Calendar No. 658

96TH CONGRESS
2d Session

SENATE

REPORT
No. 96-617

PATENT REEXAMINATION

REPORT

OF THE

COMMITTEE ON THE JUDICIARY
UNITED STATES SENATE

ON

S. 1679

MARCH 4 (legislative day, JANUARY 3), 1980.—Ordered to be printed

U.S. GOVERNMENT PRINTING OFFICE
57-344 O WASHINGTON : 1980

CONTENTS

		Page
I.	Purpose	1
II.	Text of Senate Bill S. 1619	3
III.	Legislative history	7
IV.	Background	8
	A. Statement of Commissioner of Patents and Trademarks Sidney A. Diamond	9
	B. Effect of reexamination on the courts	13
	C. Innovation and the patent system	14
	D. Conclusion	15
V.	Section-by-section analysis	17
VI.	Budgetary and regulatory impact statement	18
	A. Budgetary impact	18
	B. Regulatory impact	18
	C. Congressional Budget Office Cost Estimate	18
VII.	Committee votes	20
VIII.	Changes in existing law	20

Calendar No. 658

96TH CONGRESS
2d Session

SENATE

REPORT
No. 96-617

PATENT REEXAMINATION

MARCH 4 (legislative day, JANUARY 3), 1980.—Ordered to be printed

Mr. BAYH, from the Committee on the Judiciary, submitted the following

REPORT

[To accompany S. 1679, as amended]

The Committee on the Judiciary, to which was referred the bill (S. 1679) to amend the patent laws, title 35 of the United States Code, having considered the same, reports favorably thereon, with an amendment, and recommends that the bill do pass.

I. PURPOSE

One of the greatest concerns facing innovative businesses who must rely on U.S. patents to protect their new products and discoveries is the threat that their patents might be invalidated in court if the Patent and Trademark Office (PTO) missed pertinent patents or printed materials during the course of patent examination. This is not an idle fear because by the PTO's own estimate from 2 percent to 28 percent of the patents in every patent subclass are missing from the files. Even with the best examiner working under the best of circumstances there will still be a doubt that some of the materials that should have been considered before the patent was issued could have been missing from the files. There is also a tremendous body of technical data printed every year that can also be pertinent to a patent application. It is not practical to expect the patent examiner to review all of this material. This material can be the basis of a civil suit to invalidate the patent, a suit which can be extremely lengthy and costly and which takes up more and more of the time of our district courts.

It is the purpose of S. 1679 to bring these uncited patents and printed publications to the attention of the PTO for a decision on whether an issued patent is valid; whether its claims should be narrowed, or whether it should not have been issued. Under reexamination, an issued patent's claims could ever be broadened.

amined, but the expectation of the Committee is that the PTO will normally be asked to reexamine patents before litigation.

Overall, about 50 percent of the patents that are challenged in court are found to be invalid. However, when the PTO and the courts have considered the same prior art, a study has shown that the courts and the PTO agree at least four-fifths of the time. The courts and the PTO appear to apply the same standard of patentability. The problem then is to insure that the patent examiner has the materials needed for a complete examination and patent reexamination will help to get these materials before him.

The committee intends that the PTO be allowed to charge for full recovery of fees so that reexamination would not be an additional burden on the taxpayers.

Commissioner of Patents and Trademarks Sidney A. Diamond, in his testimony of November 30, 1979, to the committee, indicated his support for patent reexamination and his confidence in the ability of the Office to carry it out. Commissioner Diamond told the committee: "Reexamination is a long overdue modernization of a patent system struggling to promote innovation in a Nation facing economic problems that technology must help solve." This view was seconded by former Commissioner Donald W. Banner in his testimony before the committee, who added that former Commissioners Gottschalk and Dann also supported the reexamination provisions contained in S. 1679.

II. Text of Senate Bill S. 1679

A BILL To amend the patent laws, title 35 of the United States Code

Be it enacted by the Senate and House of Representives of the United States of America in Congress assembled, That this Act may be cited as the "Patent Law Amendments of 1979".

Sec. 2. (a) Title 35 of the United States Code, entitled "Patents", is amended by inserting immediately after chapter 29 the following:

"CHAPTER 30—PRIOR ART CITATIONS TO PATENT OFFICE AND REEXAMINATION OF PATENTS

"Sec.

"301. Regulations established by Commissioner of Patents.
"302. Citation of art.
"303. Request for examination.
"304. Determination of issue by Commissioner of Patents.
"305. Reexamination ordered by Commissioner of Patents.
"306. Response or amendment by patent owner.
"307. Appeals.
"308. Certification of patentability; unpatentability and claim cancellation.
"309. Reliance on art in court.
"310. Stay of court proceedings to permit office review.

"§ 301. Regulations established by Commissioner of Patents

"The Commissioner shall establish regulations for—

"(1) the citation to the Office of prior art patents or publications pertinent to the validity of patents; and

"§ 305. Reexamination ordered by Commissioner of Patents

If, in a determination made pursuant to subsection (a) of section 304, the Commissioner finds that a substantial new question of patentability affecting a claim or claims of the patent is raised by consideration of the prior art patents or publications that have been cited in relation to the patent according to section 302 of this chapter, he shall order a reexamination of the patent for the resolution of the question, and shall proceed to resolve it as though the claim or claims involved were present in a pending application. The patent owner shall be given a reasonable period after the filing of the reexamination order within which he may file a statement on such question for consideration in the reexamination. The patent owner shall serve a copy of such statement on any person who has requested examination according to section 303 of this chapter and such person shall have the right, within a period of two months from such service, to submit a reply to the patent owners statement. Any reexamination proceeding including appeals to the Board of Appeals, shall be conducted with special dispatch and shall be completed within one year within the Office, unless the Commissioner determines on a case-by-case basis that the one-year period is not sufficient.

"§ 306. Response or amendment by patent owner

"The patent owner shall be provided an opportunity in any reexamination proceeding under this chapter to amend any claim of his patent in order to distinguish the claim from the prior art patents or publications cited according to section 302 of this chapter, or in response to a decision adverse to the patentability of the claim, but no amendment enlarging the scope of a claim shall be permitted in a reexamination proceeding under this chapter.

"§ 307. Appeals

"The owner of a patent involved in a reexamination proceeding under this chapter may seek court review of a final decision in such proceeding adverse to the patentability of any claim, or amended claim, of the patent in accordance with chapter 13 of this title.

"§ 308. Certificate of patentability; unpatentability and claim cancellation

"When in a reexamination proceeding under this chapter the time for appeal has expired or any appeal proceeding has terminated, the Commissioner shall issue and publish a certificate canceling any claim of the patent finally determined in such proceeding or on appeal therein to be unpatentable, confirming any claim of the patent so determined to be patentable, and incorporating in the patent any amended claim thereof so determined to be patentable. Any such

"(2) The court shall not grant a stay of the proceedings on the basis of a motion brought under paragraph (1) if the proceeding or motion relates to a temporary restraining order or preliminary injunctive relief, or any other protective order necesary to protect the rights of the parties.

"(b) The court, on motion and upon such terms as are just, may at any time stay the proceedings in a civil action in which the validity of a patent is in issue for a period sufficient to enable the moving party to cite to the Office newly discovered additional prior art in the nature of patents or publications and to secure final determination of a request for reexamination of the patent in the light of such additional prior art, provided the court finds that such additional prior art, in fact, constitutes newly discovered evidence which by due diligence could not have been discovered in time to be cited to and considered by the Office within the period of a stay of such proceedings that was or could have been secured according to subsection (a) of this section.".

(b) The table of chapters for title 35, and for part III of title 35, of the United States Code, are amended by inserting immediately after the item relating to chapter 29, the following:

"Chapter 30—Prior Art Citations to Patent Office and Reexamination of Patents".

III. Legislative History

President Johnson's Commission on the Patent System in 1966 identified six objectives that needed to be reached to improve the present patent system. One was to raise the quality and reliability of U.S. patents. Another was to reduce the expense of obtaining and litigating a patent. These objectives were combined in a reexamination procedure that was part of the 1967 Patent Reform Act. There was general agreement on the reexamination provision, but because of other controversial sections of the bill it was never passed. Subsequent comprehensive patent reform bills such as S. 4259 in the 93rd Congress and S. 214 and S. 2255 in the 94th Congress also contained reexamination provisions. The present bill, S. 1679, has been limited solely to the question of reexamination because it is one area where the vast majority of patent and business experts agree that a serious problem exists in the present patent system which can be solved in a relatively simple manner.

President Carter in 1979 directed that a Domestic Policy Review of Industrial Innovation be undertaken to determine why the U.S. is experiencing an innovation and productivity lag. This effort involved over 100 inventors, businessmen, lawyers, and research directors.

The Domestic Policy Review's Advisory Subcommittee on Patents and Information Policy issued its findings on December 20, 1978. The first recommendation of the subcommittee was to take the necessary steps to upgrade the Patent and Trademark Office. The second recom-

the patent was found to be too broad, the patent holder would have the opportunity of narrowing the patent claims. The Commissioner could also invalidate the issued patent. Such an action would be subject to appeal by the patent holder.

Under S. 1679, the courts would still have the option of accepting patent validity cases if they chose to do so, but this bill would give an inexpensive alternative to costly legal actions. Patent reexamination should therefore help to cut down on the number of patent cases which go into litigation.

A. TESTIMONY OF COMMISSIONER OF PATENTS AND TRADEMARKS SIDNEY A. DIAMOND TO THE SENATE COMMITTEE ON THE JUDICIARY

In his November 30, 1979 testimony on patent reexamination, the thinking of the Administration and of the Patent and Trademark Office was presented by Commissioner of Patents and Trademarks Sidney A. Diamond. Mr. Diamond told the committee:

> Let me begin by stating that the Administration wholeheartedly supports the principle of legislation broadening the authority of the Patent and Trademark Office (PTO) to reexamine patents.
>
> As part of President Carter's Domestic Policy Review of Industrial Innovation (DPR), an assessment was made of the United States patent system as it relates to the innovation process. The DPR found that patents serve important functions in the innovation process. First, they provide an inventor with an incentive—a limited monopoly in his invention. Second, the exclusive rights provided by a patent can stimulate a firm to make the often risky investment that is required to bring an invention to market. Finally, patents provide an important method for the disclosure to the public of information about inventions and their uses.
>
> Indeed, the patent system was established to provide certain incentives for the conduct of activities critical to our economic and technological prosperity—the invention of new and improved technology, the disclosure of this technology to the public, and the investment in its commercialization. Whether or not these activities will take place depends in large part on the strength of protection that a patent provides.
>
> As the DPR recognized, there is a problem today with respect to the uncertain reliability of patents and the time and expense required to resolve that uncertainty through litigation. Uncertainty arises because pertinent prior patents and printed publications—the most significant part of what is referred to as prior art by patent lawyers—often are discovered only after a patent has issued and become commercially important.
>
> Under the present law, only a patent owner can obtain a reevaluation by the PTO of patent validity on the basis of newly discovered prior art. The PTO itself cannot initiate such a reevaluation; it must await a request by the patent

is inevitable that some patents of questionable validity will issue.

Reexamination is a long-overdue modernization of a patent system struggling to promote innovation in a Nation facing economic problems that technology must help solve. The 1967 President's Commission on the Patent System recommended a reexamination system. From 1967 until today, reexamination has been included as an important feature of many patent law revision bills. The Department of Commerce has continuously supported the establishment of a reexamination system.

S. 1679 would establish a system whereby any person would be able to bring to the attention of the PTO prior patents or printed publications bearing on the validity of any claim of a patent at any time during the term of the patent grant. At the same time or later during the term of the grant, that person or anyone else would be able to request the PTO to reexamine the patent on the basis that the information cited raises a substantial new question as to patentability. In the absence of such a request, the Commissioner of Patents and Trademarks could initiate a reexamination upon his or her own volition. Thus, S. 1679 would establish a system whereby a patent owner, a member of the public, or the Office itself can quickly and inexpensively reduce uncertainty as to the validity of a commercially significant patent raised by newly discovered prior art.

By limiting reexamination to a consideration of prior patents and printed publications, the PTO would be given a task that it can perform effectively at a reasonable cost. We would expect to use our most highly trained and experienced examiners for reexamination proceedings because they will be somewhat more complex than those for a typical patent application. We would expect between 1,000 and 3,000 reexamination proceedings each year.

Under S. 1679, a court could stay proceedings in any litigation in which the validity or infringement of a patent is in question in order to permit reexamination by the Office. This opportunity for patent reexamination would enable the court hearing the litigation to rely on the expertise of the PTO.

S. 1679 would not affect any substantive criteria for granting a patent. It merely would provide a simple, comparatively inexpensive and expeditious procedure for testing the validity of patents against newly discovered prior art. Where patent claims are too broad, reexamination would permit the patentee to amend them so that they become commensurate with the scope of his invention. Unpatentable claims would be purged from the patent.

Most courts accord to a patent the statutory presumption of validity only with respect to prior art cited by or to the PTO in the course of its prosecution. The sole means for obtaining a PTO evaluation of later discovered patents or printed publications is through reissue proceedings which can

ceedings within the PTO suggests that, in most cases, judges will choose to avail themselves of the reexamination process.

In addition, in providing for the amendment of patent claims by the patent owner during the course of reexamination, consideration should be given to the desirability of protecting persons who act in reliance on the claims of the patent as initially issued. Without such protection, a competitor might be judged an infringer where the reexamination proceeding converts an invalid claim into a valid one of the same or more limited scope.

These are some of the issues that come to mind as requiring further thought by the Administration and the Congress as we work together to create a reexamination system. Creation of that system may be the single most important innovation needed in our patent system.

Mr. Diamond stated in reply to questions from Senator Bayh that the Patent and the Trademark Office estimated that approximately 1,000 to 3,000 reexaminations would be performed a year. This would require an additional 25 to 100 employees. The Office would be charging from $1,000 to $1,500 per reexamination to meet this expense. The fact cannot be overstressed that the current levels of manpower and funding of the PTO are not sufficient to allow the PTO to efficiently operate and perform the responsibilities it now has. Enactment of this reexamination procedure without the funds to implement it will not only cause this new procedure to fail but will undermine the work of the PTO in other areas.

It is the expectation of the committee that the present reissue proceedings in the PTO will be reduced when S. 1679 is enacted.

B. EFFECT OF REEXAMINATION ON THE COURTS

Chief Judge Howard T. Markey of the U.S. Court of Customs and Patent Appeals, in his address of September 17, 1979, to the Minnesota Patent and Trademark Association, said that in 1978 there was a backlog of 3,789 patent cases clogging the courts. This represented an increase of 18.3 percent over the previous year.

A 1974 private study, *Patent Validity—A Statistical and Substantive Analysis*, found that of the litigated mechanical patents "uncited patents were the most important source of new information used by the courts, being used in 19 out of 23 (83 percent) district court decisions and 15 of the 18 (83 percent) court of appeals decisions." [2] Thus a great deal of court time is being taken up with questions that could be handled by the Patent Office. Patent reexamination should substantially reduce the number of these cases that are being filed with the district courts.

All indications are that the judges would welcome this help. Judge Giles S. Rich, the seniormost judge of the Court of Customs and Patent Appeals, in speaking to the American Patent Law Association in Washington, D.C. on October 3, 1975, said:

[2] G. Koenig, "Patent Validity—A Statistical and Substantive Analysis," C. Boardman, publisher, New York, N.Y., 1974, pp. 5–51.

Chapter in Worcester, Mass., and president of a small business, told the committee:

> If we don't see some solid and real strength put into the patent system, we will have no choice but to recommend that our membership not patent their products. Is there patent protection if one's patent protection is only as good as one's financial ability to protect? Most independent inventors have a net worth of less than $40,000. It cost us in our simple case, more than $75,000 to get to court and we lost.
>
> You have heard the expression "mad inventor." The image is of an inventor madly and passionately at work with his project. He will go to any extreme to help get his product and project off the ground. Today the "mad inventor" that we see in the Inventor's Club of America is angry and frustrated with a system that isn't helping him in his work. It is a system that hinders his attempt to get his product to market.

Mr. Robert B. Benson, who in addition to being the Chairman of the Domestic Policy Review's Subcommittee on Patents and Information Policy is also the patent director for the Allis-Chalmers Corporation, said:

> And I would like to just mention something in this connection with corporate spending decisions.
>
> Corporations are run by professional managers in most instances and their performance is measured just like everybody else, by a Board of Directors or some other corporate officer. What these corporate managers put in a profit column is a very significant factor in the evaluation of their performance. Since they only have so much money to spend, they are going to spend it where they get the greatest return.
>
> And the climate for investing in research and development and new product development is not as attractive today as it was years ago because of this perceived unreliability of the patent grant.
>
> We think, and it came out very clearly in our committee, that there is a correlation between the decline in our country's technological leadership position in the world and this lack of confidence in the patent grant in the United States.

Mr. Benson also told that committee that whereas 20 years ago it was routinely possible to obtain a bank loan on the strength of a patent, this is no longer possible.

The business witnesses all agreed that patent reexamination would be a desirable step in addressing the problems of the present patent system, and would have a favorable influence on American innovation.

D. CONCLUSION

One of the greatest problems in the present patent system is the inability of the patent examiner to have access to all of the relevant prior art before a decision is made on granting a patent application. The fact that the discovery of previously uncited prior art can result in expensive patent invalidity suits contributes to the present lack of

validity in most instances. This will be especially helpful to the independent inventor and to the small business which many times finds itself precluded from adequately defending or attacking patents because of prohibitively expensive legal costs. It should be remembered that the American consumer must ultimately pay for these expensive court battles which are passed along to the public through higher prices.

Patent reexamination will help to restore confidence in the worth of American patents and assist our inventors to meet the challenges of the future.

V. Section-by-Section Analysis

Sec. 301.—Provides the Commissioner of Patents and Trademarks with the authority to establish rules and regulations necessary to implement the reexamination procedures contained in the Act.

Sec. 302.—States that any person may cite to the Patent and Trademark Office (PTO) prior patents or publications which may have a bearing on the claim of an issued patent.

Sec. 303.—States that any person may use the materials cited to the PTO under Sec. 302 as the basis for a reexamination request. This request must be accompanied by a fee which will be established to permit full cost recovery by the PTO. Unless this request is made by the patent holder, the owner of the patent which is in question will be notified and will receive a copy of the request for a reexamination.

Sec. 304.—Within 90 days of the filing for a reexamination, the Commissioner shall determine whether a substantial new question has been raised about the patentability of the concerned patent which has not previously been considered by the PTO. The Commissioner can dismiss the request at this point if no such new question is found to have been raised.

Sec. 305.—In those cases where it is determined that a significant new question has been raised about the patent, the patent owner will be given a reasonable amount of time to reply to this new material which is being used to challenge the patent. The patent challenger will be provided with a copy of the patentee's reply and can comment on it to the PTO.

The PTO is charged with processing patent reexamination requests with special dispatch.

Sec. 306.—The patent owner will be permitted to narrow the claims of the questioned patent during reexamination, but cannot broaden this claim.

Sec. 307.—The patent owner can appeal any decision reached by the PTO under the reexamination procedure.

Sec. 308.—When the time for appealing the PTO's decision has expired or the appeal has been terminated, the Commissioner shall issue and publish a certificate canceling any claim of the patent found to be unpatentable, or confirming the patentability of the claim of the patent if it is upheld. The PTO will also include in such a certificate any amended claims which are found to be patentable.

Sec. 309.—No patent or printed publication may be relied on in court as evidence of nonpatentability unless it has been subjected to reexamination, or unless the court, upon motion, concludes that reexamination is unnecessary.

1. Bill number: S. 1679.

2. Bill title: Patent Law Amendments of 1979.

3. Bill status: As ordered reported by the Senate Committee on the Judiciary on February 19, 1980.

4. Bill purpose: S. 1679 would allow the Patent and Trademark Office (PTO), at the request of patent holders, challengers, or the Commissioner of Patents, to reexamine patents using materials and patents previously unknown or missing. The PTO would then issue a certificate as to the status of the patent after reexamination. The procedures are designed to be self-supporting, allowing the PTO to recover all costs associated with this activity.

5. Cost estimate (By fiscal years, in millions of dollars):

	1981	1982	1983	1984	1985
Patent and Trademark Office (function 370):					
Estimated authorization level	0.9	1.4	2.1	2.3	2.5
Estimated outlays	.8	1.4	2.0	2.2	2.4
Estimated revenue	−.9	−1.4	−2.1	−2.3	−2.5

The costs of this bill fall within budget function 370.

6. Basis of estimate: It is assumed that the activities authorized in S. 1679 would begin on or around October 1, 1981. It is anticipated that the number of patent applications for reexaminations to the PTO will be limited by the cost involved and the potential for commercial development. Based on rates currently available in foreign countries for similar procedures, it is estimated that the number of appeals will be approximately 1,000 in fiscal year 1981, increasing to 2,000 by fiscal year 1983, and remaining relatively stable thereafter. Although S. 1679 does not specifically authorize funding for this activity, it is estimated that additional staff will be required to handle the reexamination procedures.

Based on PTO data, it is estimated that the average cost per employee, including overhead and benefits, would be approximately $40,000 in fiscal year 1981. Assuming approximately 30 hours per reexamination, plus clerical support, it is estimated that approximately 55 appeals could be reviewed annually by the professional staff. The estimated activity level and costs are summarized below (by fiscal years):

	1981	1982	1983	1984	1985
Number of appeals processed	1,000	1,500	2,000	2,000	2,000
Number of employees required	22	33	44	44	44
Average cost per reexamination	$880	$960	$1,050	$1,135	$1,225

It is assumed that the full amount required by the PTO for salaries and expenses would be recovered by fees set by the Commissioner of Patents at the beginning of the fiscal year and adjusted annually for inflation and anticipated workload. In addition, it is assumed that fees would be based on average costs, as determined by the PTO, and included with the application for reexamination. It is assumed that the receipts would be deposited in the general fund of the Treasury, as is currently the case for other PTO activities. Outlays are estimated to be 90 percent the first year and 10 percent the second year.

96TH CONGRESS } HOUSE OF REPRESENTATIVES { REPT. 96-
2d Session } { 1307, Part 2

PATENT AND TRADEMARK LAW AMENDMENTS

SEPTEMBER 23, 1980.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. BROOKS, from the Committee on Government Operations, submitted the following

REPORT

together with

ADDITIONAL VIEWS

[To accompany H.R. 6933]

[Including cost estimate of the Congressional Budget Office]

The Committee on Government Operations, to whom was referred the bill (H.R. 6933) entitled "To amend the patent and trademark laws," having considered the same, report favorably thereon with amendments and recommend that the bill as amended do pass.

The amendments (stated in terms of the page and line numbers of the bill as reported by the Committee on the Judiciary) are as follows:

Page 43, line 18, strike out "six months of" and insert in lieu thereof line 2 on page 46 and redesignate the succeeding section accordingly.

Page 43, line 18, strike out "six months of" and insert in lieu thereof "two years after".

Page 43, line 17, strike out "(a)" and on page 44, beginning on line 4, strike out all of subsection (b) through line 9.

Page 44, beginning on line 10, strike out all of section 11 through line 2 on page 46 and redesignate the succeeding section accordingly.

JURISDICTION UNDER SEQUENTIAL REFERRAL

H.R. 6933 was reported to the House by the Committee on the Judiciary on September 9, 1980. It was then sequentially referred to the Committee on Government Operations for consideration of provisions of the bill and amendment which fall within the jurisdiction of the committee. These provisions deal with Federal procurement generally and matters involving reorganizations in the executive branch. The

ber of congressional enactments relating to patents for individual programs or agencies. It also called for certain studies and reports and would remove the Patent and Trademark Office from the Department of Commerce and set it up as an independent agency.

The Committee on Government Operations does not agree with those provisions of the bill which would remove the Patent Office from Commerce; or require the Comptroller to make a study of the possibility of merging the Copyright Office, now in the Library of Congress with the Patent Office, and recommends that these provisions be deleted from the bill. It also disagrees with the provision to require the Commissioner of Patents to report within a period of six months on a plan to computerize data in the Patent Office. The committee recommends that a period of two years be given for such a report.

Committee Action and Vote

The Committee on Government Operations at a duly called meeting on September 23, ordered reported H.R. 6933 with amendments by a vote of 32 ayes and 0 noes.

Hearings

Hearings on H.R. 6933 were held by the Subcommittee on Legislation and National Security on September 16 and 17, 1980. Testimony was received from Philip M. Klutznick, the Secretary of Commerce; from Admiral H. G. Rickover, Deputy Commander for Nuclear Power, Naval Sea Systems; Daniel J. Boorstin, the Librarian of Congress; Karen H. Williams, Administrator for Federal Procurement Policy, Office of Management and Budget; and Ky P. Ewing, Deputy Assistant Attorney General, Antitrust Division, Department of Justice.

Differing views were presented by these witnesses, all of whom were high ranking and responsible officials of the Government. Their testimonies raised questions which merit careful study by the Congress.

Discussion

The Committee on Government Operations recognizes the necessity of making improvements in the operation of the Patent and Trademark Office. The issuing of patents is an important part of our efforts to keep America in a position of technological leadership. Every effort should be made to encourage our inventors and creators to develop innovative products. Many complaints have been made about the Patent Office and the service it renders. Every reasonable step should be taken to speed up its work and reduce the backlog of applications not yet acted upon.

The Committee, however, does not feel that all of the proposals made in the legislation are needed in the manner presented. In fact, some may be counterproductive.

COPYRIGHT OFFICE STUDY

One proposal in the original bill calls for a study by the Comptroller General analyzing the efficiency of the Patent and Trademark Office, the Copyright Office, and the Copyright Royalty Tribunal. It seems to

As experience has shown, any reorganization requires a temporary slowdown in operations and procedures until the new organization has been put into effect. There is no way to estimate how long such a slowdown could take.

An independent PTO will not necessarily in itself bring about an increase in the number of patent examiners nor in the amount of funding available to the Office, but steady improvement in the efficiency of the agency will produce the climate to obtain greater resources. The committee, therefore, recommends that the provision in the bill making the Patent and Trademark Office an independent agency be deleted and the Office remain in the Department of Commerce.

DEVELOPMENT OF A COMPUTERIZED DATA AND RETRIEVAL SYSTEM

H.R. 6933, as amended, requires the Commissioner of the Patent and Trademark Office to identify and, if necessary, develop a computerized data and retrieval system. The committee believes such a system is essential if the Patent Office is to effectively fulfill its responsibilities under this legislation.

In 1978, the Committee on Government Operations conducted a review of the Patent Office's management and use of computer resources. That study revealed that the Patent Office had failed to apply modern technology to its operations and that serious technical and operating problems continued to plague the agency. Deficiencies were especially apparent in the Patent Office project to develop a computerized data and retrieval system.

In the mid-1960's, the Patent Office prepared a plan to have delivered a computerized system which would electronically prepare patents for printing and which would prepare a data base of approved patents which ultimately would be retrievable for patent searches.

In order to implement the Patent Office's plan, a contract was awarded to International Computaprint Corporation (ICC) in April of 1970 for one year, with two one-year options, at a cost of $10,053,-766.71 per year.

Although the plan called for the Patent Office both to assume operation of the work performed by the contractor and to develop a retrieval system for patent searches, the Patent Office failed to do either. By 1978, the Patent Office had contracted with ICC for over seven years and during this period had granted the contractor nine extensions on a noncompetitive, sole-source basis. Overall, the Patent Office has paid this contractor in excess of $32 million even though the data base, as required under the original contract, is incomplete. In addition, the Patent Office's ill-fated attempts to develop a retrieval system has cost millons.

On three separate occasions, the Patent Office ostensibly sought to compete the data base contract work. Each time the effort was aborted. These actions raised serious questions about the legality and propriety of both the Commerce Department's and the Patent Office's management of this project, particularly (a) the methods by which the Patent Office sought to implement this plan, (b) the extent to which the original objectives of the plan have been met, and (c) the extent to which the actions of the Patent Office and Commerce Department have been legal and proper.

SUBCHAPTER I—CONTRACT INVENTIONS

Section 382. Contract inventions; reporting

Section 382 definies "contract inventions" and sets forth a contractor's responsibility with regard to a contract invention.

Subsection (a) defines "contract inventions" as "inventions made in the course of or under Federal contracts."

Subsection (b) requires that all contractors provide the responsible Federal agency with timely reports on each contract invention containing sufficient technical information to inform the Government as to the nature of the invention and a list of each country, if any, in which the contractor elects to file a patent application.

The Government is prohibited from publishing or releasing these reports until the earlier of one year from receipt of the invention disclosure or the contractor has had a reasonable time to file a patent application; the Government also must withhold such information from other records or reports.

Subsection (c) provides that the responsible agency may deprive a contractor who unreasonably fails to file the reports required by subsection (b) of any or all of the rights it otherwise would have under subchapter I pertaining to the contract invention for which such report has been unreasonably withheld.

Section 383. Allocation of rights—small businesses and nonprofit organizations

Subsection (a) provides for the acquisition of title to contract inventions by contractors which are either a small business or a nonprofit organization. They would acquire title in each country listed under section (b)(2) of section 382 in which they filed a patent application within a reasonable time; their title would be subject to the Government's minimum rights under section 386 and to march-in rights under section 387.

Subsection (b) provides for acquisition of title to contract inventions by the Government in each country in which a small business or nonprofit organization elects not to file a patent application or fails to file within a reasonable time.

Section 384. Allocation of rights—other contractors

Subsection (a) provides that a contractor that is not a small business or nonprofit organization will have four and one-half years from the filing of an invention report under section 382(b) to select one or more fields of use which it intends to commercialize or otherwise achieve public use under an exclusive license. During the four and one-half year period the contractor will have temporary title to the invention, subject to the Government's right under the Act.

Subsection (b) provides for the contractor to receive an exclusive license in each described field of use if it files a United States patent application within a reasonable time. The contractor's license is subject to the Government's minimum rights under section 386 and march-in rights under section 387.

Subsection (c) provides that the contractor will automatically acquire an exclusive license for each described field of use by operation of law ninety days after providing the responsible agency with the field of use report required by subsection (a) of section 384 unless the

Section 387. March-in rights

Section 387 sets forth the basis on which the Government may terminate the contractor's title or exclusive rights with respect to one or more fields of use in any patent on a contract invention; may require the contractor to grant appropriate license or sublicense to responsible applicants; or, if necessary, may grant such licenses or sublicenses itself.

Subsection (a) sets forth the grounds for exercise of march-in rights:

(1) If the contractor has not taken and is not expected to take timely and effective action to achieve practical application of the invention in one or more of the fields of use selected;

(2) If necessary to protect the national security;

(3) If necessary to meet requirements for public use specified by Federal regulation;

(4) If continuation of the contractor's rights in the invention would create or maintain a situation inconsistent with the antitrust laws; or

(5) If the contractor has failed to comply with the reporting requirements of this Act with respect to such invention.

Subsection (b) permits the responsible agency to exercise its march-in rights either on its own initiative or in response to a petition from an interested person justifying such action.

Subsection (c) enables an agency to specify reasonable licensing terms whenever, in exercise of its march-in rights, it requires a contractor to grant a license or sublicence.

Section 388. Deviation and waiver

Section 388 permits Federal agencies, to further an agency's mission and the public interest, to deviate from any standard patent rights clause issued under section 390 acquiring more or fewer rights to a contract invention.

Subsection (a) authorizes deviations either on a class basis in accordance with regulations to be issued under section 390, or, unless prohibited by those regulations, under regulations issued by an agency itself. Case-by-case deviations are permitted when authorized by the head of an agency or a designee, and described in the Federal Register.

Subsection (b) forbids waiver under any circumstances of the national security and antitrust march-in rights reserved by sections 387(a)(2), 387(a)(4), and 387(c).

Subsection (c) allows waiver of rights reserved by sections 384(a) and 387(a)(1) only: (1) in contracts involving cosponsored, cost-sharing or joint venture research to which the Contractor makes a substantial contribution of funds, technology, facilities, or equipment; or (2) in contracts with a contractor whose participation is necessary for the successful accomplishment of an agency mission and such contract cannot be obtained under the standard patent rights clause.

Section 389. Transfer of rights to contractor employees

Section 389 authorizes a contractor's employee-inventor to receive some or all of the contractor's rights to a contract invention if the

Paragraph (6) permits the Government to enter into agreements allocating rights in inventions resulting from research and development to which other parties have contributed substantially, notwithstanding paragraph (1) of this section.

Section 394. Presumptions

Section 394 establishes rebuttable presumptions for the application of the criteria set forth in section 393.

Subsection (a) sets out employee duties which establish a rebuttable presumption that an invention falls within the criteria of paragraph (1) of section 393.

Subsection (b) establishes a rebuttable presumption that an invention made by an employee whose duties fall outside those listed in paragraph (a) of this section falls within the criteria of paragraph (2) of section 393, reserving to the employee title to an employee-invention subject to certain license rights in the Government.

Section 395. Review of agency determinations

Section 395 provides for the review of Federal agency determinations regarding the respective rights of the Government and a Federal employee-inventor in situations in which the agency determines not to acquire all rights in an invention or where an aggrieved employee-inventor requests review. The review is to be conducted according to regulations issued under section 399.

Section 396. Reassignment of rights

Section 396 establishes a right in the Government to adjust the rights acquired from a Federal employee-inventor on the basis of evidence that the granting of greater rights to the employee-inventor is necessary to correct an inequitable allocation of rights.

Section 397. Incentive awards program

Subsection (a) provides Federal agencies the right to establish an incentive awards program which is intended to monetarily recognize Federal employee-inventors, stimulate innovative creativeness, and encourage disclosures of inventions which in turn will enhance the possibility of utilization through the Federal licensing program established under subchapter III.

Subsection (b) sets forth the criteria for making an award.

Subsections (c), (d), and (e) establish the procedures for making awards of different amounts.

Subsection (f) provides that acceptance of a cash reward constitutes an agreement by the employee-inventor that any use by the Government of an invention for which an award is made does not form the basis of a further claim of any nature against the Government by the receipt, his heirs, or assigns.

Subsection (g) requires that an award should be paid from the fund or appropriation of the agency primarily benefitting.

Section 398. Income sharing from patent licenses

Section 398 authorizes Federal agencies to share income from licensing the Government's patent rights with the employee-inventor.

Section 399. Regulations

Subsection (a) makes the Secretary of Commerce responsible for issuing regulations to implement subchapter II.

(2) If necessary to protect national security;

(3) If necessary to meet requirements for public use specified by Federal regulation;

(4) Continuation of licensee's rights in the invention would create or maintain a situation inconsistent with the antitrust laws; or

(5) If the licensee has failed to comply with the terms of the license.

Subsection (b) permits the responsible agency to exercise its march-in rights either on its own initiative or in response to a petition from an interested person.

Section 404. Regulations

Section 404 makes the Office of Federal Procurement Policy responsible for directing the issuance of regulations specifying the terms and conditions upon which federally-owned patent rights may be licensed. Agencies are permitted to deviate from such regulations on a class basis unless prohibited by the Office of Federal Procurement Policy.

SUBCHAPTER IV—MISCELLANEOUS

Section 405. Patent enforcement suits and right of intervention

Subsection 405(a) provides for enforcement of an exclusive license under the chapter by an exclusive licensee without the necessity of joining the United States or any other exclusive licensee as a party. However, the Attorney General and the agency that granted the license must be given prompt notice of the suit and served copies of papers as though they were parties to the suit.

Subsection (b) requires the responsible agency to notify all of its exclusive licensees of any suit by an exclusive licensee, the Government, or another person.

Section 406. Background rights

Section 406 specifies that nothing contained in this chapter will be construed to deprive the owner of any background patent or of rights under such a patent.

Section 407. Notice, hearing, and judicial review

Subsection (a) requires that agency determinations under sections 382, 387(a) and 387(c), and 403, must have written reasons and be preceded by public notice and an opportunity for a hearing in which the United States, any agency, and any interested person may participate.

Subsection (b) permits the United States or any adversely affected participant to appeal a subsection (a) determination to the United States Court of Customs and Patent Appeals within sixty days after it is issued. The Court of Customs and Patent Appeals is given exclusive jurisdiction to determine the matter de novo, affirming, reversing, or modifying the agency determination.

Section 408. Relationship to other laws

Section 408 is intended to remove any implication that the act

Section 408 is intended to remove any implication that the act provides immunity from the antitrust laws.

SECTION 7

Section 7 amends or repeals parts of other acts as necessary to implement the provisions of new chapter 38 of title 35, United States Code. Acts amended or repealed in part are:

Title 7, U.S.C 427(i).
Title 7, U.S.C. 1624(a).
The Federal Coal Mine Health and Safety Act of 1969.
The National Traffic and Motor Vehicle Safety Act of 1966.
The National Science Foundation Act of 1950.
The Atomic Energy Act of 1954.
The National Aeronautics and Space Act of 1958.
The Coal Research and Development Act of 1960.
The Helium Act Amendments of 1960.
The Arms Control and Disarmament Act of 1961.
The Appalachian Regional Development Act of 1965.
The Federal Nonnuclear Energy Research and Development Act of 1974.
The Tennessee Valley Authority Act of 1933.
The Consumer Product Safety Act.
Title 30, U.S.C. 323.
The Resources Conservation and Recovery Act of 1976.
The Electric and Hybrid Vehicle Research, Development, and Demonstration Act of 1976.
Public Law 95–39.
The Water Research and Development Act of 1978.

SECTION 8

Section 8 provides for effective date of the bill's provisions.

Subsection 8(a) specifies sections 2, 4, and 5 will take effect on enactment.

Subsection 8(b) provides that section 1 will take effect on the first day of the seventh day after enactment and will apply to patents then in force or issued thereafter.

Subsection 8(c) provides that section 3 will take effect on the first day of the first fiscal year beginning one calendar year after enactment. However, until that section takes effect, the Secretary, in order to pay the cost of reexamination proceedings, may credit the Patent and Trademark Office Appropriation Account with the revenues from collected reexamination fees.

Subsection 8(d) continues existing fees until new fees are established.

Subsection 8(e) provides that maintenance fees shall not be applicable to patents applied for prior to the date of enactment of the Act.

Subsection 8(f) provides that sections 6 and 7 of the bill will take effect on the first day of the seventh month after its enactment, although implementing regulations may be issued earlier.

[By fiscal years, in millions of dollars]

	1981	1982	1983	1984	1985
Revenue reduction	1.8	23.2	23.8	24.3	24.8
Net spending reduction:					
Estimated authorization level	1.9	23.8	24.8	25.8	31.8
Estimated outlays	2.4	24.7	24.8	25.8	31.8
Net budget impact [1]	−.6	−1.5	−1.0	−1.5	−7.0

[1] Negative sign indicates increased surplus or decreased deficit.

The costs of this bill fall primarily within budget subfunction 376.

6. Basic of estimate: For purposes of this estimate, it is assumed that this bill will be enacted around October 1, 1980.

REEXAMINATION OF PATENTS

H.R. 6933 would allow any party to petition the PTO to reexamine a patent for validity. The cost of reexamination would be paid by the party based on a fee structure established by the Commissioner of Patents. It is anticipated that the number of patent applications for reexaminations will be limited by the cost involved and the potential for commercial development. Based on rates currently available in foreign countries for similar procedures, as well as estimates provided by the PTO, it is estimated that the number of appeals will be approximately 500 in fiscal year 1981, increasing to 2,000 by 1982, and remain relatively stable thereafter.

Although the bill does not specifically authorize funding for this purpose, it is assumed that additional staff will be required to handle the reexamination procedures. Based on PTO data, it is estimated that the average cost per employee, including overhead and benefits, would be approximately $40,000 in fiscal year 1981. Assuming approximately 30 hours per reexamination, plus clerical support, it is estimated that approximately 55 appeals could be reviewed annually by a professional staff member. It is estimated that the cost of this procedure would be approximately $0.4 million in fiscal year 1981, which reflects six months' activity. Costs are estimated to be $1.4 million in fiscal year 1982, increasing to $2.5 million by fiscal year 1985. It is assumed, however, that the full amount required by the PTO for salaries and expenses would be recovered by fees set at the beginning of the fiscal year and adjusted annually for inflation and anticipated workload. It is assumed that fees would be included with the request for reexamination and reflected as a reimbursable to the agency, resulting in a net outlay of around zero in each fiscal year.

REVISION OF FEE STRUCTURE

H.R. 6933 would restructure the current fee structure for patents and trademarks. Currently, the PTO recovers approximately 20 percent of the cost of processing patents and approximately 30 percent of the cost of issuing trademarks. These fees are deposited in the general fund of the Treasury.

H.R. 6933 would revise the criteria for allocation of invention rights between the federal government and employees who produce inventions. To stimulate innovation, the bill would establish an incentive cash awards program to federal employee-inventors. The awards are to be paid from funds from royalties or agency appropriations; consequently, it is estimated that this provision would result in no additional cost to the government.

The bill also authorizes federal agencies to share income from licensing the government's patent rights with the employee-inventor. It is not possible at this time to estimate the extent which royalties will be generated or shared with employee-inventors.

OTHER

The bill would repeal section 117 of the 1976 Copyright Act, which disclaims any intent to modify the pre-existing copyright law for computer programs. This has the effect of clearly applying the 1976 law to computer programs, which is not expected to have a cost impact upon the federal government.

In addition, H.R. 6933 outlines the responsibilities of the Secretary of Commerce to assist agencies and others in promoting access to patent information. Currently these activities are being performed by the National Technical Information Service (NTIS), created in 1970. The President is requesting approximately $740,000 for these activities in fiscal year 1981, which is about the same level of funding in the current fiscal year. The bill would authorize the appropriation of such sums as may be necessary for these activities. Since current law authorizes these activities it is estimated that no additional costs would be incurred as a result of enactment of this legislation.

Finally, the PTO would be required to report within two years of date of enactment on the status of a computerized data retrieval system. Since the PTO is already planning to study and evaluate the feasibility of such a system, it is assumed that any significant costs incurred as a result of analyzing or implementing such a system would not be a direct result of the legislation. Consequently, no cost has been estimated for this provision.

7. Estimate comparison: The Commissioner of Patents has estimated that approximately 1,000 to 3,000 requests for reexaminations would be made annually, requiring from 25 to 100 additional staff members, at a cost of between $1 million and $4.5 million annually. CBO estimates approximately 500 applications will be processed beginning in fiscal year 1981 because a later date of enactment is assumed.

8. Previous CBO estimate: On August 28, 1980, the CBO prepared a cost estimate on H.R. 6933, as ordered reported by the House Committee on the Judiciary on August 20, 1980. This version of H.R. 6933 would have required the General Accounting Office to report on the desirability of merging the Patent and Trademark Office (PTO) with the Copyright Office and the Copyright Royalty Tribunal. It would also have established the PTO as an independent agency, removing it from the Department of Commerce. The difference in costs between the two versions of H.R. 6933 reflect these differing provisions.

On February 27, 1980, the CBO prepared a cost estimate for S. 1679, the Patent Law Amendments of 1979, as ordered reported by the Sen-

on the Judiciary are shown on pages 33 through 81 of House Report 96-1307, Part 1.

For the information of the Members of the House of Representatives, the changes made by the Committee on Government Operations strike out the amendments made to title 35 of the United States Code in sections 1, 3(a), 3(b), 3(c), 6, 7, 31, 181, and 188; and section 12(c) of the Act of February 14, 1903 by the bill as reported by the Committee on the Judiciary. Consequently, these existing provisions of law are not changed in the bill as reported by the Committee on Government Operations.

the profits that may result. There should not be a different standard applied when it is the government that risks the taxpayers' money. The rewards of successful research and development conducted at government expense should go to all the people.

I agree wholeheartedly with the establishment of a U.S. patent policy that encourages the development and production of new products, that will reward those who take risks, and that will inspire increased confidence in our economy. My comments above deal only with the very special issue of government-funded research and development activities. (A fuller explanation of my views can be found in the report of H.R. 6933, as reported by the House Judiciary Committee, H. Rept. 96–1307, Part I, pp. 29–32.)

The Federal Government has the equivalent of a fiduciary responsibility to the taxpayers of this country. Property acquired with pubic funds should belong to the public. Deviations from that fundamental principle should be allowed only where a compelling justification can be shown and where the voice of the public can be heard in protest. This legislation stands that principle on its head by automatically conveying title or the exclusive right to use public property to private entities and placing the burden on the Federal government to demonstrate that a retrieval of those rights is in the public interest.

JACK BROOKS.

and in drafting a large piece of legislation. Nevertheless, I believe it can fairly be said that not all of the Committees whose jurisdictions would be significantly affected by this legislation have been adequately consulted. Their judgment and experience is vitally needed to assure that this bill's approach is indeed a sound one for all the diverse areas which it will affect, as its sponsors take great pride in pointing out.

For that reason, I urge my colleagues to opt for further consideration of this measure. I specifically urge that all Committee Chairmen whose substantive jurisdictions will be affected by the impact of this bill on government-sponsored research in their areas be given adequate time to assess this bill and to consult with one another before the House takes action. I am aware that genuine consultation of this sort probably cannot be achieved in the waning hours of this Congress. If not, I believe the long-term implications of this measure are far too important to go forward at this time.

As with so many of our problems as a Nation, we did not get into this problem of lowering productivity and declining ingenuity overnight. It is a complex problem reflecting many developments over many years. There is thus no need to rush out a bill now without being certain that we are doing the right thing, based on the full and deliberate consultation among our colleagues with the greatest knowledge of the potential effects of this legislation.

TOBY MOFFETT.

○