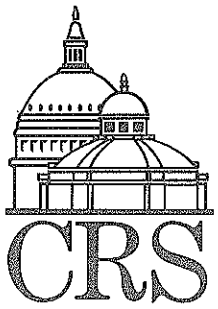
CRS Report for Congress

Patent Reform: Overview and Comparison of S. 507 and H.R. 400

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Dorothy Schrader
Senior Specialist
American Law Division



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Abstract

H.R. 400 and S. 507 are similar but different omnibus patent reform proposals. H.R. 400 passed the House of Representatives on April 23, 1997. S. 507 has been reported by the Senate Judiciary Committee. Both bills generally transform the Patent and Trademark Office into a government corporation; require publication of patent applications 18 months after filing, subject to certain exceptions that differ in these bills; and extend the patent term for certain delays in patent issuance. S. 507 also contains provisions on patent reexamination reform. This report summarizes and compares the bills and reviews arguments for and against the proposals.

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Patent Reform: Overview and Comparison of S. 507 and H.R. 400

Summary

The pending omnibus patent reform bills (S. 507 and H.R. 400) would reorganize the Patent and Trademark Office (PTO) as a government corporation and enact several other patent law reforms including early publication (with exceptions) and patent term restoration. S. 507 consists of six titles; H.R. 400 contains five titles.

As originally introduced, S. 507 and H.R. 400 were nearly identical, except that S. 507 omitted the title concerning regulation of fraudulent practices relating to invention promotion services.

H.R. 400 passed the House of Representatives in amended form on April 23, 1997. The House bill was amended at each stage of legislative consideration.

The principal differences between S. 507 and the House-passed version of H.R. 400 are: 1) the patent re-examination title appears only in the Senate bill; 2) the enhanced protection of inventors' rights title appears only in the House bill; 3) both bills generally require publication of patent applications at 18 months after filing, except that H.R. 400 generally exempts small businesses, independent inventors, and universities from publication before patent issuance and S. 507 permits any inventor who does not file for foreign patents to request a delay in publication until three months after the first Patent and Trademark Office action on the application; 4) both bills establish the PTO as a government corporation, but H.R. 400 provides that the PTO is subject to the policy direction of the Commerce Department (and the bill creates a new Under Secretary of Commerce for Intellectual Property) whereas S. 507 provides the PTO is "under the policy direction of the Secretary of Commerce" without creating a new policy position in Commerce; and 5) H.R. 400 contains miscellaneous provisions concerning divisional applications and publication of PTO procurement contracts not found in S. 507.

The substantive provisions of S. 507 and H.R. 400 are essentially the same with respect to the prior domestic commercial use defense (except that H.R. 400 expands the scope of the defense to include prior "research" users); patent term extension or restoration for unusual administrative delays and other specified reasons; and the miscellaneous patent changes relating to provisional application priority date, priority date for foreign plant breeder's rights, elimination of the prohibition against patenting tuber propagated plants, and electronic filing with the PTO. Both bills are also in agreement on early publication at 18 months after filing for larger entities who file for foreign patents.

This report reviews the background of the major patent reform issues and summarizes and compares the main provisions of S. 507 with H.R. 400 as it passed the House of Representatives.

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Patent Reform: Overview and Comparison of S. 507 and H.R. 400

Most Recent Developments

The House of Representatives passed H.R. 400, an omnibus patent reform bill known as the "21st Century Patent System Improvements Act," on April 23, 1997 with amendments.[1] Hearings were held by the House Subcommittee on Courts and Intellectual Property on February 26, 1997, and by the House Subcommittee on Government Programs and Oversight on April 24, 1997.[2]

Senator Hatch, Chairman of the Senate Judiciary Committee, on March 20, 1997 introduced S. 507, an omnibus patent reform bill known as the "Omnibus Patent Act of 1997."[3] Hearings were held before the Senate Judiciary Committee on May 7, 1997.[4]

As originally introduced, S. 507 and H.R. 400 were closely similar bills, except that S. 507 omitted the title relating to regulation of invention marketing services. The original bills were also nearly identical to counterpart bills considered during the 104th Congress (S. 1961 and H.R. 3460, respectively).

H.R. 400 was amended at each stage of its legislative consideration, including amendments passed during House floor debate on the bill. The Floor Manager's Amendment primarily creates a new intellectual property policy office within the

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[1] The bill consists of five titles: Title I — "Patent and Trademark Office Modernization Act;" Title II — "Examining Procedure Improvements Act;" Title III — "Protection for Prior Domestic Commercial and Research Users of Patented Technologies Act;" Title IV — "Enhanced Protection of Inventors' Rights Act;" and Title V — Miscellaneous Improvements.

[2] Hearings were also held on similar predecessor bills in the 104th Congress before the House Subcommittee on Courts and Intellectual Property on June 8, 1995 and November 1, 1995, before the House Small Business Committee on April 25, 1996, and before the House Subcommittee on Energy and Environment on May 2, 1996.

[3] S. 507 contains six titles. Title I — the "United States Patent and Trademark Organization Act of 1997;" Title II — the "Patent Application Publication Act of 1997;" Title III - Patent Term Restoration; Title IV — the "Prior Domestic Commercial Use Act of 1997;" Title V — the "Patent Reexamination Reform Act of 1997;" and Title VI — Miscellaneous Patent Provisions.

[4] Senate hearings had also been held on the predecessor bill, S. 1961, in the 104th Congress on September 18, 1996.

Department of Commerce,[5] and apparently transfers authority over patent and trademark policy from the Director of the Patent and Trademark Office (PTO) to a new position in the Department of Commerce — the Under Secretary of Commerce for Intellectual Property Policy. The Kaptur Amendment generally exempts small business entities, independent inventors, and universities from the publication of their patent applications before the patent issues. The Kaptur Amendment also deleted from H.R. 400 an entire title, which would have changed the patent reexamination procedures.

The Senate Judiciary Committee ("Hatch-Leahy") Amendment of S. 507 adopted a different exemption from the 18 month publication rule: any inventor who forgoes foreign patenting may, at the time of filing the application, request a delay in publication until the patent issues. The Hatch-Leahy Amendment retained those patent reexamination reforms that allow greater participation by third parties but removed those provisions that would have expanded the grounds for permissible reexamination.[6]

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[5] The Floor Manager's Amendment made several other changes in Title I of H.R.400, some of which relate to the Clinton Administration's preference to make the PTO Corporation a "performance-based" organization. See, House Passes Bill to Create PTO Inc., and Reform Patent Law, 53 BNA PAT., TRDMK, & COPR. JOUR. 539 (April 24, 1997). Other changes in the Floor Manager's Amendment apparently were intended to address some of the concerns expressed by opponents to the PTO corporation proposal.
Id. At 540. These changes require that the Management Advisory Board created by H.R. 400 shall include some inventors; deprive the PTO corporation of authority to borrow and receive monetary gifts from the private sector; and require that PTO corporation goods and services contracts must be available for public inspection. Technical amendments to Title IV strike references to invention development services or developers and replace those terms with invention "promotion" services or "promoter." The Manager's Amendment included two changes to the early publication-patent restoration title (Title II): small business concerns and independent inventors who forego foreign patenting could request a delay in publication of the application until three months after the second PTO action on the merits of the application; and the period for term extension caused by delays in patent prosecution would be reduced by the cumulative time an applicant takes in excess of 3 months to respond to any PTO rejection, objection, argument, or other request for response from the applicant.

[6] The Hatch-Leahy substitute Amendment to S.507 made many other changes to the bill as introduced, which will be discussed throughout this report. Without attempting to note every change, the following changes are highlighted. Concerning the PTO corporation, the Amendment makes explicit that nothing in the legislation alters the existing duties of the Register of Copyrights; reserves at least one seat on the patent Office Management Advisory Board for independent inventors; creates an Ombudsman position to advise the Patent Commissioner on the concerns of independent inventors, nonprofit organizations, and small businesses; further clarifies and restricts the authority of the PTO to accept gifts and prohibits the acceptance of gifts from foreign countries; prohibits the establishment of PTO satellite offices outside of the United States; requires the PTO to hire only U.S. citizens; clarifies that members of the management boards are special Government employees, subject to applicable ethical standards; and allows the PTO injunctive relief as well as damages for unauthorized use of its corporate name. The Amendment permits fast-track issuance of specific patent claims if the applicant permits publication of the application at 18 months, and requires a General Accounting Office (GAO) report in 3 years of the effect of the early publication
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This report summarizes and compares S. 507 and H.R. 400, provides background information on the major patent reform issues, and briefly presents arguments that have been advanced for and against particular patent reform proposals.

Overview

S. 507 and H.R. 400 contain several titles that are nearly identical or at least similar in content, but there are also major differences, because of amendments made to H.R. 400 during its consideration by the House of Representatives. Both bills propose reorganization of the Patent and Trademark Office (PTO) as a government corporation, early publication of certain patent applications, and other patent law reforms.

The major differences between the two bills now are:

1) S. 507 has no title dealing with the issue of invention promotion services regulation but H.R. 400 does;

2) H.R. 400 has no title dealing with patent reexamination reform but S. 507 does;

3) Both bills generally require publication of patent applications 18 months after filing but H.R. 400 generally exempts small businesses, independent inventors, and universities from pre-issuance publication[7] and S. 507

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[6](...continued)
provisions. The Amendment generally conforms the patent restoration, further limited examination, and prior domestic user provisions to H.R. 400. Two new miscellaneous patent provisions require the PTO to develop a computer network for rural States to provide access to electronic patent information anc require the GAO to report back in 6 months concerning risks in depositing material in support of biotechnology patents.

[7] H.R. 400 appears to contain an inadvertent technical error: both the Kaptur Amendment generally exempting small entities from pre-issuance publication (adopted on April 23, 1997) and the Floor Manager's Amendment allowing small entities to delay publication until three months after the second PTO action (adopted on April 17, 1997) are contained in the bill. The intention apparently was for the Kaptur Amendment to replace the Floor Manager's Amendment regarding early publication of applications from small entities, but the Kaptur Amendment did not expressly strike the relevant provisions of the Floor Manager's Amendment. The language of both amendments relating to an exception for "small entities" from the 18 month publication rule is in the bill as it passed the House. In addition to the basic point that the Kaptur Amendment generally exempts pre-issuance publication of "small entity" applications and the Manager's Amendment allows publication three months after the second PTO action (and therefore before issuance ordinarily), there are other apparent differences between the two provisions: the Kaptur Amendment applies to universities expressly, but the Manager's Amendment did not refer to universities expressly; under the Manager's Amendment, the request to delay publication must be made at the time of filing and the Director of the PTO can review the eligibility of the "small entity" at 15
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merely gives any inventor who does not file in a foreign country the privilege of delaying publication until three months after the first Patent and Trademark Office (PTO) action; and

4) H.R. 400 creates an Under Secretary for Intellectual Property Policy in the Department of Commerce and subjects the new PTO Corporation to the policy direction of the Department of Commerce; although S. 507 does not create a new policy office, the PTO Corporation would be "under the policy direction of the Secretary of Commerce;" also S. 507 establishes the Trademark Office as a separate administrative unit but H.R. 400 does not create separate units, even though H.R. 400 provides for appointment of two Commissioners — one for patents and one for trademarks.

Thus, Title I of both bills deals with PTO corporation status but H.R. 400 creates an intellectual property policy office in the Department of Commerce, which is not included in S. 507 and which is funded by up to 2 percent of the fees collected by the PTO Corporation.[8]

Title II of both bills contains provisions concerning early publication of patent applications 18 months after filing the application. H.R. 400 generally exempts small business entities, independent inventors, and universities from publication before patent issuance. S. 507 gives any inventor the option of delaying publication until three months after the first PTO action.

Both bills contain essentially the same patent term restoration provisions. Extensions up to 10 years would be available in the case of appeals and unusual administrative delays. In the case of delays related to interferences or government secrecy orders, the patent could be extended for the period of the delay without any cap. In H.R. 400, these provisions appear as part of Title II. In S. 507, however, the patent term restoration provisions appear in Title III.

Both bills contain closely similar provisions concerning prior domestic commercial user rights; they appear in Title IV of S. 507 and Title III of H.R. 400. There is one main difference. H.R. 400 expands the scope of the right to include prior domestic "research" users.

Title IV of H.R. 400, concerning regulation of invention promotion services, has no counterpart in S. 507.

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[7](...continued)
months after filing whereas, under the Kaptur Amendment, nonpublication before issuance is automatic. In discussing the early publication provisions of H.R. 400, this report will assume that the "inconsistencies" would be corrected during a House-Senate conference on the bill, if the Kaptur Amendment is retained by the conference committee. This report assumes the Kaptur Amendment is intended to supersede the "three months after second PTO action" provision of the Manager's Amendment.

[8] Based upon the fiscal 1998 proposed PTO budget of $630 million, the policy office could have up to a $12.6 million budget.

Title V of S. 507 on patent reexamination reform has no comparable provision in the House-passed version of H.R. 400.

Title VI of S. 507 contains the same miscellaneous patent provisions found in Title V of H.R. 400, but the latter bill adds two sections covering divisional applications and publication of PTO procurement contracts not found in S. 507.

Summary and Comparison of S. 507 and H.R. 400

PTO Government Corporation[9]

The Patent and Trademark Office is now part of the Department of Commerce and operates under the direction of the Assistant Secretary of Commerce and Commissioner of Patents and Trademarks (one position). The idea of separate agency status for the PTO was raised as early as 1980 by a recommendation of the American Bar Association. The National Academy of Public Administration (NAPA) studied the related idea of reorganization of the PTO as a government corporation. NAPA has recommended corporation status for the PTO in reports issued in 1985, 1989, and 1995. Since 1993, the PTO has been fully funded by user fees.

Both bills establish the PTO as a government corporation and agency of the United States, with business-like authority to conduct its operations relating to issuance of patents and registration of trademarks. The PTO Corporation would be subject to congressional oversight. Expenditures (and borrowing under S. 507) would be subject to the appropriations Acts. (H.R. 400 has eliminated the borrowing authority.) The fee structure would be set by the Congress, with some administrative authority to adjust fees for inflation and set fees for special services.

The management of the PTO Corporation would be vested in a Director who would be appointed by the President with the advice and consent of the Senate. In the case of H.R. 400, a term of five years is specified. In S. 507, the Director serves at the pleasure of the President.

The PTO would have authority to issue bonds; invest funds; generally retain and use all revenues; purchase, lease, construct and manage real and personal property; and award contracts.

The Director must consult regularly with (a) Management Advisory Board(s) about the operations of the PTO with respect to policies, goals, performance, budget, and user fees. The Director must consult the Board(s) before submitting budgetary proposals to the Office of Management and Budget or making or proposing changes in user fees or regulations. H.R. 400 would establish a 12-person Board, whose members would be appointed for 4-year terms; the President, Speaker of the House, and majority leader of the Senate would each appoint four members. The House bill now requires that inventors be among those named to the Board. S. 507

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[9] Title I of both bills.

would create two separate 5-member Boards for patents and trademarks, respectively, whose members would be appointed by the President (of whom not more than 3 shall be members of the same political party) and serve at the pleasure of the President.

Other major differences between the bills concerning the PTO Corporation include the following:

1) S. 507 establishes the patent and trademark functions in separate administrative units;

2) under S. 507, the Director of the PTO Corporation would advise the President on domestic and international policy issues relating to patents and trademarks;

3) H.R. 400 essentially removes the policy function from the PTO Corporation and entrusts it to the new position of Under Secretary of Commerce for Intellectual Property; two percent of PTO revenues are allocated to the support of this policy office in the Commerce Department; and

4) H.R. 400 tasks the General Accounting Office with preparation of a report to Congress, within two years of the effective date, on the operations of the PTO Corporation and the feasibility and desirability of making the trademark operations a separate government corporation or agency.

Pros and Cons of Corporate Status for the PTO. Supporters of the PTO Corporation proposal maintain that this transformation to corporate status will free the PTO "from bureaucratic redtape that impedes the Office's efforts to modernize and streamline its operations."[10] Modernization of the PTO, it is asserted, will result in an improved and more efficient patent system.[11]

Opponents of a PTO government corporation express concerns about "corporatizing" the judicial function of granting patent rights — a function which has been exercised by government for centuries. They also express concern about the increased authority of the Director and assert that corporatization — together with the role of the management advisory board(s) — increases the opportunities for undue influence by special and foreign interests, to the detriment of the U.S. patent system.[12]

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[10] Statement of Chairman Coble, introducing H.R. 400 on January 9, 1997. 143 Cong. Rec. At E77, 105th Cong., 1st Sess. (1997).

[11] Statement of Michael Kirk, Executive Director of the American Intellectual Property Law Association, Hearing on S. 507 Before the Senate Judiciary Committee on May 7, 1997, 105th Cong. 1st Sess. (1997) (unpublished).

[12] Alliance for American Innovation, position paper on H.R. 400 (dated February 25, 1997) (unpublished).

Pre-Issuance Publication of Patent Applications[13]

Under existing United States patent law (35 U.S.C. §122), a patent application must remain confidential until the patent issues. Virtually all foreign countries require publication of pending patent applications after a fixed period of time — usually 18 months after filing. As part of the effort to harmonize national patent laws and develop international standards, the Patent and Trademark Office's Advisory Commission on Patent Reform in March 1992 recommended that United States law be amended to require publication of patent applications 18 months after filing.

Title II of both bills[14] would amend 35 U.S.C. §122 to require public disclosure of patent applications generally 18 months after the earliest filing date for which a benefit is sought, subject to certain exceptions. The exceptions common to both bills are: applications no longer pending 18 months after filing, and applications subject to a government secrecy order.

S. 507 also allows any inventor who foregoes foreign patenting to request a delay in publication until 3 months after the first PTO action on the application.[15]

H.R. 400 as passed by the House also exempts applications undergoing a national security review and, under the Kaptur Amendment, generally exempts applications filed by small business entities, independent inventors, and universities from publication before issuance of the patent. The "small entities" exemption does not apply i) to an application pending more than five years, which is not being diligently pursued,[16] and ii) to an application for which a continuing application has been filed more than 6 months after the original filing, unless the applicant can adequately demonstrate a reason for the continuing application other than an attempt to delay publication. The Director of the PTO shall publish such applications if, after notice and consideration of the applicant's response, the Director finds the statutory conditions for publication have been met. The Director also has discretion to publish the data in the foreign patent application of an otherwise exempt entity after the data

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[13] Title II of both bills.

[14] Title II of S. 507 is entitled the "Patent Application Publication Act of 1997;" Title II of H.R. 400 is entitled the "Examining Procedure Improvements Act."

[15] The first PTO action generally does not lead to immediate patent issuance. In practice, the examiner more frequently requests that the claim(s) be rewritten or rejects the application as filed. Several contacts between the examiner and the patent applicant are common before the patent ultimately issues. These contacts may consume months or years in some cases. Also, administrative and judicial appeals may be taken, if the PTO rejects the claim(s), which could consume additional months or years.

[16] There are additional conditions that will affect the ability of the PTO to publish the application. The Director of the PTO must give notice to the patent applicant, who has 90 days to demonstrate that the statutory conditions for publication have not been satisfied. For publication to take place, the application must have been filed after enactment, must not have been published previously by the PTO, not be under appellate review by the Board of Patent Appeals and Interferences, not be undergoing an interference proceeding, not be under any government secrecy order, and not be in abandonment, as well as not being diligently pursued by the applicant.

is published abroad, if the data is not available in English through commercial services.

The "small entities" exemption applies in the context of a 20-years-from-filing patent term.[17] Deliberate delays in patent prosecution count against the patent term under this system. Senator Hatch noted this point in discussing the patent term provisions of S. 507. He said: "By adopting GATT, and changing the manner in which we calculate the patent term to twenty years from filing, we eliminated the submarine problem. Under the current rule, if an applicant delays his own application, it simply shortens the time he will have after the actual granting of the patent. Thus, we have eliminated this unscrupulous, inefficient practice by removing its benefits."[18]

Some may argue that pre-issuance publication rules are required even under a term computed from filing because it may be difficult to establish whether the delays are the fault of the applicant or of the PTO.

Provisional Rights. Another provision of Title II common to both bills grants provisional royalty rights from publication to patent issuance, assuming that the patent is granted and provided that the user of the invention had actual knowledge of an English language version of the published application.

No New Pre-issuance Opposition. Both bills provide that the publication requirements shall not operate to create any new opportunities for pre-issuance opposition to the patent application. The Director of the PTO may issue regulations to ensure this outcome.

Differences Other Than Publication Rules. Two other provisions of H.R. 400 are omitted from S. 507. One provision requires a PTO report by April 1, 2001 and annually thereafter regarding the impact of early publication on independent inventors.[19] Another provision of H.R. 400 authorizes the PTO Commissioner to

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[17] The term for United States utility patents was changed from 17 years from issuance to 20 years from filing by Public Law 103-465, which implemented the intellectual property standards of the 1994 General Agreement on Tariffs and Trade. See the discussion at page 10, infra.

[18] 143 CONG. REC. At S2680, 105th Cong., 1st Sess. (March 20, 1997). By his reference to the "submarine problem," Senator Hatch presumably means the practice known as "submarine patenting" — deliberate delays by the applicant in prosecuting the patent application until the claimed technology is independently developed by competitors. For further discussion, see footnote 31, infra.

[19] SEC. 211 of H.R. 400. Given the exemption of independent inventors generally from pre-issuance publication, it is not clear whether the reporting requirement was retained inadvertently following adoption of the Kaptur Amendment exempting independent inventors, or whether it is intended that the report will contain information about those applications of independent inventors that are published before issuance because of "abusive" delays in patent prosecution.

issue regulations providing for limited further examination of patents (after a rejection) at a 50 percent fee reduction for small entities.[20]

Other than the publication rules, the major difference in Title II of the bills is organizational: S. 507 places the provisions regarding patent term restoration in a separate title (Title III of S. 507) rather than include them in Title II as H.R. 400 does.

Pros and Cons of Pre-Issuance Publication. Supporters of early publication have contended that these disclosure provisions further the constitutional incentive to disseminate information regarding new technologies more rapidly. They assert that the term extension provisions guarantee that patent applicants will not lose patent term due to delays that are not their fault, and that the provisional right to a royalty protects patentholders whose applications are published before issuance.[21]

One argument against early publication has presumably been affected by House adoption of the Kaptur Amendment, generally exempting "small entities" from pre-issuance publication. However, since the "small entities" exemption does not appear in the Senate bill, opponents of early publication will likely revisit the issue in the Senate. They have argued that the 18 month provision "violates the original intent of our Founding Fathers to grant an applicant a patent in exchange for full disclosure of the inventor's idea" and "[p]rematurely discloses American patent applications to competitors and the public worldwide."[22] Early publication opponents also assert that the extensions of the patent term "which are in the power of the Commissioner to grant are no substitute for a guaranteed patent term."[23]

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[20] SEC. 209 of H.R. 400.

[21] Statement of Senator Hatch, introducing S. 507 on March 20, 1997; 143 CONG. REC. At S2680, 105th Cong. 1st Sess. (1997). Statement of Chairman Coble, introducing H.R. 400 on January 9, 1997; 143 CONG. REC. At E76-E77, 105th Cong. 1st Sess. (1997). Statement of Michael Kirk, Executive Director of the American Intellectual Property Law Association, Hearing on S. 507 Before the Senate Judiciary Committee on May 7, 1997, 105th Cong., 1st Sess. (1997) (unpublished).

[22] Alliance for American Innovation, position paper on H.R. 400 (dated February 25, 1997) (unpublished).

[23] Ibid. This argument relates in part to a proposal to change the patent term to the greater of 17 years from issuance or 20 years from filing, which was considered and rejected by the House in the form of an amendment by Representative Rohrabacher but has not been introduced in the Senate. The argument also refers to the fact that the Director of the PTO makes the initial determinations about the period of any extension based upon findings about the reasonable diligence of the applicant in prosecuting the patent application. This authority would arguably be controlled, however, by the statutory standards governing delays; also, PTO term extension decisions are appealable.

Patent Term Restoration[24]

Before enactment of the Uruguay Round Agreements Act of 1994 ("URAA"),[25] the term for U.S. utility patents was 17 years from the date of issuance. United States law included one provision for extension of the term. Since 1984, the term could be extended up to 5 years for human drug products, medical devices, or food or color additives subject to premarketing approval by the Food and Drug Administration (FDA).[26]

Article 33 of the Trade-Related Intellectual Property Standards ("TRIPS") of the 1994 General Agreement on Tariffs and Trade ("GATT") requires members to apply a minimum utility patent term of 20 years from filing.[27] The United States adopted a 20-year from filing term in the URAA. The 20-year term applies to all patents issuing on applications filed on or after June 8, 1995 (i.e., 6 months after enactment of the URAA). This term may be extended up to 5 years to compensate for delays in patent issuance caused by an interference proceeding, a government secrecy order, or a successful appeal to the Board of Patent Appeals and Interferences or the Court of Appeals for the Federal Circuit.[28]

The URAA also set a special term for patents in force and patents issued on the basis of applications pending before June 8, 1995. For these patents, the greater of 20 years from filing or 17 years from issuance applies.

With respect to patent term extensions, S. 507 and H.R. 400 have essentially the same substantive content (except that H.R. 400 adds additional criteria to define "unusual administrative delay"). The term extension or restoration provisions are found in Title III of S. 507 and SEC. 208 of Title II in H.R. 400.

Both bills would add "unusual administrative delay" as a fourth justification for general patent term restoration. Extensions up to 10 years (instead of the 5 years of existing law) would be available in the case of appeals and unusual administrative delay. In the case of delays related to interferences or government secrecy orders, the patent could be extended for the period of the delay without any cap. The

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[24] Title III of S. 507; SEC. 208 of Title II of H.R. 400.

[25] Pub. L. No. 103-465, 108 Stat. 4809, Act of December 8, 1994, implementing the changes in United States law, including intellectual property laws, mandated by the Uruguay Round Agreements of the 1994 General Agreement on Tariffs and Trade ("GATT").

[26] Drug Price Competition and Patent Term Restoration Act of 1984, codified at 35 U.S.C. §156 (also known as the "Hatch-Waxman" Act). The Act also facilitates FDA approval of generic drugs, which may be marketed only after expiration of the extended term for pharmaceutical produce patents.

[27] When the 1994 GATT standards were agreed upon, virtually all countries computed the term of patents from the date of filing rather than issuance.

[28] The patent extension is allowed under these conditions provided the delay covers more than three years after filing. The extension is reduced by any period during which the patent applicant fails to act with due diligence in prosecuting the application.

extension period is reduced by any period during which the applicant fails to make "reasonable efforts to conclude processing or examination."[29]

Both bills also create statutory standards for determining what constitutes an "unusual administrative delay." Basically, if the Patent Office takes more than 14 months from filing to reject, allow or require amendment of a patent application, the patent is extended for the delay beyond 14 months. In the case of replies and administrative appeals, if the Patent Office takes more than 4 months to respond or act on an application, the patent is extended for the delay beyond 4 months. Also, if issuance takes more than 4 months after payment of the issue fee, the patent is extended for the period of the delay.

To these criteria, H.R. 400 adds a general criterion that the patent is extended for delays in patent issuance of more than 3 years from filing, provided the applicant responds to PTO requests within 3 months and has not requested further examination, benefitted from an extension of the patent term for reasons other than administrative delay, sought appellate review, or otherwise requested a delay. Also, the term shall be reduced by the cumulative time that an applicant takes to respond in excess of 3 months to any PTO action involving a rejection, objection, argument, or other request for a response.[30]

Pros and Cons of Patent Restoration. The debate concerning patent term restoration focuses primarily on the merits of a term computed from filing compared with a term computed from patent issuance. Supporters of a term computed from filing cite the benefits of international harmonization and argue that a term computed from filing increases the term for the majority of patentees. "With the amendments made by Title III [of S. 507], we are confident that no diligent applicant will receive less than seventeen years of exclusive patent rights and the vast majority will receive more."[31] Some also argue that a term computed from filing eliminates the "unscrupulous, inefficient practice" referred to as "submarine patenting."[32]

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[29] Existing law requires the applicant to act with "due diligence" to avoid attribution of the delays to him or her, with the consequent loss of extensions beyond 20 years from filing.

[30] These additional criteria are arguably implicit in S. 507.

[31] Statement of Michael Kirk, Executive Director of the American Intellectual Property Law Association, Hearing on S. 507 Before the Senate Judiciary Committee on May 7, 1997, 105th Cong. 1st Sess. (1997) (unpublished).

[32] Statement of Senator Hatch, introducing S. 507 on March 20, 1997. 143 CONG. REC. At S2680. "Submarine patenting" refers to a practice of deliberate delays by the applicant in prosecuting the patent application until the claimed technology is independently developed by competitors. At this point, the applicant completes the application process. If the patent issues, the "submariner" can attempt to license or assert rights against technology marketed in ignorance of the pending application. Observers disagree about the prevalence and impact of the practice, and about the remedies for controlling abuses (e.g., whether administrative regulations could control the abuses or whether legislation is required). An August 1995 PTO report, which covers patents issued after delays of 20 years or more, discloses that about 62 percent of the "submarine patents" identified by the PTO had been delayed by government secrecy orders or were owned by the government. A recent court

(continued...)

Those who favor the greater of 17 years from patent issuance or 20 years from filing believe that a guaranteed statutory term is preferable to a term subject to computation by the PTO, and they believe that the 20 year from filing term shortens the period of effective patent protection for a significant number of patentholders.[33]

If the United States patent law maintains a term computed from filing, discussion shifts to the criteria or standards for determining who is entitled to extensions for certain delays. In general, virtually all patent applicants would favor the longest possible extensions of the term.

Prior Domestic Commercial Use [34]

The "prior domestic user" provisions would add a new section 273 to title 35 U.S.C. to provide a limited defense for good faith commercial use of a patented invention under certain circumstances. The provisions appear in Title IV of S. 507 and Title III of H.R. 400; the substantive content of the bills is similar.[35] The major difference is that H.R. 400 expands the defense to cover prior **research** use of the patented technology.

A good faith prior user who began use of the technology before the patent filing date would essentially be given a royalty-free statutory "license" to practice the technology and any variations or improvements in the claimed subject matter that do not infringe any additional specifically claimed subject matter of the patent. The statutory "license" is asserted as a defense to infringement of specific patent claims.

In order to claim the defense, the good faith user must prove commercial use of the technology or reduction to practice more than one year before the effective filing date of the patent. The user must have completed a significant portion of the investment needed to use the subject matter commercially and have made a commercial transaction in the United States before the patent filing date. After the patent filing date, the user must also diligently complete the remainder of the

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[32](...continued)
decision held a "submarine" patent unenforceable under the doctrine of "continuing application laches." Ford Motor Co. V. Lemelson, 1995 WL 628330 (magistrate's opinion of June 16, 1995), confirmed and adopted by the district court on April 11, 1996, 40 U.S.P.Q. 2d 1349, 1996 WL 673595 (D. Nev. 1996).

[33] Alliance for American Innovation, position paper on H.R. 400 (dated February 25, 1997) (unpublished).

[34] Title IV of S. 507, which contains the "Prior Domestic Commercial Use Act of 1997;" Title III of H.R. 400, which contains the "Protection for Prior Domestic Commercial and Research Users of Patented Technologies Act."

[35] Title IV of H.R. 400 covers subject matter omitted in S. 507 — the Enhanced Protection of Inventors' Rights Act. These provisions target the deceptive practices of fraudulent promotion companies who allegedly charge large sums of money for phony patent searches and worthless market research reports. H.R. 400 establishes standard contract requirements and civil and criminal penalties, as discussed later.

activities and investments needed for commercial use and promptly begin commercial use.

The "prior domestic use" defense allows an earlier innovator to elect the trade secret route rather than seek patent protection and to continue using that technology without becoming liable for patent infringement. The defense is personal to the person who actually uses the subject matter and is not a general license to the invention claimed in the patent. The prior use defense "rights" can be assigned, however, with the transfer of an entire business.

Title III of H.R. 400 extends the "prior domestic user" rights to nonprofit research entities (e.g., laboratories, universities, research centers, and hospitals) if their prior use is for the benefit of the public. In order to qualify for the statutory "license," the prior research use must be limited to activity that occurred within the nonprofit research entity or to use by persons in privity with that entity. The use must occur before the effective filing date of the patent application at issue, as in the case of prior commercial users.

Pros and Cons of the Prior User Defense. Supporters of the "prior domestic user" provisions assert they accord fair treatment for those innovators who elect trade secret protection for their innovations rather than patent protection. They see both trade secret and patent protection as appropriate vehicles for encouraging new technological developments. They argue that the prior user rights "will improve the efficiency of our patent system by protecting ongoing business concerns and encouraging swift prosecution of patent applications."[36] American companies, including small businesses, will enjoy a right that is available in virtually all industrialized foreign countries.[37]

Opponents of prior user rights generally believe the patent system, with its full disclosure of the invention upon patent issuance, encourages technological development more efficiently than trade secret protection.[38] They argue that the prior user right weakens the patent system, "stifles the dissemination of technology, [and] devalues the property of the one who has gone to the trouble and expense of obtaining the patent and disclosing it to the public."[39] Patent Reexamination Reforms[40]

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[36] Statement of Senator Hatch, introducing S. 507 on March 20, 1997. 143 CONG. REC. At S2680.

[37] Statement of Chairman Coble, introducing H.R. 400 on January 9, 1997. 143 CONG. REC. At E76 and E77. See also, Statement of Michael Kirk, Executive Director of the American Intellectual Property Law Association, Hearing on S. 507 Before the Senate Judiciary Committee on May 7, 1997, 105th Cong., 1st Sess. (1997) (unpublished).

[38] Alliance for American Innovation position paper on H.R. 400 (dated February 25, 1997) (unpublished).

[39] Representative Dana Rohrabacher, Congressional Commentary: The Case for a Strong Patent System, 8 HARV. J. LAW & TECH. 263, 270 (1995).

[40] Title V of S. 507 contains the "Patent Reexamination Reform Act of 1997." There (continued...)

Patent reexamination is an administrative proceeding ordered by the PTO to reconsider or review the patentability of an invention after issuance where a substantial new question of patentability is appropriately raised.

Under existing law,[41] if a third party requests reexamination of a patent and the Commissioner of the PTO orders reexamination, the third party participates in subsequent proceedings only if the patentholder files a response to the Commissioner's order. Many patentholders apparently forego the opportunity to respond in order to deny the third party the opportunity to be heard on patent validity. Third party requesters have no right of appeal. Also, the patent reexamination can be ordered only based on new prior art references and sections 102 (requirement of novelty) and 103 (requirement of nonobviousness) of title 35 U.S.C.

As stated in the legislative history to the 1980 Act, the purpose of administrative reexamination of patents is to "permit any party to petition the patent office to review the efficacy of a patent, subsequent to its issuance, on the basis of new information about pre-existing technology which may have escaped review at the time of the initial examination of the patent application. Reexamination will permit efficient resolution of questions about the validity of issued patents without recourse to expensive and lengthy infringement litigation."[42] Congress also recognized that the anticipated benefits of patent reexamination "must be balanced against the potential for abuse, whereby unwarranted reexaminations can harass the patentee and waste the patent life."[43] For this reason, "reexamination as enacted was carefully limited to new prior art...."[44]

Title V of S. 507 broadens the basis for patent reexamination and the scope of the reexamination in order to increase third party participation in reexamination procedures and appeals. Patent reexamination could be granted not only where a substantial new question of patentability is raised based on prior art, but also because of a failure to comply with the 35 U.S.C. §112 disclosure and claim requirements, except for the best mode requirement.[45]

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[40](...continued)
are no comparable provisions in H.R. 400 as it passed the House of Representatives since the Kaptur Amendment struck the title dealing with patent reexamination.

[41] Title 35 U.S.C. §§301-307. Patent reexamination was first authorized, effective July 1, 1981, by Public Law 96-517 (Act of December 12, 1980).

[42] H.R. REP. 96-1307, 96th Cong. 2d Sess. 3 (1980).

[43] In re Recreative Technologies Corp., 83 F.3d 1394, 1397 (Fed. Cir. 1996).

[44] 83 F.3d at 1397.

[45] Section 112 of existing patent law requires the inventor to disclose not merely a mode for carrying out the invention but the best mode "contemplated by the inventor" at the time of filing. Failure to disclose the "best mode" can result in an invalid patent. A violation may occur if the disclosure is "so objectively inadequate as to effectively conceal the best mode from the public." United States Gypsum Company v. National Gypsum Company, 74 F. 3d 1209, 1215 (Fed. Cir. 1996) (emphasis in original).

During reexamination, the patent owner would have the right to propose one limiting amendment to the patent and could also file a response to any reexamination action on the merits of the patent. If the patent owner responds, the third party requester may respond within one month by filing written comments.

A third party requester would have the right to appeal any decision favorable to the patent. If the third party exercises this right of appeal, the requester is estopped in any future action from asserting patent invalidity of any claim found patentable on the appeal.

Pros and Cons of Expanded Patent Reexamination. Supporters of the patent reexamination reforms in S. 507 assert they will provide the public with a more effective administrative procedure to test the scope and validity of patents. Administrative reexamination of patentability, it is argued, is cheaper and more efficient than protracted litigation. Supporters of these reforms believe S. 507 embodies safeguards to ensure against abuse, that the improved reexamination procedures are fairer to both patentees and third party requesters than existing law, and that increased use of reexamination procedures will reduce the burden on the courts.[46]

Opponents of the proposed patent reexamination reforms argue that they are "a hunting license for giant and foreign companies to bring their full legal resources to bear against any individual/independent inventor and small innovative business."[47] They assert that the patent cannot be realistically enforced during the pendency of a reexamination proceeding.

Regulation of Invention Promotion Services[48]

The Enhanced Protection of Inventors' Rights Act (Title IV of H.R. 400) would regulate the activities of invention promotion services. The provisions target the deceptive practices of fraudulent invention promotion companies who allegedly charge large sums of money for phony patent searches and worthless market research reports. A new Chapter 5 to Part I of title 35 U.S.C. would set out the requirements for contracts to be offered by invention promotion services.

Contracts for invention promotion services that do not comply with the statutory requirements, or that are entered into in reliance on any material false, fraudulent, or misleading information or advertising by the promotion service, would be voidable at the option of the customer. Waivers of these requirements would be unenforceable.

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[46] Statement of Michael Kirk, Executive Director of the American Intellectual Property Law Association, Hearing on S. 507 Before the Senate Judiciary Committee May 7, 1997, 105th Cong., 1st Sess. (1997) (unpublished).

[47] Alliance for American Innovation position paper on Title V of H.R. 400 (as introduced) (unpublished position paper dated February 25, 1997).

[48] Title IV of H.R. 400 contains the "Enhanced Protection of Inventors' Rights Act." There are no comparable provisions in S. 507.

An injured customer could obtain, in addition to reasonable costs and attorneys' fees, the greater of $5000 or actual damages. The court would have discretion to award treble damages.

Any invention promotion service that knowingly provides false or misleading statements or fails to make all disclosures required by the Act could be found guilty of a misdemeanor and fined up to $10,000 for each offense.

Pros and Cons of Invention Promotion Services Regulation. Supporters of regulation of invention promotion services argue that penalties and standards are needed to control abusive, predatory practices of unscrupulous invention promoters who defraud first-time inventors of more than $100 million annually. The proposed mandatory disclosure requirements and civil and criminal penalties, it is asserted, are needed to curtail the operations of these unscrupulous promoters and allow inventors who have been defrauded to obtain compensation.[49]

Little public opposition has been expressed concerning the proposed regulation of invention promoters. Since the targeted activities are predatory and fraudulent, there appears to be little, if any opposition, to the basic principles of the proposal. Some have expressed concerns about unintended coverage of legitimate invention promotion services,[50] about the details of the proposal[51] (some of which may have been addressed by amendments made to H.R. 400), and about the PTO as the appropriate agency to regulate the invention promotion services.[52] Doubts may exist about the appropriateness of federal action on the ground that state law already proscribes the fraudulent activities covered by the proposal.

Miscellaneous Patent Provisions[53]

S. 507 and H.R. 400 include miscellaneous patent reform provisions. The provisions relating to provisional applications, international applications, plant patents, and electronic filing are common to both bills.

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[49] Statement of Michael Kirk, Executive Director of the American Intellectual Property Law Association, Hearing on S. 507 Before the Senate Judiciary Committee on May 7, 1997, 105th Cong. 1st Sess. (1997) (unpublished).

[50] Written Statement of Ronald Docie, Sr. of Docie Marketing, Hearing on H.R. 1127 and H.R. 2419 Before the Subcommittee on Courts and Intellectual Property of the Committee on the Judiciary, House of Representatives, 104th Cong., 1st Sess. 130-131 (October 19, 1995). H.R. 2419 was the predecessor bill to Title IV of H.R. 400. (Hereafter, "House Hearing on H.R. 2419").

[51] House Hearing on H.R. 2419 at 125-129 (written statement of Professor Gerald Udell, Executive Director of the Center for Business and Economic Development, Southwest Missouri State University and Dean Ronald Bottin, College of Business Administration, Southwest Missouri State University).

[52] House Hearing on H.R. 2419 at 109 (statement of Robert Lougher, President, Inventors Awareness Group, Inc.) (Suggesting that the Federal Trade Commission has greater experience and resources to monitor and enforce the proposed regulations).

[53] Title VI of S. 507; Title V of H.R. 400.

The bills clarify the establishment of the priority date when filing a provisional U. S. application. To establish the priority date, the applicant must request that the provisional application be considered a regular application within 12 months of the provisional filing.

The bills also clarify that applications for plant breeder's rights filed in a foreign World Trade Organization (or a foreign UPOV treaty) member country have the same effect for purposes of the priority filing date as applications for utility patents.

The prohibition against patenting tuber propagated plants would be removed and patent protection would be extended to the sale of asexually produced parts of plants (such as flowers and fruits) as well as the entire plant.

The head of the PTO could require the filing of papers on an electronic medium.

To these miscellaneous changes, H.R. 400 adds two others: amendments relating to divisional application procedures (where two or more independent and distinct inventions were originally claimed in one application and the PTO requires a restriction of the claim); and a requirement that the PTO make available for public inspection its solicitations for procurement contracts and the final contracts themselves.

Supporting and Opposing Viewpoints

In the view of their supporters, the omnibus patent reform bills (S. 507 and H.R. 400) seek to modernize, streamline, and improve the American patent system to meet the challenges of the next century, both domestically and internationally.

As introduced, both bills were nearly identical except that S. 507 omitted the title concerning regulation of fraudulent practices relating to invention promotion services. As passed by the House on April 23, 1997, H.R. 400 embodies several amendments. The bills remain closely similar, however, except for the changes made to H.R. 400 by the Kaptur Amendment: small businesses, independent inventors, and universities are generally exempt from the required publication of the patent application 18 months after filing under H.R. 400; and the patent reexamination provisions have been eliminated.

At this time, groups that supported or opposed omnibus patent reform are reassessing their positions in light of the Kaptur Amendment.

Supporters of the original patent reform proposals have stated the proposals will benefit American inventors and the public in these ways: "First, by providing more efficient and effective operation of the Patent and Trademark Office; second, by furthering the constitutional incentive to disseminate information regarding new technologies more rapidly; third, by guaranteeing that patent applicants will not lose patent term due to delays that are not their fault; fourth, by improving the procedures for reviewing the work product of patent examiners; fifth, by protecting

earlier domestic commercial users of patented technologies; and sixth, by deterring invention promoters from defrauding unsuspecting inventors."[54]

Opponents of omnibus patent reform have expressed a variety of objections or concerns about the different titles of the original bills. In their view, the patent reform proposals "will radically change the U.S. patent system to mirror that of Europe and Japan,"[55] and they have objected because they believe the existing American patent system is superior to foreign patent systems. Opponents of the bills have contended that the judicial function of patent issuance should not be entrusted to a corporation; that early publication of patent applications encourages patent "flooding" and prematurely discloses the invention to competitors to the detriment of independent inventors in particular; and that the patent reexamination reforms (included only in S. 507 now), if included in the final bill, expose independent inventors to contentious and expensive administrative proceedings during which their patent is essentially unenforceable.[56] Those espousing these views may be partially satisfied by the Kaptur Amendment to H.R. 400, which eliminates the patent reexamination reforms and generally exempts "small entities" from pre-issuance publication of their patent applications.

Those who have participated in the debate over patent reform agree that the patent system is vital to maintenance of a strong economic system in the United States. The participants hold sharply different perceptions about the advantages and disadvantages of some of the specific proposals to reform the patent system.

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[54] Statement of Chairman Coble, House Subcommittee on Courts and Intellectual Property, introducing H.R. 400 on January 9, 1997, 143 CONG. REC. At E76, 105th Cong. 1st Sess. (1997). See also, the similar statements of Senator Hatch, introducing S. 507 on March 20, 1997, 143 CONG. REC. At S2679-80 (except for point 6 of Chairman Coble's comments), and of Michael Kirk, Executive Director of the American Intellectual Property Law Association, Hearing on S. 507 Before the Senate Judiciary Committee on May 7, 1997, 105th Cong. 1st Sess. (1997) (unpublished).

[55] Alliance for American Innovation position paper on H.R. 400 (dated February 25, 1997) (unpublished).

[56] Ibid. See also, the similar arguments of Representative Rohrabacher during House floor debate on H.R. 400, 143 CONG. REC. At H1630 (April 17, 1997).