducts interference proceedings, and makes final determinations concerning questions of priority of invention and patentability.

Performance audits are objective and systematic examinations of evidence to independently assess an organization, program, activity, or function to provide information to improve accountability and facilitate decision making by parties with responsibility to oversee or initiate corrective action. By identifying systemic strengths and weaknesses, the OIG will help the Department's managers implement more efficient and effective operations to better serve the Department's customers.

COMMENTS:

1. No comments on this section are required.

Draft Report Pages 1-2, "Purpose and Scope of Audit"

PURPOSE AND SCOPE OF AUDIT

The purpose of our audit was to (1) evaluate the effectiveness and efficiency with which the board has managed its caseload, (2) review the status of PTO's efforts to address the inventory of cases, and determine what the board should do in the long run to reduce the inventory. We:

- *reviewed relevant portions of 35 U.S.C. §7, Part 37 of the Code of Federal Regulations, and the board's standard operating procedures;*
- *analyzed workload statistics, historical production data, and staffing levels;*
- *reviewed how the board receives, records, assigns, and monitors cases;*
- *examined numerous internal memorandums; and*
- *observed the board's facilities for storing case files.*

We also:

- *interviewed 9 of the 43 administrative patent judges (APJs), including the Chief Judge and the Vice Chief Judge;*
- *interviewed other key board personnel, including three of the four resource administrators and the Chief Clerk;*
- *interviewed PTO officials, including the Acting Deputy Commissioner; the Assistant Commissioner for Patents; the Director, Office of Patent Quality Review; and the Director, Group 1800 of the examining corps;*
- *obtained the views of outside attorneys and representatives from the American Intellectual Property Law Association and Intellectual Property Organization; and*
- *contacted chief administrative law judges and administrative personnel at several agencies with quasi-judicial functions.*

To achieve the audit objectives, we relied upon certain computer-generated data provided by the board in support of its workload. We did not evaluate internal controls over this data; however, we performed sufficient tests to satisfy ourselves that the data was reliable. Between April and June 1997, board personnel conducted a physical inventory of case files and subsequently updated previously published workload statistics. We reviewed the board's inventory methodology and related documentation to obtain reasonable assurances that the data was reliable. Nothing came to our attention to contradict the conclusions of the inventory.

We conducted tests of the board's compliance with applicable laws and regulations, including 35 U.S.C. §7, and 37 C.F.R. § § 191-98, which authorize its proceedings. We concluded that the board acted in accordance with these laws and regulations.

We conducted our fieldwork from December 1997 through April 1998 at PTO's headquarters in Crystal City, Virginia. Our review was conducted in accordance with generally accepted government auditing standards and was performed under the authority of the Inspector General Act of 1978, as amended, and Department Organization Order 10-13, dated May 22, 1980.

COMMENTS:

1. During the period of the audit, Assistant Commissioner for Patents Lawrence J. Goffney, Jr. was serving as the Acting Deputy Commissioner. During that period, one or more other individuals served as the Acting Assistant Commissioner for Patents. It is unclear from the reference in this section to both the Acting Deputy Commissioner and the Assistant Commissioner for Patents whether Mr. Goffney is being referred to in both instances or whether two different individuals are meant.
2. The references to 37 C.F.R. §§ 191-98 should read 37 C.F.R. §§ 1.191-1.198.

Draft Report Pages 2-3: "Background"

BACKGROUND

Title 35 of the United States Code grants the Board of Patent Appeals and Interferences the authority to hear and decide appeals from adverse decisions of patent examiners concerning applications for patents, conduct interference proceedings, and make final determinations concerning questions of priority of invention and patentability. The board also hears and decides questions regarding property rights in inventions in the atomic energy and space fields. Under 37 C.F.R. § 1.196(a), the board may affirm or reverse the decision of the examiner in whole or in part or remand the application to the examiner for further consideration. The board's decisions are subject to judicial review. Dissatisfied parties may bring a civil action in U.S. District Court or appeal to the U.S. Court of Appeals for the Federal Circuit. The flowchart below outlines the appeals process (see Figure 1 on page 3).

The board hears two types of cases:

- In "ex parte" appeal cases, a panel of APJs affirms or reverses the examiner's rejections of patent applications (decisions known as affirmations, affirmations-in-part, or reversals). It may return to the patent examiners cases that are not ready for appeal proceedings (decisions known as remands). Appeals may be withdrawn or abandoned by the appellant before the board's decision.
- In "inter parte" interference cases, APJs determine any question of patentability and priority of invention between two or more parties claiming the same patentable invention. An interference may be declared between two or more pending applications when the applications, or any application and any unexpired patent, contain claims for the same patentable invention.

[Figure 1 and associated footnote omitted]

In FY 1997, the board received 4,639 appeals and disposed of 2,132. At the end of FY 1997, the number of pending appeals totaled 9,201, an increase of 1,837 over the end of FY 1996. The board declared 287 new interference cases and terminated 115 such cases, resulting in a total of 448 pending interference cases at the end of FY 1997. At any time, the board has about 400 interference proceedings in various stages of prosecution.

The board is led by a Chief Administrative Patent Judge, who reports to PTO's Deputy Commissioner. At the end of FY 1997, there were 43 APJs and 40 support personnel at the board. Non-APJ positions include resource administrators, paralegal specialists, legal technicians, and office clerks. The resource administrators perform a variety of functions, including communicating with the public and patent examiners, keeping computers running, tracking cases, producing statistics, and generating routine procedural orders. The remaining support staff work primarily on preparing cases for decision. The board's FY 1998 operating budget is \$9.57 million.

COMMENTS:

1. "The Board of Patent Appeals and Interferences shall, on written appeal of an applicant, review adverse decisions of examiners upon applications for patents and shall determine priority and patentability of invention in interferences declared under section 135(a) of this title. Each appeal and interference shall be heard by at least three members of the Board of Patent Appeals and Interferences" 35 U.S.C. § 7(b). The statutorily required process mandates involvement of at least three board members, typically three administrative patent judges (APJs), in the decision of each appeal and interference. Accordingly, cooperation and coordination among at least three members of the board are required to produce a decision.
2. Throughout the draft report, the term "disposal," when applied to board *ex parte* productivity, is limited to describing decisions, which affirm, affirm-in-part, or reverse an examiner's final

rejection. This usage neglects significant numbers of appeals that are remanded, dismissed, or withdrawn. With particular regard to the number of cases remanded, a significant number of the remands (virtually all of those signed by a panel) are substantive in nature. In other words, panel remands are generated following analysis of the appeal by one or more members of the panel and discovery that the examiner has done less than a complete job, requiring that the appeal be remanded to the examiner for further consideration. In many instances, specific directions are given to the examiner and the appellant as to how to proceed. Not all remands are of this nature, but all remands require a certain amount of analysis and effort on the part of the board, whether by a panel of APJs or by an individual paralegal specialist and an administrator. In recent times, less than half of the appeals remanded return to the board for decision; fewer still return in the same condition they left the board. It is, therefore, less than completely accurate to overlook the significant number of remands when considering board productivity. At the least, the discussion of productivity should be amended to state that the board found it necessary to remand 532 appeals during FY 1997 to permit the examiner to attend to matters requiring resolution prior to decision. Additionally, 138 appeals were dismissed or withdrawn during FY 1997 for a variety of reasons. Many of these dismissals also required work on the part of the paralegal specialists and administrators, often in consultation with the Chief Judge, Vice Chief Judge, or another APJ concerning legal or procedural issues. By neglecting these 670 appeals, the statistics used in the draft report understate the board's FY 1997 output.

3. Regarding the first bullet in this section, a decision affirming is commonly known as an "affirmance" while one modifying the examiner's decision (agreeing with at least one

rejection) is known as an "affirmance-in part."

4. Although not inaccurate to state that there were 43 APJs at the board at the end of FY 1997 working on cases, it would be more accurate to observe that there were 41 full time APJs available to work on cases as of that date. The latter number (41) does not include either the Chief Judge, the present Vice Chief Judge, the former Vice Chief Judge who has since relinquished his management duties, or the two senior APJs who are part time employees. During the first quarter of FY 1998, an additional APJ left government service. With the return of the former Vice Chief Judge to decisional responsibilities, there are 41 full time APJs presently available to decide cases in FY 1998.
5. Throughout FY 1996 and FY 1997, the board was authorized to have 57 APJ positions. For a variety of reasons, a decision was made not to hire APJs or other patent professionals to fill those 57 positions.

Draft Report Page 4: "Findings and recommendations" (first and second paragraphs)

FINDINGS AND RECOMMENDATIONS

1. PRODUCTIVITY AND STAFFING PROBLEMS HAVE CAUSED HIGH AND INCREASING INVENTORY

In the past five years, the number of pending appeal and interference cases at PTO's Board of Patent Appeals and Interferences has grown by more than 3 1/2 times, from 2,668 in FY 1993 to 9,649 in FY 1997, an average increase of almost 1,400 cases per year (see Figure 2). At the end of FY 1997, the inventory, the board's largest in at least 15 years, consisted of 9,201 appeal and 448 interference cases. Average appeal pendency increased from 20.7 months in FY 1997 to 23.1 months through the first quarter of FY 1998. Interference pendency increased from 23.5 months in FY 1996 to 31.3 months in FY 1997. Despite recent initiatives to reduce the growing inventory, PTO has waited too long to take action, threatening the quality of the appeal process.

[Figure 2 and associated legend omitted]

The board's annual production has fallen sharply since 1993. The annual number of disposals has declined by 45 percent, dropping by an average of 592 per year from 1993 to 1996, before increasing slightly in 1997. PTO reduced the number of APJs in 1994, but the number of APJs has remained relatively constant since then. But disposals per APJ have declined by over 18 percent since 1993 (see Table 1, page 5).

COMMENTS:

- 1 . The receipts statistics used in the first paragraph of page 4 of the draft report are the sum of *ex parte* appeals and interference proceedings. Appeals and interferences are not fungible or equivalent items, making it somewhat deceptive to add 2,273 appeals in FY 1993 to 395 interference proceedings in the same year to arrive at 2,668 appeal and interference cases on hand. Nevertheless, there may be some insight to be gained concerning board activity by considering a statistics indicative of the total number of proceedings, as well as the number of proceedings per APJ, as will be discussed in comments 4, 5 and 6 below.
- 2 . At the present, the BPAI does not have average appeal pendency statistics for FY 1998, because the ACTS 2 system (which went on-line in February 1998) does not permit such a statistic to be readily calculated. The board does, however, have interference pendency statistics for the first nine months of FY 1998, which indicate that interference pendency currently stands at 19.3 months through the first three-quarters of FY 1998. If FY 1998 statistics are to be used to illustrate a point, it appears that the most recent statistics are more appropriate. We would be happy to provide up-to-date statistics as of the date of the final report, if you like.
- 3 . The flat statement that the PTO "has waited too long to take action, threatening the quality of the appeal process" suggests that it will not be possible for the appeal process to recover. We consider that an overstatement. Indeed, statistics through the first ten months of FY 1998, and projections for the remainder of FY 1998, indicate that productivity per full time APJ at the end of FY 1998 is expected to be very nearly as high as was productivity per APJ in 1993.

- 4 . The table included in comment 5 below entitled “Board Activity” is believed to present a more balanced appraisal of the work produced by the board than does Table 1 at page 5 of the draft report. Table 1 neglects remands, withdrawals and dismissals and uses, in some instances, what we consider to be erroneous numbers for the number of “appeal” APJs. Indeed, given the not infrequent crossover between *ex parte* and interference work, reference to the number of “appeals” APJs at any particular time is speculative.
- 5 . The “Board Activity” table sums the number of *ex parte* appeals disposed in a given year with the number of “balanced interferences” (one half the sum of the number of interferences declared and the number of interferences terminated in a year) to give a better indication of the number of proceedings in which APJs were required to reach a decision or determination during the year. The sum is divided by the total number of full time APJs at the board in order to produce the average number of proceedings per APJ for a given year. This combined statistic appears to give a better indication of those activities in which an APJ may be involved for decisional purposes and is directly related to the number of full time APJs available to do the work. (It neglects explicit consideration of decisions on motion, a time-consuming activity which contributes to reaching a termination but which is difficult to factor into this analysis. By inclusion of the “balanced interferences” statistic, however, the effect of neglecting those decisions on motion is ameliorated.)

Board Activity

	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998	7/1/97- 6/30/98
	actual	actual	actual	actual	Actual	projected	actual
Ex parte appeals disposed	4085	3213	3442	3167	2802	4000	4062
Balanced interference terminations (declarations plus terminations divided by 2)	247	245	177	122	201	200	228
Total proceedings	4332	3458	3619	3289	3003	4200	4290
Total full-time APJs	42	42	40	39	43	41	41
Proceedings/APJ	103	82	90	84	70	102	105

6. A consideration of this table not only indicates that the expected results for FY 1998 are comparable to those of FY 1993, but also shows ups and downs along the way. The significant drop between 1993 and 1994 is undoubtedly accounted for by the fact that in 1994, 13 experienced APJs retired and were eventually replaced by 13 new APJs. Until the end of FY 1995, relatively few attritions and hires occurred. At the end of FY 1995, there were several attritions, which impacted FY 1996 production, and in FY 1997, there were four attritions as well as eight new hires to be assimilated. Accordingly, there was a drop off from the level achieved in 1995. The results of FY 1998, as well as the 12-month period from 7/1/97 through 6/30/98, clearly demonstrate that the assimilation has successfully occurred and that the board is willing and able to produce.

Draft Report Page 4: "Findings and recommendations" (third and fourth paragraphs)

Yet even if the board had maintained the same level of production as it had in 1993, it would not have eliminated the inventory. At the 1993 level of productivity, total disposals would have increased during this period by 6,035. However, filings would have still exceeded disposals by 4,360 cases, an average of 872 per year. If board production remains constant and incoming filings for appeals and interferences had ceased at the end of FY 1997, the board would need almost 2 1/2 years to eliminate the inventory.

Moreover, PTO plans to hire 1,050 patent examiners by the end of FY 1999, which we believe will eventually increase the inventory unless PTO takes immediate action. To illustrate, the addition of 500 examiners represents an approximate 23-percent increase in the size of the examiner corps. Assuming a corresponding increase in patent production takes place the following year, we estimate that the board would receive 6,552 appeals, an increase of 1,716 over the average number of filings during the past five years. Clearly, PTO must take immediate and strong measures to address the current inventory before the wave of new examiners adds to it.

COMMENTS:

1. The draft report takes the position that even had the board maintained the same level of production as it had in 1993 it would not have eliminated the inventory. That position is undoubtedly correct. Receipts of *ex parte* appeals throughout the period have run well ahead of the board's capability to decide those appeals.
2. The draft report is clearly correct in asserting that the PTO must take immediate and strong measures to address the current inventory before the wave of new examiners adds to it. We believe that we have already begun to address this, through the creation of the Board of Patent Appeals and Interferences Strategic Plan, a copy of which is appended to this memorandum.
3. Although referring to the matter in a later section, the draft report neglects to note at this juncture that the decision not to fill the 14 vacant positions with either APJs or other patent professionals beginning in FY 1996 has, as of this writing, deprived the board and the public of about 42 APJ-years of output. At the current staffing level, that amounts to nearly a full board-year of production, or about 3000 to 4000 decisions. The approximately 9000 case inventory existing today would instead be in the vicinity of 5000 to 6000 cases had the APJ positions been filled. Although even that number of appeals is itself too high, it would have been more readily remedied than the current situation.

Draft Report Page 5: "Findings and recommendations" (fifth paragraph)

[Table 1 and description omitted]

We identified the following productivity, quality, and staffing issues that contribute to the inventory: (1) APJs are not maximizing their annual production; (2) the quality of examiner decisions is declining; (3) board review policies are hurting board productivity; (4) PTO and the board are not adequately planning resource needs to meet the workload; and (5) APJs are engaging in non-processing activities, but are not accounting for the time devoted to those activities.

COMMENTS:

1. This paragraph, although an accurate summary of the draft findings that follow, is not consistent with our understanding of the issues, as will be more apparent from the comments that follow.

Draft Report Page 5: "Findings and recommendations" (finding A, first paragraph)

A. Administrative Patent Judges Are Not Maximizing Their Annual Production

Board production increased significantly during the last quarter of each of the past three fiscal years. During the last quarter of FY 1997, for example, the board produced 1,221 disposals (including remands), or 43 percent of total production. Similarly, in FY 1996 and FY 1995, the board's level of production during the last quarter represented 32 and 30 percent of those years' total production, respectively. According to the Chief Judge, production during the final quarter of the fiscal year is traditionally higher than during other quarters throughout PTO, including at the board, because it is the last chance for APJs to improve production statistics. He also stated that the surge in FY 1997 was due in large part to an office-wide campaign to increase production.

COMMENTS:

1. The use of the term "maximizing" in the title suggests an emphasis on quantity of production to the detriment of quality of the work produced. It sends the wrong message to the APJs, the rest of the PTO and, worst of all, to the public. It is, within limits, possible to increase production without compromising quality. We suggest that the term "maximizing" be dropped. Perhaps it would be possible to speak in terms of "optimizing" production.
2. Board production, like that of the PTO in general, generally increases in the last quarter of

the fiscal year. The greater than usual surge in the final quarter of FY 1997 was in part due to efforts made by the Chief Judge to spur production.

Draft Report Pages 5-6: "Findings and recommendations"

(finding A, second and third paragraphs)

Production goals are lower today than they were three years ago. For instance, while an APJ processing mechanical cases previously had to author 140 decisions to obtain an outstanding rating, today the APJ must author only 120. The previous Chief Judge reduced the goals because he believed that the quality of, and confidence in, the board decisions were declining. He also wanted to take into account the assistance given by the APJs to other PTO units.

The Chief Judge added that production quotas were lowered because board officials sought to emphasize the importance of generating high quality decisions at the board, improving morale, and developing cohesiveness among the judges while maintaining production. Since the quotas were reduced, two key indicators that measure quality, the number of board reconsiderations [footnote citing 37 CFR 1.197 omitted] and the number of board decisions reversed by the courts, have steadily declined, indicating that quality has improved. For example, the board processed 319 reconsiderations in FY 1993 but only 68 in FY 1997. The U.S. Court of Appeals reversed 13 board decisions in FY 1994 and 5 in FY 1997.

COMMENTS:

1. The production goals for the fully successful level of production for APJs working on chemical, electrical and mechanical dockets are the same today as they were three years ago. Only the quantity of production required for the commendable and outstanding performance levels has been lowered. Over the FY 1995 – FY 1997 time period, there was a decreased emphasis on quantity in favor of high quality decisions.
2. The use of a *de facto* pass/fail system over the FY 1995 - FY 1997 period, during which no APJ was rated higher than fully successful, appears to have resulted in a number of APJs not being challenged to produce at high levels of productivity. The *de facto* pass/fail system also undercut the value of lowering the numerical level required for commendable and outstanding. Those problems have been remedied in Fiscal Year 1998 by a return to the five

level performance plan.

3. Through the first 10 months of FY 1998, the board is performing at a rate not experienced since 1993. The board is projected to render approximately 4000 *ex parte* decisions, declare approximately 200 interferences and terminate approximately 200 interferences. This demonstrates that the board is every bit as capable today of performing as well as it did in 1993. There is a continuing effort to balance quality and productivity, even while the subject matter of the applications reaching the board becomes more technologically complex.
4. Although it is true that an APJ working in a mechanical or chemical art today is able to receive an outstanding rating by authoring 120 instead of 140 decisions, as would have been required in 1993, this simply adjusts the “bar” in order to increase the incentive for an APJ to work to an outstanding level of production. If the bar is set too high, some APJs will decline to pursue the number, based on quality concerns, while others may conclude that quality is secondary and operate accordingly.
5. Throughout the time period under consideration, the expected level of production for an experienced APJ spending nearly all of his or her time deciding *ex parte* mechanical or chemical cases remained at 100 decisions. A lesser number, 82, is used for both biotech cases and electrical cases, due to the increased complexity of those cases, on average, vis-à-vis the average mechanical and chemical cases.
6. The numbers required to achieve the outstanding and commendable levels were adjusted to increase the likelihood that APJs would be challenged to achieve the outstanding or commendable level of production without compromising the quality of decisions, as might potentially occur if a still higher number were set as the goal. The results for the end of FY

1998 should bear this out.

7. APJs have goals, not “quotas.”

Draft Report Page 6: “Findings and recommendations” (finding A, fourth paragraph)

Past production data indicates that the board has exceeded current production levels and can reduce the inventory. The board was last confronted with a workload crisis comparable to the current inventory in FY 1986. At the end of that year, the board had a total inventory of 8,539 appeals and interferences. It took the board five years, while producing an average of 5,234 disposals per year, to reduce the inventory to a manageable level of 1,914 cases by the end of FY 1991 (about one-half of one year's total disposals).

COMMENTS:

1. It is undoubtedly the case that greater productivity levels are achievable. Indeed, the results of the past 12 months bear out this view and a move to reality based performance appraisals and use of the incentive awards system are expected to cement the gains in productivity being experienced.
2. The 1986-1991 experience also demonstrates that a dramatic reduction in inventory will not occur overnight.

Draft Report Page 6: “Findings and recommendations” (finding A, fifth paragraph)

We agree that board quality is an important consideration in setting production levels. But the board did not have data clearly indicating whether board quality suffered during the reduction in inventory between 1986 and 1991, and we think the board can pursue both simultaneously

COMMENTS:

1. Quality and quantity can be pursued simultaneously. The lack of data demonstrating the level of board quality in the 1986-1991 period, however, is neither surprising nor dispositive of whether decision quality was trending downward under production pressures before 1994. Indeed, quantifying quality is generally a difficult proposition.

2. A factor complicating matters today (certainly from 1995-1997) is the quality of some of the examiners' work product reaching the board. Poor quality examination by examiners presents conscientious board members with a recurrent dilemma. Board members are frequently forced to choose among: (1) developing a cogent rationale for rejection of the claims before them, that task having not been performed during the prosecution by the responsible examiner; (2) performing part of the substantive examination on the merits, employing the provisions of 37 CFR § 1.196(b); or (3) simply reversing ill-founded rejections without making a new ground of rejection, knowing that examiners have little incentive to reopen prosecution with better art.

Draft Report Page 6: "Findings and recommendations" (finding A, sixth paragraph)

Moreover, the board does not have a strategic plan, including specific goals, for reducing the inventory and maintaining quality. The Government Performance and Results Act of 1993 specifies that an agency's annual performance goals should define an objective and measurable target level of performance for each program activity. PTO is developing and implementing a performance measurement system applicable to its three major business and executive areas. But it should establish performance goals that specifically define the results it expects the board to achieve and performance measures that determine whether the board attains high levels of both production and quality. To focus efforts on reducing the inventory, PTO should consider higher APJ production quotas than those currently in place.

COMMENTS:

1. The board has recently developed a Strategic Plan, including specific goals, for reducing the inventory and maintaining quality. A copy of that Strategic Plan is appended to this memorandum.
2. Rather than increasing APJ production goals, a measure which would signal to the APJs that the PTO is far more concerned with quantity than quality of production, the board intends to focus its efforts on reality based performance appraisals. Under this approach, those APJs

achieving high quality performance and high productivity will be rewarded and encouraged while at the same time those APJs demonstrating poor quality and poor productivity will be appropriately rated and given opportunity to improve.

3. As the Office of Inspector General is aware, during FY 1995-FY 1997 the five-level performance appraisal plan was effectively administered as a two-level pass-fail plan. In FY 1998, the five-level plan is being administered as written, a fact of which the APJs were made aware early in FY 1998 and of which they have been reminded repeatedly throughout the fiscal year. With these measures in place, average productivity of the APJs has increased significantly. A heightened awareness of the connection between productivity and quality of performance and the performance appraisal system has refocused the attention of some APJs who may have lost focus on the need to produce a larger number of decisions of an acceptable level of quality.
4. Goals that are achievable, awards that encourage high productivity and high quality, and willingness by management to reward and hold employees accountable for productivity and quality, are more likely to produce the desired outcomes regarding quality and quantity than an increase in the goals.

Draft Report Pages 6-7: "Findings and recommendations" (finding B)

B. Board Members Note Decline in Quality of Appealed Patent Decisions

A key factor affecting production is the quality of patent application rejections that are appealed to the board. Board personnel told us that the quality of the cases they are reviewing is declining. They cited the lack of accountability of patent examiners for cases that are appealed and the examiners' declining experience base as contributing factors.

Board personnel whom we interviewed stated that cases they receive from the examining corps often contain administrative errors, inadequate support for the examiner's final rejection, and other unanswered questions or omitted information about the patent's claims that should have been addressed. As a result, APJs are spending time

searching prior art (technical literature including prior-issued patents and foreign patents, related documents, and non-patent literature such as technical articles and abstracts), a task which is normally an examiner responsibility. Board workload data supports their assertions. Reversals of examiner decisions and remands for additional examiner review combined for 41 percent of the board's total disposals in FY 1994, but 54 percent in FY 1997. Furthermore, rejections due to the examiner having overlooked prior art have averaged 12 percent of the board's decisions over the same period. In effect, overall production is cut because APJs are spending more time processing appeals in order to make these determinations.

APJs also stated that the gain-sharing system, used to determine examiner compensation based on a variety of production quotas and incentives, does not hold examiners accountable for rejections that are appealed. They told us that examiners have an incentive to reject difficult cases requiring more time to research because they receive credit for processing the application regardless of whether they approve or reject it. One senior patent official confirmed the board's assertions that the system has a built-in bias toward rejections.

A review of the gain-sharing system and the quality of the examining process was beyond the scope of our audit, but these assertions indicate a problem beyond the board's jurisdiction. Board officials should meet with senior patent officials to discuss ways to improve the process. In the past, after an appeal brief was filed by the appellant, the primary examiner was required to conduct an appeal conference with the appellant in order to review the case more closely and determine whether it was ready for a decision by the board. PTO management eventually eliminated the one hour per week given to examiners to hold the conferences because of concerns over lost production. Today, one examining group is again using appeal conferences to reopen the examination of several hundred cases that were sent to the board. Board officials and PTO management generally support the idea of appeal conferences and should review the merits of reinstating them, especially for the chemical discipline, the area generating the majority of appeals (an inventory of 5,285 cases as of the end of FY 1997).

COMMENTS:

1. "Appealed Patent Decisions," which appears in the heading for this section, is not a term of art. The work product of an examiner is generally referred to as "the examination of the application." Another term frequently used to refer to that part of the examiner's work product most directly before the board is "the Examiner's Answer." It would be more accurate for the heading of this finding to indicate that board members have noted a decline in the quality of the examination or a decline in the quality of examination as represented in the Examiner's Answers reaching the board.
2. As reference to the board's Strategic Plan indicates, there is an ongoing effort to encourage the practice of holding appeal conferences within the patent examining operation. Recent feedback indicates that the practice of holding appeal conferences is spreading, with positive

results already being observed. Moreover, board members have been meeting with top levels of examining operation management in an effort to discuss both general and specific problem areas.

3. In an effort to educate the examining corps and its management to board practices, a seminar series aimed at managers and a lunchtime educational series aimed at examiners are being developed and implemented. Initial sessions of the seminar for managers have been held with positive results.

Draft Report Pages 7-8: "Findings and recommendations"

(finding C, first three paragraphs)

C. Board Review Policies Are Hurting Productivity

Based on documentation we reviewed and interviews with board members, we found that the board's application of patent regulations is unclear with respect to certain rejections, and that APJs spend excessive time disposing of interference cases. Application of these policies has reduced the board's productivity.

Policy for making, new grounds for rejection is unclear

PTO regulations at 37 CFR § 1. 196(b) give APJs the discretion to determine grounds for rejection that were not considered by the examiner. [Footnote 3 quoting 37 CFR 1.196(b) omitted.] However, the board lacks a clear policy for how this rule should be applied. Because of uncertainty surrounding the current policy, APJs have a wide variety of opinions about when and how to apply the rule. From FY 1994 to FY 1997, the number of such rejections has averaged 286, or 12 percent of board decisions.

In July 1997, the Chief Judge asked all APJs whether the board should review its policies concerning § 1. 196(b) rejections. We reviewed the APJs' responses and noted their concerns about the wide differences in the application of the rule, their desire for more uniformity, and the need to review the policy. The Chief Judge acknowledged that an array of viewpoints exists among board members. However, he is reluctant to issue guidance about the rule because it is inherent in each judge's authority to apply it as he or she sees fit. Board management should review whether the APJs are consistently applying 37 CFR § 1. 196(b) and consider whether a change in policy would enhance the consistency of its decisions and increase production.

COMMENTS:

1. This section title is misleading to the extent that it suggests that the identified "policies" are those of the board. These "policies" are the products of actions taken by former

Commissioners, whether by rulemaking (in the case of 37 CFR 1.196(b)) or by Official Gazette notice (in the case of consideration of inequitable conduct in interference proceedings).

2. Based on case law limiting board discretion to bypass patentability issues in interferences (which are essentially and historically priority contests), it is conceivable that our court of review might not permit the board to avoid consideration of inequitable conduct issues in an interference even if the Commissioner decided to rescind the current policy expressed in the Official Gazette notice.
3. The thrust of the first part of this finding appears to be that the broad authorization under 37 CFR § 1.196(b) for a board panel to make a new rejection needs to be constrained.
4. APJs are high level employees of the agency who are charged with rendering final agency determinations regarding patentability. Virtually by definition, they are expected to have and to exercise good judgment in the discharge of their duties. That judgment is necessarily exercised and developed on a case-by-case basis.
5. The rule constitutes Commissioner-granted discretion allowing APJs to exercise examining functions under certain circumstances. The authority granted in 37 CFR 1.196(b) exists to permit the APJs to make rejections where, in the sound exercise of judgment and discretion, the APJs consider that an appropriate way to proceed in a given appeal.
6. There are a variety of situations that might give rise to the need to use that authority to re-search the claimed subject matter and reject claims as necessary. Some APJs typically confine use of their discretionary authority to those situations where not to do so would likely

result in issuance of a patent which would be an "embarrassment to the Office" whereas others exercise their discretionary authority whenever they detect unpatentability of a claim. Neither approach is wrong.

7. Issuing guidelines (necessarily general in nature) to constrain that discretion may well negatively impact the quality of PTO patents. That is, given the extreme reluctance of examiners to seek management approval to add new rejections following a board decision reversing the examiner's rejections, any guidance to APJs which curtails the entry of 196(b) rejections will likely result in more frequent issuance of cases containing unpatentable claims.
8. The Chief Judge continues to be reluctant to issue guidelines constraining the judgment and discretion entrusted to the APJs. It is believed, however, that the reemphasis on production coupled with a willingness to remand appeals that are not ready for efficient consideration (rather than assuming the duties of the examiner) has begun to provide an alternative solution to this problem without unduly impacting APJ discretion. Any action taken to discount remands as part of board and APJ production will likely serve to undermine this alternative solution.

Draft Report Pages 8-9: "Findings and recommendations"

(finding C, fourth through sixth paragraphs)

Chief Judge has recommended that the board not consider inequitable conduct of parties

PTO decided in 1991 to consider whether parties in interference cases had engaged in "inequitable conduct" by failing to meet the duty of full disclosure required under patent regulations. Under the regulations, applicants and patentees must disclose all information material to patentability, and patents will not be granted in the event of fraud or intentional misconduct. [Footnote 4 regarding the provisions of 37 CFR 1.56 omitted.] As a result of the 1991 decision, APJs must schedule evidentiary hearings to consider such issues and assess the demeanor of the parties. We did not attempt to quantify the impact that this practice has on interferences. However, according to

board personnel, evidentiary hearings can delay interference proceedings by months or even years.

The board has not always considered whether parties to interference cases had engaged in inequitable conduct through fraud or misconduct. In the last 10 years, PTO has changed its policy twice with respect to this issue. In October 1988, PTO announced it would no longer consider duty of disclosure issues in interference cases due to the time and expense involved:

"It is the courts and not the Office that are in the best position to fashion an equitable remedy to fit the precise facts in those cases where inequitable conduct is established. Inequitable conduct is not set by statute as a criteria for patentability but rather is a judicial application of the doctrine of unclean hands which is appropriate to be handled by the courts rather than by an administrative body. Office determinations significantly add to the expense and time involved in obtaining a patent with little or no benefit to the patent owner or any other parties with an interest."

But in October 1991, PTO reversed that policy and again considered fraud and inequitable conduct issues in interferences. In a November 1997 memo to the Commissioner to address board productivity, the Chief Judge included a proposal to eliminate consideration of inequitable conduct issues because "the PTO is not equipped to deal with inequitable conduct issues in a fair and effective manner." The board has not taken any action to change this policy, in part because it would encounter some resistance from outside organizations. But the Chief Judge maintains that this is a costly practice for the board and PTO. In FY 1997, interference cases accounted for only 5 percent of the inventory, but the board dedicated almost 25 percent of its judges to process them.

COMMENTS:

1. The foregoing is an accurate assessment of factual matters and requires no further comment, other than to again draw attention to comment 2 in the preceding section.

Draft Report Page 9: "Findings and recommendations" (finding D, first paragraph)

D. PTO Has Not Adequately Planned for Resources to Handle Board Workload

We concluded that PTO and the board have not adequately planned for the board's future workload. The delayed recruitment of APJS, potential retirements, and underestimates of the inventory have left the board in a precarious position. PTO must engage in better strategic planning for using the board's resources if the inventory is to be reduced to a manageable level.

COMMENTS:

1. The principal conclusion here is that the PTO and the board have not adequately planned for the board's future workload. That conclusion is not wholly correct.
2. The principal conclusion does not take into account the board's newly developed Strategic

Plan, which reflects expected workloads and productivity achievable predicated on staffing

3. The principal conclusion also does not take into account restrictions regarding the number of full-time-equivalent employees (FTEs) imposed on the PTO. These FTE restrictions appear to have necessitated hard decisions as to the allocation of FTEs within the PTO.
4. Board management has since at least June, 1994, advised PTO management that it is necessary to increase the number of APJs assigned to handle *ex parte* appeals to at least 45 APJs devoted to deciding strictly *ex parte* appeals. This is in addition to the 10 to 12 APJs (speaking in terms of full-time equivalents) required to decide interference cases. Since 1994, however, the total number of APJs has never exceeded 46 and has typically hovered around 43.
5. As earlier suggested, FTE restrictions appear to have played a significant role in the decision to not satisfy the board's requests to fill 14 vacant positions with either APJs or other patent professionals. That decision has, as of this writing, deprived the board and the public of nearly a full board-year of production, or about 3000 to 4000 decisions.
6. The board is on the verge of filling these vacant positions and expects to have 17 new APJs early in FY 1999. One experienced APJ has already indicated that he intends to retire on October 3, 1998. A relatively new APJ has announced that she will leave the board for private employment in mid October 1998. Two other APJs have indicated that they intend to retire later in FY 1999. Barring further retirements (and seven others are eligible for immediate retirement), the result should be a net increase of 13 APJs in FY 1999.
7. The board has not traditionally been in the business of forecasting the number of appeals to be received each year. Instead, that number has been provided to the board by the PTO's

Budget office.

Draft Report Pages 9-10: "Findings and recommendations"

(finding D, second, third and fourth paragraphs)

Delays in recruiting judges have resulted in lost production

Fourteen APJ positions have been vacant for more than a year and will take at least another year to fill. As a result, we estimate that by the end of FY 1998, the board will have lost 28 staff-years of production, equivalent to approximately two-thirds of one full year of production by the board, or 2,400 cases.

In FY 1996, the board's authorized level of permanent APJ positions was increased from 43 to 57 in order to prevent any further increase in the inventory of pending appeals. Notwithstanding the 8 previously vacant APJ positions filled during 1996, the board sought but was not permitted to hire 14 additional APJs. According to board officials, they were not permitted to hire in part because the new APJs would likely come from the examining corps, and PTO management did not want to lose examiners to the board.

In November 1997, after the board continued to seek approval to hire, the Commissioner instructed the board to fill all 57 APJ positions. In February 1998, the Department approved PTO's plans to fill these positions. But board officials informed us that because the processing needed to fill APJ positions takes about a year, they were not confident that any of the 14 vacant positions would be filled until the end of 1998. They also informed us that the board can absorb about eight new APJs at a time. If they are correct (we did not review their assertions), we anticipate that hiring of the APJs will continue into 1999, resulting in continued lost production.

COMMENTS:

1. As the draft report correctly states, at the start of FY 1996, the board's authorized level of permanent APJ position was increased from 43 to 57. Board management has been, however, prevented from staffing all 57 positions.
2. Early in calendar 1996, the Acting Deputy Commissioner indicated to the Chief Judge that although 57 judge positions were authorized he (the Acting Deputy Commissioner) did not believe it was a good idea to permit the board to expand to that number of APJs. Instead, he directed the Chief Judge to conceive a reengineered board limited to not more than 50 APJs.
3. A proposal for a reengineered board employing experienced examiners, some of which would be expected to have law degrees, as legal and technical advisors to the APJs was presented to

the Acting Deputy Commissioner. That plan, as conceived, was viewed as experimental and it was expected that eight unused APJ positions would be diverted to be staffed with examiners. Ultimately, none of these positions were ever filled.

4. As the comments concerning other sections have already indicated, the board is moving to address these matters through development and implementation of its Strategic Plan.

Draft Report Pages 10-11: "Findings and recommendations"

(finding D, fifth through ninth paragraph)

One possible way to help reduce the inventory would be to reinstate a past practice of using temporary judges or detailees. Under 35 U.S.C. §7(c), "Whenever the Commissioner considers it necessary, in order to keep current the work of the [board], the Commissioner may designate any patent examiner of the primary examiner grade or higher, having the requisite ability, to serve as [an APJ] for periods not exceeding six months each." For many years, the examining corps regularly detailed examiners to the board. According to the Chief Judge, the longer they stayed, the more productive they became. As a result of pressures on the examining corps to issue more patents, the use of detailees was drastically reduced and ended in FY 1997.

Retirements impede board continuity and production

A wave of retirements over the past four years, as well as potential retirements, continue to impede board continuity and production. A total of 21 APJs have retired over the past four years: 13 in 1994, 3 in 1995, 3 in 1996, 1 in 1997, and 1 in 1998. As of January 9, 1998, there were 41 full-time permanent APJs. Of these, 8 are eligible for immediate retirement. The board also employs two part-time APJs as retired annuitants, and they can leave immediately. We also noted that the board could be impacted should PTO offer early retirement provisions, an option not under consideration at this time. Of the remaining 7 APJs, 21 would be eligible under those provisions, unless PTO excludes the board from participation.

As a result, not only is the board's experience based on APJs who are eligible to retire, but incumbent APJs' are now shouldering responsibility for training new APJs. The situation facing the board as a result of the potential departure of many experienced APJs and the arrival of numerous inexperienced APJs was summarized in a 1996 memo from the Chief Judge to the Chairman of PTO's Performance Review Board:

"Five of the APJs employed by the board at the end of FY 1996 were not employed at the board during any part of FY 1995 and three more were not employed at the board during any part of FY 1994. Two more APJs began board service in August 1994 and eight others began in May 1994. Thus, eighteen of the 45 permanent APJs at the board at the end of FY 1996 were not at the board in March 1994."

The Chief Judge has also asked appeal APJs to work on interference cases so they can become familiar with ongoing cases before incumbent interference APJs retire. The sudden departure of the 10 full- and part-time APJs eligible to retire would disrupt board operations and further reduce production, because each year a typical appeals judge authors decisions for 75 to 100 cases and participates in another 200 to 300 cases as a panel member. Because it takes one year for a new APJ to become fully productive, the board could not immediately compensate for the loss of such production.

Turnover due to retirements has been a problem in the past and will continue to be a problem in the future. Being a judge requires years of experience in patent law, so APJs tend to be older than the average worker, and the need to strategically plan for their inevitable retirements is imperative. The planned hiring of 14 APJs will help in the long run, but it will be necessary to stagger their arrival if, as we were told, the board can absorb only eight new hires at a time without seriously disrupting operations. PTO should also consider hiring additional APJs (above the 14 planned hires) in anticipation of the retirements.

COMMENTS:

1. Attention is directed to proposed strategies contained in the Board of Appeals and Interferences Strategic Plan concerning (a) use of examiners and others in preparing decisions and (b) retention allowances.
2. Presently, ten APJs are eligible for optional retirement; two Senior APJs are already retired.
3. Based on the ongoing effort to recruit APJs, it appears that as many as 17 will be hired immediately (subject to DOC approval). Based on the specific individuals involved, it appears that the board may be able to rapidly assimilate these new hires. Board management recognizes that there will necessarily be some disruption to the experienced APJs. This cannot be helped if the board is to quickly attack the inventory of undecided appeals.
4. Board management proposes to immediately begin advertising for additional APJ candidates in the chemical and biotechnology disciplines, using an advertisement kept open in an effort to create a flow of candidates.

Draft Report Page 11: "Findings and recommendations"

(finding D, tenth and eleventh paragraphs)

Underestimates of inventory have contributed to staffing dilemma

We compared PTO's budget submissions for the past five years to historical production data and found that the board had consistently underestimated its future workload. While the board underestimated filings by an average of only 190 cases per year, it overestimated disposals by an average of 1,706 cases per year. In reality, the board's declining productivity caused previous estimates to be very inaccurate. The following table compares budget projections with the actual inventory.

[Table 2 omitted]

The board must do a better job of estimating its inventory so that PTO, the Department, the Office of Management and Budget, and the Congress have a better appreciation of the problem.

COMMENTS:

1. The board has not traditionally been in the business of forecasting the number of appeals to be received each year. Instead, that number has been provided to the board by the PTO's Budget office.
2. It is not clear that the board has been called upon in recent years to forecast output.
3. For the board to undertake forecast functions, it would appear that additional resources would be necessary. Engaging in such forecasts, except as an extrapolation of earlier years results and providing generalized guesses regarding trends based on changes in the law, would be outside the board's normal area of expertise.
4. As will be discussed subsequently, the board has developed new filing and tracking methods, which will permit more frequent inventories of *ex parte* appeals to be taken.

Draft Report Pages 11-12: "Findings and recommendations"

(finding D, twelfth through fourteenth paragraphs)

Board lacks a career development program for potential APJs

PTO does not have a formal career development track for aspiring APJs, other than experience obtained as a patent examiner. According to the Chief Judge, few examiners possess the necessary qualifications to become an APJ (a J.D. and a B.S. in chemistry, biology, physics, or some form of engineering). In 1996, board officials contemplated adopting an approach similar to the federal courts' "chambers" program. Under the proposed program, the board would have created several senior patent legal and technical advisors who would serve as law clerks to judges; this would have helped the advisors to become familiar with cases and drafting opinions. The board planned to hire eight assistants from within PTO. In their opinion, the program represents the most straightforward approach to maximizing the output of individual judges, while minimizing the increase in the number of judges.

But one year after conceiving the program, the board was given the authority to hire only two assistants. PTO-wide limitations on adding positions, as well as PTO management's reluctance to detail examiners to the board, essentially nullified the program. The Chief Judge decided that with only two positions, the success or failure of the

program could not be determined and postponed it indefinitely. Board officials estimated that the cancellation cost the board 400 additional decisions in 1997 (based on eight planned assistants).

Because of this, the board was deprived of an excellent opportunity not only to increase productivity, but also to consider the merit of these positions as a means of identifying, training, and evaluating potential APJS. Given the number of judges eligible to retire, PTO management should reconsider the benefits of the "chambers" program, and should also establish a long-term program for developing future APJs from the examiner ranks and eligible attorneys outside PTO.

COMMENTS:

1. The draft report correctly recounts the abortive experience with the "chambers" program.
2. As part of the Strategic Plan, the board plans to seek ways to create a career track at the board for legal/technical advisors.

Draft Report Page 12: "Findings and recommendations" (finding E)

E. Administrative Patent Judges Are Performing Non-Processing Activities Without Accounting for Their Time

Despite the existence of separate timekeeping codes for work-related activities other than processing appeals and interferences, APJs are not accurately accounting for time spent on such activities. As a result, the board cannot determine how much time the APJs spent on activities in support of PTO's mission, activities board officials have cited in the past when defending the board's production. If APJs do not accurately record their time, board management in turn does not have accurate information to measure production and evaluate their performance.

We reviewed summary timekeeping reports for FY 1996 and FY 1997, which included separate codes for processing appeals, declaring and processing interferences, determining patentability, and working on special projects and studies. The reports showed that board members charged a total of 2,801 hours in FY 1996 and 18 hours in FY 1997 to special projects/studies. We could not quantify those hours not recorded by board members. But based on our discussions with board officials and review of documentation describing other outside projects of APJS, we concluded that the hours reported in FY 1997 were not accurate.

Board officials could not explain the discrepancy, but agreed that 18 hours significantly understated the time they thought APJs actually spent on non-processing activities in FY 1997. As pressures mount on the board to be more productive while continuing to make its resources available to assist other PTO units on outside projects, it should accurately document and record time spent on these activities.

COMMENTS:

1. The productivity goals assigned to APJs are not typically affected by "other time," that is, by time spent on other than deciding appeals or interferences. Unless truly significant amounts of time are involved in a special project, or extensive amounts of time are lost to illness, etc.,

APJs are expected to make their production goals as stated in the performance plan, irrespective of leave time used, etc. As a result, accounting for time, apart from leave, has received minimal attention.

2. It is evident that the board must do a significantly better job of accounting for time spent on other than decisional duties if the true cost of assisting other PTO organizations is to be recognized. Accordingly, steps have been taken in FY 1998 and will be renewed in the coming years to reemphasize the need to carefully account for all time.

Draft Report Page 13: "Findings and recommendations" (finding F)

F. Remedial Actions Should Help Reduce Inventory, But Will Not Have Major Impact

To its credit, the board has implemented emergency measures to try to close the growing gap between incoming cases and disposals. For example, in 1997 the Chief Judge initiated a campaign to increase production. Interference judges now spend a percentage of their time processing appeals, a change that we estimate should result in approximately 500 additional disposals in FY 1998. Policies concerning summary affirmances and reversals were modified to expedite cases. Board officials informed us that with the Commissioner's approval, they have now placed a renewed emphasis on productivity.

Other organizational units have also taken steps to help reduce the inventory. The examining corps is reviewing selected cases at the board that may eventually be returned to the corps. The Office of Patent Quality Review is proposing to review cases before they are sent to the board. In addition, Associate Solicitors from the Office of the Solicitor help APJs prepare appeal decisions.

However, we believe that these measures will not appreciably reduce the inventory. Across the patent business environment, production efficiency has not kept pace with filing increases. We recognize that there are factors beyond the board's control that have inhibited its productivity, but it must find effective ways to reduce the inventory. Part of the inventory problem stems from issues involving other PTO staff, including poorly researched decisions made prematurely, board recruitment efforts delayed because of concerns about their impact on the patent corps' production, and APJs spending time assisting other PTO units. Any solution to the problem will require PTO top management to recognize how its policies related to the patent corps contribute to the problem.

COMMENTS:

1. It is true that the measures identified in these paragraphs, alone, will not quickly reduce the inventory of undecided appeals to a desirable level (that is, to about a six month supply of appeal cases). Indeed, even with the addition of many new APJs, that is expected to take

until 2003; note again the Strategic Plan.

2. At the same time, all of these measures contribute to an understanding, at the board and within management of the remainder of the PTO, of the criticality of the problem and the level of interdependence of PTO organizations.

Draft Report Pages13-14: "Recommendations"

RECOMMENDATIONS

We recommend that the Deputy Commissioner of Patents and Trademarks:

1. *Develop a strategic plan to reduce the inventory of cases to 2,000 within five years. The plan should establish annual performance goals that specifically define the results PTO expects the board to achieve and performance measures that determine whether the board attains high levels of both production and quality.*
2. *Consider increasing APJ production quotas to ensure that production goals are achieved*
3. *Meet with senior patent officials to consider ways to improve the appeal process, including the merits of reinstating appeal conferences and developing additional quality measures.*
4. *Review the applicability of 37 C.F.R. § 1.196(b) rejections on new grounds and determine whether more definitive guidelines should be developed for its application.*
5. *Review whether the board is obligated and adequately staffed to handle inequitable conduct issues in interference cases.*
6. *Hire new APJs up to the board's authorized level as quickly as possible, but stagger their arrivals in order to minimize the training workload on incumbent APJs. Consider hiring additional APJs in anticipation of retirements.*
7. *In consultation with senior patent officials, consider using temporary judges or detailees until the board is fully staffed and the inventory has been reduced to a manageable level.*
8. *In the future, make projections of inventory based on actual historical data and current levels of production.*
9. *In consultation with senior patent officials, implement a long-term development program for eligible patent examiners and outside attorneys interested in becoming APJs.*
10. *Instruct APJs to accurately account for the time they spend on work not related to processing appeals and interferences.*

COMMENTS:

We agree that recommendations 5 and 7 through 10 are appropriate as written. The staggered arrival portion of recommendation 6 should be viewed as a desideratum, not as a requirement.

All other parts of recommendation 6 are appropriate as written. Regarding recommendations 1 through 4, we make the following observations:

1. The board has already taken the initiative to develop a Strategic Plan (a copy of which is attached) that will be further refined and developed as time goes on.
2. For reasons indicated above, we do not consider it appropriate to increase the APJ goals. Instead, we intend to encourage APJS, through use of the incentive award system and otherwise, to increase their annual production.
3. The Chief Judge and other APJs have already begun meeting with senior patent officials to consider ways to improve the appeal process.
4. We disagree with the idea that more definitive guidelines concerning the use of rejections under 37 CFR § 1.196(b) are required. These are high-level agency employees who are required to interpret statutes and rules on a daily basis. Although more direct guidance to APJs concerning discretionary functions could improve board productivity, following that course risks compromising the quality of the PTO's product.

Draft Report Page 15: "Board does not adequately monitor..." (first two paragraphs)

II. *BOARD DOES NOT ADEQUATELY MONITOR CASES AND NEEDS AN ADMINISTRATIVE MANAGER*

During our audit, we identified several issues concerning the board's monitoring of cases that warrant management's attention. Specifically, the board is not adequately tracking and assigning cases or maintaining a reliable filing and retrieval system. As a result, the board is not managing its workload efficiently and effectively.

These and other factors discussed earlier in our report led us to conclude that the board should select a Chief Administrator to better manage the board's workload. The Chief and Vice Chief, who attempt to balance their responsibilities between being judges and office managers, spend about 50 percent of their time on administrative matters. We believe that adding a Chief Administrator would enable them to focus more on the board's primary mission--processing appeals and declaring and terminating interferences.

COMMENTS:

1. Throughout FY 1998, board management has been working to reengineer the way in which cases and dockets are monitored. The system which has been progressively put in place since

February 1998 appears to be giving highly reliable and timely information. The details of that system will be discussed subsequently.

2. The advisability of adding a "chief administrator," a position similar to that of the chief clerk of a court of appeals, to assist the Chief Judge is interesting and warrants investigation. For reasons discussed subsequently, it appears that an assistant to the Chief Judge in the person of a skilled program analyst, possessing knowledge of commercially available spreadsheet and database software, may permit the Chief Judge, aided by the Chief Clerk, to efficiently and accomplish the same ends served by the selection of a chief administrator at lesser expense.
3. A study will be conducted during the first half of FY 1999 to determine which of these approaches will better serve the board.

Draft Report Pages 15-16: "Board does not adequately monitor ..." (Finding A)

A. Board Is Not Adequately Tracking and Assigning Cases

According to the board's appeal case tracking system, as of March 1, 1998, the board had yet to assign 8,555 appeals to the APJs, including cases received as far back as 1991. We reviewed a printout of the board's unassigned docket, as well as APJ docket reports, and concluded that the board was processing hundreds of cases with more recent appeal numbers ahead of many older cases. For example, 205 cases received in 1997 and 1998 were assigned, while 229 cases received before or during 1994 were still unassigned (see Table 3). As a result, the older cases have incurred unnecessary delays before formal proceedings begin. Based on these findings, we have concerns about the board's ability to manage its caseload.

[Table 3 and notes omitted]

The statutory provisions governing appeals do not set forth time periods the board must follow, and this has likely contributed to the high number of unassigned cases. The board also lacks a policy to ensure that appeals are assigned within a certain time period. According to board officials, the board's policy is to generally process cases in the order in which they were received and docketed at the board. The resource administrators track and assign cases to the APJs and are supposed to assign older cases first. These administrators offered several reasons why older cases had not been assigned, including (1) cases were overlooked and not assigned; (2) erroneous data by board personnel made cases difficult to locate; (3) cases were misplaced; and (4) cases were remanded back to the patent corps, where the file was forgotten or the corps did not inform the board of case resolution, and hence, the record was not closed out. These explanations themselves raise serious concerns as to whether the board is adequately monitoring case files.

Monthly production reports prepared by the resource administrators do not include data on unassigned cases so neither the Chief Judge nor Vice Chief were aware that the older cases existed. They agreed that they should have been assigned. They informed us that they were reviewing the status of the older cases and would begin immediately assigning those found to be in the board's possession. The board should implement a policy to ensure that all cases it receives are assigned to an APJ within specific time periods to be determined for each discipline. Further, the board should conduct at least one physical inventory of case files annually.

As we ended our audit, PTO officials told us that the board is upgrading the appeal case tracking system to improve overall management of its inventory. In addition, the board plans to conduct inventories on a more frequent basis. We agree that increasing the number of inventories taken annually will help the board manage its inventory.

COMMENTS:

1. A new system for filing, tracking and assigning appeal cases has been implemented since the time of the audit.
2. All appeal cases have been arranged and filed in appeal number order, replacing the former serial number filing order. This allows easier identification of the oldest appeals and permits adherence to "first in, first out" (FIFO) principles.
3. The "assigned" and "unassigned" statuses that existed under the former system are of diminished significance under the newly created system. Cases may still be characterized as "assigned" or "unassigned."
4. FIFO, as now practiced at the board, means generally that appealed cases with the earliest appeal numbers (cases which have actually reached the board following the completion of prosecution before the examiner and have had an appeal number assigned as a result) are taken up first and in the order of their arrival. Exceptions to this policy are made for cases which are "special" (e.g., reexamination proceedings, reissue applications, cases made special by petition, etc.) and design appeals; these are prepared for assignment to a docket immediately upon receipt.
5. An inventory taken of all pending appeal cases located in APJs offices on May 8 - 12, 1998,

formed the baseline for each individual APJ's new docket. By order of the Chief Judge, the panel assignments of all cases in central files was vacated. By definition, the cases in central files are not assigned to any APJs docket. Moreover, they will not be assigned to a docket until all other earlier received cases in the same category (e.g., mechanical, electrical, chemical and biotechnology) have been assigned.

6. Once a case is assigned to an APJs docket, it remains in the APJs office until decided or reassigned at the Chief Judge's or Vice Chief Judge's direction.
7. Based on a need for appeals (reported by the APJ involved or noted by the Chief Judge), the clerical support section withdraws from central files the appeals with the oldest appeal numbers in each category (e.g., mechanical, electrical, chemical and biotechnology) and forwards these appeals to the paralegal specialists for review and, if appropriate, for assignment to an APJ's docket.
8. Unless the case is special, cases are assigned to a docket strictly in appeal number order. A case will not be assigned to a docket until it is appropriate to do so, i.e., when a case should be decided within a few months. This process permits the cases not yet assigned to remain in central files until approximately such time as the case will be decided. It also permits movement of the oldest cases awaiting decision to the docket of an APJ presently in a position to decide that appeal. This procedure minimizes the need to move cases from docket to docket.
9. The paralegal specialists fill orders for cases to be sent to APJs.
10. When an appeal is assigned to an APJ's docket, the relevant information is sent to the Chief Judge in spreadsheet form by the relevant paralegal specialist. The Chief Judge adds the

information to the spreadsheet containing the individual APJ's docket.

11. At the end of each month, decided cases are reported to the Chief Judge in spreadsheet form.

Electronic copies of the decisions are provided to the Chief Judge on diskettes for collection of electronic FOIA materials.

12. The Chief Judge prepares a production report for each APJ and deletes from the APJ's docket all decided cases.

13. Docket reports are sent to each APJ at the start of each month.

14. Production reports covering the preceding month are e-mailed to each APJ by the Chief Judge on the first day of each month.

15. This system allows the Chief Judge to make sure that the oldest appeal numbers are indeed being assigned to the APJs and that these are being decided on a continuing basis. This system also allows the Chief Judge and Vice Chief Judge to keep a close watch on individual APJ production.

16. As a result of these changes and this monitoring, and with the exception of a few cases which are "stragglers," it is expected that by the end of FY 1998

- mechanical APJs will be working on appeals after 97-0001
- electrical APJs will be working on appeals after 96-0001
- chemical and biotechnology APJs will be working on appeals after 95-0001
- there should be no appeals at the board prior to 95-0001.

Draft Report Pages 16-17: "Board does not adequately monitor..." (Finding B)

B. Case Files Are Overwhelming Board's Storage Capacity

The large volume of case files, especially interference files, currently stored by the board, are overwhelming its

storage capacity. Although we did not conduct an inventory of the board's case files, we observed the board's storage areas and found them nearly filled to capacity. In addition, we noted files located in common areas and vacant offices. Interference cases usually generate boxes of files and require more space to store than appeal cases. For example, board personnel had one office completely occupied by files from a single case. Also, the board has been storing interference files for several years for some cases now being argued in court. Without adequate space and better organization of these files, the storage and retrieval of case files will continue to delay the processing of appeals and interferences.

Several interference judges criticized the current filing system because it makes locating files difficult. One APJ described the situation as a "disaster." The Chief Clerk stated that "retrieving cases should take 10 to 15 minutes, but it usually takes anywhere from a few hours to several days to find a file" because they are so spread out around the office. Board personnel are currently reorganizing the filing system by appeal number, which will also enable the paralegal, legal technicians, and clerks to locate files.

During our audit, the board was informed that it would be receiving additional space on the same floor it occupies now. The additional space should improve the board's storage capability and organization of case files. Once the space is available, the board should separate interference files from appeal files and attempt to dispose of those files it is no longer required to maintain.

COMMENTS:

1. The problem is beginning to resolve itself as a result of decreased input and increased output of *ex parte* appeals. *Ex parte* files are no longer being stored in vacant offices.
2. With the acquisition of additional office space on the 12th floor, the board has vacated the office space presently occupied on the 4th floor. With limited exceptions, all paralegal specialists and legal technicians are located on the 12th floor.
3. The space vacated on the 4th floor will soon be reconfigured as a repository for the many infrequently used interference files and evidence boxes. Shelving has been ordered and the installation is expected to occur in October 1998.
4. Only active interference files will be maintained in the 10th floor central files along with not-yet-assigned *ex parte* appeals.
5. These changes will permit the central files area to house, in an orderly and readily retrievable manner, the *ex parte* appeals awaiting assignment and the active interference files. All changes are expected to be complete by December 31, 1998.

Draft Report Page 17: "Board does not adequately monitor..." (Finding C)

C. Board Needs an Administrative Manager

The board lacks a professional manager who has primary responsibility for all non-judicial matters. Consequently, key aspects of the board's administrative support operations are not being managed effectively and efficiently. Not only is the board not adequately monitoring cases or maintaining a reliable filing system, but current operations are not satisfactorily streamlined to handle the anticipated increases in its workload.

Responsibility for carrying out administrative functions such as organizing case files, assigning cases, managing space, maintaining the database, and preparing budgets are scattered among the Chief Judge, Vice Chief, four resource administrators, and Chief Clerk. We expect the administrative support staff's responsibilities will increase as the board's workload increases. The board has an unprecedented and growing inventory of cases. The addition of 14 APJs will increase the size of the board to more than 90 FTEs in FY 1998. As a result, the corresponding increase in "cases in process" will place more pressure on support personnel. We also concluded that the board needs to conduct an annual inventory of its case files to ensure their integrity.

Selecting a Chief Administrator would enable the Chief Judge and Vice Chief, who say they spend about 50 percent of their time on administrative matters, to focus more on the board's mission. We proposed this idea to the Chief Judge and Vice Chief, who said that they have discussed it, but have not decided whether to create such a position. We are not stating that a new position needs to be created, but that an administrative manager is needed.

COMMENTS:

1. With the new case arrangement in central files and the comprehensive docket report, the board now has the capacity to readily inventory its files on a semi-annual basis. A recent inventory revealed very close agreement between the projected and actual numbers of cases.
2. We plan to explore alternative approaches to creating clear responsibility for administrative functions in the first half of FY 1999.
3. With the new docketing and production reporting system (described above) in place, it appears that a program analyst with knowledge of conventional off the shelf spreadsheet and database software would be able to relieve the Chief Judge of the information reception and data processing functions.
4. A program analyst would likely be easier to hire, more readily trained, and less expensive to the board than would a chief administrator.

5. The benefits which are evident in placing administrative responsibility for files and clerical support in the position of a chief administrator warrant investigation of such a position.

Draft Report Pages 17-18: "Recommendations"

RECOMMENDATIONS

We recommend that the Deputy Commissioner of Patents and Trademarks:

1. *Determine the status of the older cases and immediately assign them to APJS.*
2. *Establish a policy to ensure that all cases arriving at the board are assigned to an APJ within specific time periods for each discipline.*
3. *Provide quarterly status reports to the Commissioner on the inventory that include the status of unassigned cases and an assessment of the adequacy of current resources. Board monthly production reports should also include the status of unassigned cases.*
4. *Ensure that the status of unassigned cases is included in all monthly production reports.*
5. *Conduct at least one physical inventory of case files annually.*
6. *As case files are reorganized and relocated, give highest priority to active appeal and interference cases files, and archive inactive case files.*
7. *Select a Chief Administrator to oversee administrative functions at the board.*

COMMENTS:

Given the new file storage area, the rearrangement of the appeal in central files into appeal number order, the changes in the case assignment process and the changes in the docket report production procedure, our response to each of these recommendations is as follows:

1. The status of older cases has already been determined and these cases have already been assigned to APJs for decision.
2. We will continue the practice of FIFO outlined above. Following FIFO, it is unnecessary to establish a separate policy of assigning appeals within a specific time period. Assigning cases for decision on a FIFO basis by discipline, allows the oldest case in any discipline to be assigned to the next available APJ in that discipline, resulting in earlier decision.
3. The board will gladly provide reports to the Commissioner at whatever interval is desired concerning all relevant matters. We presently provide monthly reports to budget and

quarterly reports to the Commissioner concerning input of appeals and interferences, inventory (number of appeals and interferences on hand), and output of appeals and interferences (productivity numbers).

4. So long as FIFO is followed, there is no benefit gained by including the status of "unassigned" cases in the monthly production report.
5. We will conduct an inventory semi-annually.
6. No later than December 31, 1998, we will complete reorganization of our files to give highest priority to active appeal and interference files, while archiving inactive case files and infrequently used files.
7. During the first half of FY 1999, we will explore both the benefits and costs of (1) hiring a program analyst to assume the data collection aspects of the production and docketing system and (2) creating a chief administrator position.

SUBSTITUTE EXECUTIVE SUMMARY

The Office of Inspector General conducted a performance audit of PTO's Board of Patent Appeals and Interferences of the Patent and Trademark Office. The board hears and decides appeals from adverse decisions of patent examiners concerning applications for patents, conducts interference proceedings, and makes final determinations concerning questions of priority of invention and patentability. The board also hears and decides questions regarding property rights in inventions in the atomic energy and space fields. The administrative patent judges (APJs) on the board may affirm or reverse the decision of the examiner in whole or in part, or remand the application to the examiner for further consideration. The board's decisions are subject to judicial review. A Chief Administrative Patent Judge, who reports to the PTO's Deputy Commissioner, leads the board. At the end of FY 1997, there were 43 APJs and 40 support personnel at the board.

Although productivity and staffing problems have created a large inventory of undecided ex parte appeals, the board has put in place a variety of measures which should reduce the inventory to a desirable level of a six month supply of appeals by the end of FY 2003. These measures include:

- A newly adopted Strategic Plan
- A renewed emphasis on APJ productivity
- A reality based approach to performance appraisals under which good performance will be appropriately rewarded and poor performance will be corrected
- A proactive approach to improving the quality of the examiner's product reaching the board
- An aggressive plan for hiring new APJs
- Accurate accounting of time devoted by APJs to PTO projects

The board has already moved to improve its case monitoring, by measures that include:

- A reengineered, FIFO-based case filing, assignment and docketing system
- Acquisition of new file storage space
- Semi-annual case inventories
- Consideration of hiring a program analyst to assist the Chief Judge.

The board should additionally explore the costs and benefits associated with creating a chief administrator position to assist the Chief Judge by overseeing administrative functions.

BOARD OF PATENT APPEALS AND INTERFERENCES STRATEGIC PLAN

In order to (1) reduce the inventory of undecided *ex parte* appeals to a level equaling the number of appeals which can be decided in six months, while maintaining a high level of quality, and (2) conduct interference proceedings in a manner calculated to secure a just, speedy and inexpensive resolution of those proceedings, the Board of Patent Appeals and Interferences (BPAI) will employ the following strategies:

Strategies to reduce number and increase quality of *ex parte* appeals and interferences reaching the BPAI:

1. improve communications by
 - expanding existing dialogue with top levels of examining operation management to discuss general and specific problem areas discovered by BPAI (Chief and other APJs will "walk" certain cases directly to Directors, when justified, to point out matters of concern)
 - creating current-practice seminar series aimed at group managers, including QASs, SPEs and Directors (already developed, first sessions conducted week of August 17, 1998)
 - creating educational series aimed at examiners (PTOS would like to have a "brown bag" lunchtime program at BPAI; start time likely to be October)
 - conducting and participating in events involving bar-board interaction outside the decisional process (e.g., interference roundtable, tentatively planned for October 15, 1998)
2. explore with patent examining operation management the possibility of having examiners review oldest chemical and electrical appeals at BPAI to identify those which require further consideration or allowance due to changed law and/or examining procedures (program similar to highly successful biotech review)
3. encourage the practice of holding appeal conferences within the patent examining operation

Strategies to increase BPAI output:

1. To effectively conserve and manage existing resources, BPAI will:
 - maintain emphasis on the production standards of the Administrative Patent Judge (APJ) performance appraisal plan to assure that each APJ works effectively toward reaching a correct and expeditious determination of matters before the BPAI
 - continue practice of having APJs formerly designated only to interference proceedings assigned to spend part time deciding *ex parte* cases
 - limit involvement of APJs in activities outside BPAI in order to focus on the large inventory of pending *ex parte* appeals

- **in ordinary appeals where reversal is appropriate**, BPAI panels will continue practice of reversing using a **highly abbreviated opinion** that focuses on the principal reason the rejection is defective (opinions are similar to 1 to 3 page unpublished opinions issued on occasion by the Court of Appeals for the Federal Circuit)
 - **remand appeals that are not ready for efficient consideration of the appeal**, whether due to unnoticed procedural flaws or failure to search or consider the most relevant search fields or references (BPAI's statutory obligation is to review adverse decisions of examiners in *ex parte* appeals and to determine priority and patentability of inventions in interferences; BPAI lacks resources to perform the substantive examination of an application in the first instance)
 - **seek to increase the rewards for high performance**
 - by improved performance based awards
 - by clear criteria for advancement in pay tied to high quality and productivity
2. To **seek creative ways in which opinions may be effectively prepared**, BPAI will:
- explore employment of **contract "ghostwriters"** (e.g., retired APJs)
 - explore assignment of **opinions to be authored to qualified SPEs and QASs** (whether as a ghostwriter for a member of the panel or as an Acting APJ)
 - explore **expanded use of solicitor's staff as "ghostwriters"**
 - use examiners in **work assignments at BPAI**, e.g., assisting APJs as law clerks
 - explore creation of **career track at BPAI for legal/technical advisers** (e.g., brought to BPAI after initial examiner training is completed at, e.g., GS-12 level to develop through GS-15; provide law school tuition assistance)
 - explore **process changes** to speed opinions:
 - employ selected APJs, alone or with examiner assistance, as **interlocutory judges** to expedite interferences to final hearing, creating efficiencies based on expertise and permitting more APJs to do decisional work
 - hire **paralegal specialists** to support each APJ working primarily on interferences
3. To maintain the requisite number of experienced APJs, BPAI will focus aggressively on **APJ retention and hiring** and will:
- employ **retention allowances** to retain retirement-eligible APJs, especially on interference side
 - **hire additional staff** -- provided that appeals continue to be received at the rate forecast by budget, BPAI plans to hire:
 - 17 APJs by the end of FY 1998
 - 11 APJs by the end of FY 1999
 - 5 APJs during FY 2000

4. To conserve supervisory resources and improve management of administrative functions, BPAI will:
 - explore the costs and benefits associated with hiring a program analyst to assist the Chief Judge
 - explore the costs and benefits associated with creating a chief administrator position to assist the Chief Judge by overseeing administrative functions

The attached spreadsheet estimates receipts and production based on implementation of the foregoing strategies.

	FY 1998 <i>Estimate</i>	FY 1999 <i>Estimate</i>	FY 2000 <i>Estimate</i>	FY 2001 <i>Estimate</i>	FY 2002 <i>Estimate</i>	FY 2003 <i>Estimate</i>
Personnel Changes During Year	1 attrit hire 17 by 9/30/98	3 attrits hire 11 by 9/30/99	hire 5 by 3/31/00			
Ex parte appeals received	3,500 (based on 10 month actual)	4,936	4,905	5,218	5,247	4,906
Electrical	8	15	15	15	15	15
Mechanical	8	8	8	8	8	8
Chemical	10	16	26	29	29	29
Biotechnology	4	5	6	8	8	8
Ex parte APJ FTEs*	30	44	55	60	60	60
Electrical	82	82	82	82	82	82
Mechanical	100	100	100	100	100	100
Chemical	100	100	100	100	100	100
Biotechnology	82	82	82	82	82	82
Dismissals / Withdrawals	180	250	250	260	260	250
Remands	550	550	550	550	550	550
Electrical	656	1,230	1,230	1,230	1,230	1,230
Mechanical	800	800	800	800	800	800
Chemical	1,000	1,600	2,600	2,900	2,900	2,900
Biotechnology	328	410	492	656	656	656
Total Disposed	4,000	4,840	5,922	6,396	6,396	6,386
Pending End of Year	8,701	8,797	7,780	6,602	5,453	3,973
Board-years required to decide all pending appeals	2.2	1.8	1.3	1.0	0.9	0.6
New interferences declared	290	310	320	340	350	320
Interference APJ FTEs* beginning of year	11 30	11 30	11 30	11 30	11 11	11 360
Total Disposed	330	330	330	330	330	330
Pending end of year	408	388	378	388	408	398

* - APJ FTE count excludes the chief and vice chief(s), since much of their work is administrative; "FTE" used because:
(1) beginning in FY 1998, all *inter partes* APJs have both an *ex parte* and an *inter partes* docket; and,
(2) beginning in FY1996, two senior APJs are part-time employees, sharing one FTE