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

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[96th Congress]

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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.

Presently, the PTO has a patent reissue program in effect, but this review of an issued patent can only be requested by the patent holder. The PTO and third parties cannot initiate a "reexamination" by reissue. This legislation will correct that deficiency. The experience that the Office has gained from running the reissue program should help to more successfully implement the provisions of S. 1679, which will supplement the present procedures.

Reexamination will also help the courts to resolve patent validity questions before them by providing the opinion of trained experts in the PTO.

A related problem is that the legal costs of court proceedings (estimated to easily reach $250,000 each to both parties)[1] often prevent independent inventors and small businesses from adequately defending their patents against large competitors. This situation has a very chilling effect on those—small businesses and independent inventors—who have repeatedly demonstrated their ability to successfully innovate and develop important new products. Patent reexamination will greatly reduce if not end the threat of legal costs being used to "blackmail" such patent holders into allowing patent infringements or being forced to license their patents for nominal fees.

The reexamination of issued patents can be conducted with a fraction of the time and cost of formal legal proceedings. Reexamination will help to restore confidence in the effectiveness of our patent system by efficiently bringing to the PTO's attention relevant materials that are missing or have been overlooked.

Big businesses are not immune to patent validity suits and often need the assurance of a strong patent to justify the millions of dollars and years of effort commonly needed to bring new products to the market. The present innovation and productivity lag is worsened by distrust of the current patent system. This serves to further fuel inflation and thereby to injure all Americans.

It should be stressed that patent reexamination must be coupled with adequate funding of the Patent and Trademark Office if it is to be effective. Patent reexamination by itself will not solve all of the problems of our patent system, but should help the PTO and particularly the courts to do a better job.

Patent reexamination will not affect patentability standards found in title 39 of the United States Code, rather it will establish a new procedure to allow all relevant documents to be brought to the PTO's attention. S. 1679 is limited in scope in that it will allow the PTO to only consider patents and printed materials, matters which are normally handled by patent examiners. Challenges to validity on other grounds (e.g., public uses or prior sales) would remain the province of the courts. Moreover, a court would in no way be bound by a decision of the PTO regarding the validity of a patent, though a reexamined patent would be entitled to a presumption of validity as if the newly considered prior art had been considered by the examiner during the original examination. Also, S. 1679 would not prohibit the courts from considering challenges to patents before such patents had been reex-

[1] Testimony of Mr. Donald R. Dunner, President, American Patent Law Association, to the Committee on the Judiciary, November 30, 1979.

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

"(2) the reexamination of patents in the light of such prior art patents or publications.

"§ 302. Citation of art

"Any person may at any time cite to the Office prior art patents or publications which may have a bearing on the patentability of any claim of a patent. If the person citing such prior art patents or publications identifies in writing any part of the prior art patents or publications considered pertinent and the manner of applying the prior art patents or publications to at least one claim of the patent, such prior art patents or publications shall become a part of the official file of the patent.

"§ 303. Request for examination

"Any person may, at any time within the period of enforceability of a patent, request reexamination of the patent as to the patentability of any claim thereof in the light of any prior art patents or publications cited under the provisions of section 302 of this chapter, by filing in the Office a written request for such reexamination accompanied by a reexamination fee prescribed according to this title, a statement of the relation of such prior art to the patentability of the claim or claims involved, and a statement which identifies a material reason for the request of reexamination. Unless the requesting person is the patent owner, the Commissioner shall promptly send a copy of such request and statement to the patent owner appearing from the records of the Office at the time of the filing of the request.

"§ 304. Determination of issue by Commissioner of Patents

"(a) Within 90 days following the filing of a request for reexamination under section 303 of this chapter, the Commissioner shall make a determination as to whether a substantial new question of patentability affecting any claim of the patent concerned, not previously considered in examination or reexamination of such claim, is raised by the consideration, with or without any other prior art patents or publications, of the prior art patents or publications which have been cited in relation to the patent according to section 302 of this chapter. The Commissioner on his own initiative may make such a determination at any time.

"(b) A record of the Commissioner's determination under subsection (a) of this section and the reason for the determination shall be made in the file of the patent, and a copy of the record and reasons for the determination shall be sent promptly to the patent owner and each person requesting reexamination, and a notice of that determination shall be promptly published.

"(c) A determination by the Commissioner pursuant to subsection (a) of this section that such a new question of patentability is not so raised shall be final and nonappealable.

"§ 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

amended claim is subject to the provisions of section 252 of this title.

"§ 309. Reliance on art in court

"(a) No prior art patents or publications may be relied upon as evidence of nonpatentability in a civil action involving the validity or infringement of a patent unless—

"(1) such prior art patents or publications were cited by or to the Office during prosecution of the application for the patent or submitted for consideration by the Office in accordance with sections 302 and 303 of this chapter, and actually considered in accordance with section 304, or

"(2) the court, upon motion, concludes that the interests of justice would be furthered by adjudication of the issue of validity or infringement without such submission and reconsideration.

"(b) The limitation provided by this section shall not apply to any prior art patents or publications in the official file of the patent as it existed on the date of commencement of such action. However, a party may rely upon prior art patents or publications cited after the commencement of such action if—

"(1) such prior art patents or publications were included in a request for reexamination under the provisions of section 303 of this title which was filed in the Office during a stay ordered by the court under the provisions of section 310 of this title, or

"(2) the courts, in a case in which a stay requested under the provisions of section 310 of this title is denied, finds that such prior art patents and publications constitute 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 that was or could have been secured under the provisions of section 310(a) of this title.

"§ 310. Stay of court proceedings to permit Office review

"(a) (1) Except as provided in paragraph (2), any party to a civil action against whom a pleading presents a claim for infringement or for adjudication of the validity of a patent shall have the right, by motion brought before any responsive leading, to secure a stay of all proceedings in the action by order of the court for a period, not more than four months, sufficient to enable such party to search for and cite patents or publications considered pertinent to the patent and to request reexamination of the patent in view of such prior art according to sections 302 and 303 of this chapter. If such party files a request for such reexamination in the Office and serves on the other party and files a copy of it in the action within the period of the stay provided by such order, the stay may be extended by further order of the court. Injunctive relief shall not be denied solely on the basis of such request for reexamination.

"(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-

mendation was to institute patent reexamination. President Carter in his announcement of Industrial Innovative Initiatives on October 31, 1979, agreed with the subcommittee's findings and endorsed reexamination.

The Senate Judiciary Committee heard from nine witnesses on November 30, 1979, on the reexamination procedures contained in S. 1679 including Mr. Sidney A. Diamond, Commissioner of Patents and Trademarks, former Commissioner Donald W. Banner, representatives of the patent bar, and small and large businesses. The overwhelming consensus was that reexamination is a much needed reform of the patent system.

IV. Background

The PTO is now receiving over 100,000 patent applications per year for inventions that could be related to virtually any area of discovery. The office tries to make a decision on each invention promptly by considering it primarily against patents and printed publications to see if the new discovery qualifies for patent protection. As previously noted, the office does a very good job of determining patentability when it has all of the available materials to consider. Unfortunately, this is not always possible.

The tremendous growth in knowledge makes it impossible for the patent examiner to have access to all of the new technical data that is constantly coming out. In the field of chemistry alone the technical literature more than doubles every ten years. Other fields are not far behind in the quick accumulation of new information. The PTO must also consider foreign patents and has had its responsibilities expanded under the new Patent Cooperation Treaty. The Japanese, for instance, are issuing approximately 3,500 patents *a week!* It is clearly impossible for any patent examiner even under the best of conditions to be aware of all this material.

Unfortunately, the Patent and Trademark Office is not operating under the best of conditions. Constant underfunding of its operations has created a situation where a limited staff is trying to cope with a constantly increasing workload and is under pressure to make speedy determinations on whether or not to grant patents. The failure of the patent examiner to cite all of the relevant materials and patents in his report can be used to challenge the patent's validity in court. The problem is how can the PTO meet its responsibilities to the patent applicant for prompt issuance and still insure that all of the relevant materials have been considered? Reexamination has been proposed by patent experts as the best means for filling this gap.

Under patent reexamination as envisioned in S. 1679, whenever anyone wanted to challenge an issued patent on the basis of prior art patents or printed publications they would file a request with the Patent and Trademark Office along with a fee and the evidence that is relevant to the patent challenge. The patent holder would be informed of the challenge and would receive a copy of any cited material being used to question his patent. Within 90 days of receipt of this request, the Commissioner of Patents and Trademarks would issue an initial decision. If it was determined that the challenge was lacking in merit, the patent would be upheld and this decision could not be appealed. If

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

owner. A third party can question the validity of a patent only by means of a patent infringement or declaratory judgment action in Federal court. Almost always, infringement and declaratory judgment suits are expensive, protracted and uncertain as to outcome. They place special hardships on small businesses and individual inventors—those least able to finance and await the outcome of litigation.

In his October 31, 1979 Industrial Innovation Message to the Congress, the President announced several significant steps to improve the presumptive validity of issued patents and to reduce the cost and frequency of defending them in court. The subject of S. 1679—providing the PTO with the authority to reexamine patents, either on its own initiative or at the request of any person—is one of the steps announced by the President. In his Message, the President announced that legislation to accomplish this reform would be submitted to the Congress.

A reexamination system of the type that would be established by S. 1679 was strenuously urged during the President's Domestic Policy Review by the Industry Advisory Subcommittee on Patent and Information Policy. The advisory subcommittee, drawing on the wealth of patent expertise among its members, urged increased reexamination authority for the PTO as one of the changes most needed for the continued effective functioning of the patent system. Patent reexamination was advocated strongly by the Committee on Economic Development in its recent innovation study. The features of S. 1679 also have been widely endorsed by business and professional organizations concerned with the role of patents in promoting technology. The American Patent Law Association and the American Bar Association also have urged enactment of such legislation.

The patent bar and the technical communities agree that the PTO competently applies known prior art in judging the patentability of pending applications. A private study in 1974 concluded that the PTO and the courts reach the same decision regarding validity in the vast majority of cases when considering the same prior art. (Koenig, G., *Patent Validity—A Statistical and Substantive Analysis*, published by C. Boardman, N.Y., 1974, section 5.05). A PTO study in the same year reached a similar conclusion. As a matter of policy, there is no difference in the standard of patentability applied by the courts and the Office. The vast proliferation of technological information along with budgetary constraints, however, preclude the PTO from discovering and considering all relevant technical information during the initial examination process. Also, our search file integrity, which the President announced will be upgraded significantly, is far from a level that would assure a complete search. Accordingly, our patent examination system must balance the comprehensiveness of an examination against the need to complete the examination expeditiously. Faced with existing impediments, it

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

be initiated only by the patentee. Under a reexamination system, any person would be allowed to test patent claims against newly discovered prior art in the same way they were originally tested, i.e., examination by an expert patent examiner. Thus, a reexamination system would complement the existing reissue practice in assuring that a patent provides protection commensurate with the contribution of the inventor.

Reexaminations, as a practical matter, would be concentrated on commercially important patents. Absent a commercial interest, businessmen will not seek reexamination. Moreover, the required fee will deter frivolous requests.

Reexamination would eliminate or simplify a significant amount of patent litigation. In some cases, the PTO would conclude as a result of reexamination that a patent should not have issued. A certain amount of litigation over validity and infringement thus would be completely avoided. Concomitant litigation over such time consuming and complex issues as patent misuse also would be reduced. In other instances, a reexamination proceeding in the PTO might more accurately define the scope of the patent. This would enable litigation to be resolved more quickly, or would promote out-of-court settlements. Licensing would be encouraged and potential competitors would be better able to judge the feasibility of entering a particular field of technology.

I cannot overemphasize the importance of establishing a viable reexamination system. The general thrust of S. 1679 parallels the thinking of the Administration on this subject. We look forward to working closely with the Congress to develop appropriate legislation. In this effort, certain issues will require particularly careful consideration.

For example, what is to be the relationship between the patent reexamination process and patent-related litigation? One approach might be to forbid a party to a court proceeding from relying upon prior art which has not been considered by the PTO, either on initial examination or on reexamination, unless the court determines that such consideration is unnecessary for its adjudication of the issues of validity or infringement. This would encourage an initial sharpening and possible resolution of issues through a comparatively inexpensive and expeditious reexamination by the PTO. This could reduce or eliminate the full range of issues requiring resolution by expensive and time-consuming patent litigation.

An alternative approach would be to grant courts absolute discretion with respect to requiring reexamination and permitting the use of prior art in judicial proceedings. If a court, on its own initiative or on motion by a party, determined that PTO evaluation of newly discovered prior art would be beneficial, then it could stay the proceedings to permit reexamination to take place. This could have the advantage of enabling a trial judge to maintain complete control over the conduct of patent litigation based on the merits of the case and on the judge's own expertise. Present experience with reissue pro-

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.

> From what I know of Judges' attitudes, I think they would welcome with open arms a chance to get Patent Trademark Office views on patentability over new art cited by defendants, even if the case had to be sent back to the PTO during the trial to get it. I have listened to a lot of discussion by trial judges about how they can get some expert help, independently of the parties' so-called experts. I think they ought to be able to get it from the PTO, where it is available. They do not relish doing the examiner's work and they are not equipped to do it. They are entitled to his help.

Reexamination will also return the courts to their proper function of determining validity or patent infringement questions rather than serving as patent examiners. Mr. Robert B. Benson, who was the chairman of President Carter's Domestic Policy Review's Subcommittee on Patents and Information Policy, spoke to this point in his testimony to the committee. Mr. Benson said:

> In summary, I believe that the proposed reexamination procedure will result in more accurately defining the legitimate scope of protection to which any potentially controversial patents are entitled, thereby increasing the credibility of the entire patent system. The reexamination procedure will eliminate the present practice of having district court judges function as patent examiners, and will return them to their traditional role of determining validity and infringement of patents after having the benefit of a skilled, independent, technical appraisal of the pertinency of all published prior art relative to the claimed invention by the Patent Office.

Mr. Donald R. Dunner, President of the American Patent Law Association, concurred that the courts would function more efficiently and that there would be a substantial reduction in the number of litigated cases if a reexamination system similar to that of S. 1679 were available. This would help both plaintiffs and defendants by drastically cutting the cost of obtaining a decision on the patent's validity.

C. INNOVATION AND THE PATENT SYSTEM

The committee heard from witnesses representing both large and small companies. Both groups agreed that a strong, dependable patent system was absolutely essential to the continued ability of American industry to successfully innovate. These witnesses also agreed that there was increasing uncertainty over the dependability of U.S. patents. Simply put, there is a widespread fear that patents representing promising inventions will be attacked by competitors that conduct exhaustive searches trying to find some relevant materials overlooked by the patent examiner. If such materials are found there is a good chance that the patent will be held invalid. When it is remembered that it can easily cost millions of dollars and take years of work to develop and market a new product, this fear is a serious obstacle to successful innovation. This holds true for both large and small companies.

Ms. Barbara N. Wyatt, Chairman of the Legislative Committee of the Inventor's Club of America and President of its Robert Goddard

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

confidence in the worth of U.S. patents. This has an adverse effect on our ability to successfully innovate and produce new products.

Patent reexamination has been proposed as the most effective means for bringing to the attention of the PTO materials that might have been overlooked in the initial patent examination. Reexamination is not intended in any way to relax the patentability standards or to justify anything less than the best possible patent examination. The committee also realizes that unless the Patent and Trademark Office receives adequate funding, the deterioration of the patent and trademark system will inevitably continue.

Reexamination will be limited to the areas of primary expertise of the PTO—patents and printed publications. A reexamination can be initiated either by a challenger or the patent owner to determine if some newly discovered patents or printed materials affect an issued patent's claims. The Commissioner can also initiate reexaminations, if this becomes necessary. The PTO will be allowed to charge a fee that will serve to discourage frivolous requests and will make the reexamination program self-supporting. The Commissioner already has authority to discipline members of the bar that bring fourth unjustifiable requests for reexamination proceedings. Moreover, attempted harassment of patent owners through the reexamination procedure should be essentially precluded since the Commissioner of Patents and Trademarks has the authority to order reexamination only in those cases which raise a substantial new question of patentability.

When the PTO receives a request for reexamination, the patent holder will be notified, but will not be required to do anything until a decision is made on whether or not a substantial new question of patentability has been raised. If the PTO decides that a question has been raised the patent owner will be allowed to reply to the challenge. Participation by third parties will be limited. The patent reexamination procedure thereby parallels the existing examination procedures.

The PTO will decide whether or not the patent is valid and can permit the patent holder to narrow the claims of the patent if this is necessary. A decision to invalidate an issued patent can be appealed by the patent owner. Decisions to uphold the patent are not appealable.

The courts would not be prevented from hearing patent validity cases that could be handled by the reexamination procedure, but it is expected that, as a practical matter, reexamination would precede litigation. A court could also stay a proceeding that is brought before it so that a patent could be reexamined.

Under the Patent Office's reissue-reexamination program which now exists, there has been no evidence of any tendency on the part of the Patent Office to refuse to correct its mistakes through reexamination. The experience that has already been gained under the present system should help the successful implementation of S. 1679.

Reexamination will also help to bring to the PTO's attention materials and patents that might be missing from the search files. The problem of missing files is a serious one that deserves to be directly addressed, but reexamination should prove to be at least a partial solution to the problem.

Patent reexamination will also help to encourage innovation by providing a relatively simple, inexpensive method for testing a patent's

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.

Sec. 310.—Any party to a civil action shall have the right to secure a stay of all proceedings in the action so that a reexamination can be performed.

VI. Budgetary and Regulatory Impact Statement

A. Budgetary Impact

The Commissioner of Patents and Trademarks Sidney A. Diamond estimated the cost of patent reexamination to run between $1 million to $4.5 million. This estimate is based on a projected 1,000 to 3,000 requests for reexamination per year which will require from 25 to 100 additional staff members.

The patent reexamination procedures in S. 1679 are designed to be self-supporting and will allow the Office to charge for full recovery of these costs. The Commissioner estimated that these charges would range from $1,000 to $1,500 per reexamination.

Because the fees recovered by the Patent and Trademark Office are not returned to it, but go to the Treasury Department, it will be necessary to make sure that this money is returned each year to the Office in its budget request. In summary there will be little budgetary impact by the enactment of S. 1679, but it will be necessary to insure that the funds taken in by the Office are returned to it in each year's budget.

B. Regulatory Impact

Some additional regulations will be necessary to implement the requirements of S. 1679, but these should be minimal and will in no way encumber the operations of the Patent Office as reflected in the Commissioner's statement of support for reexamination in his testimony to the committee.

S. 1679 will have no impact on personal privacy.

With the addition of needed staff to implement S. 1679 and with full fee recovery, reexamination will not have an adverse effect on the PTO's paperwork burden.

C. Congressional Budget Office Cost Estimate

Congressional Budget Office,
U.S. Congress,
Washington, D.C., February 27, 1980.

Hon. Edward M. Kennedy,
Chairman, Committee on the Judiciary,
U.S. Senate,
Dirksen Senate Office Building,
Washington, D.C.

Dear Mr. Chairman: Pursuant to Section 403 of the Congressional Budget Act of 1974, the Congressional Budget Office has prepared the attached cost estimate for S. 1679, the Patent Law Amendments of 1979.

Should the committee so desire, we would be pleased to provide further details on this estimate.

Sincerely,

Alice M. Rivlin, *Director.*