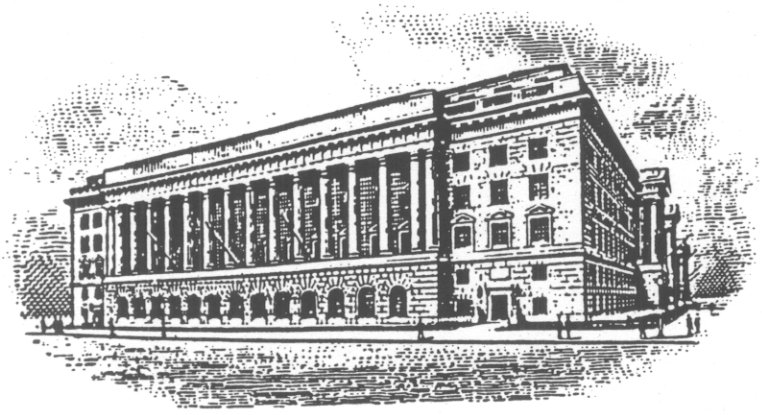
THE ADVISORY COMMISSION ON PATENT LAW REFORM



A REPORT TO THE SECRETARY OF COMMERCE

AUGUST 1992

LETTER OF TRANSMITTAL

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August 1992

Honorable Barbara Hackman Franklin
Secretary of Commerce
Washington, D.C. 20230

Dear Madam Secretary:

We have the great honor to present the report of the Advisory Commission on Patent Law Reform.

The Advisory Commission was established in 1990 by the former Secretary of Commerce, Robert Mosbacher, to advise him on the state of and the need for any reform of the patent system of the United States. Over the past two years the Advisory Commission has diligently studied a myriad of patent-related issues ranging from key patent harmonization questions to methods for reducing the cost and complexity associated with modern patent litigation.

The recommendations conveyed in this report represent the combined experience, judgment, and expertise of the Commission members while seeking extensive public input through the use of open meetings, invitations for public comment, and discussions with bar and industry groups and private individuals. During its tenure, the Advisory Commission held four public meetings, published requests for input on proposed topics, and evaluated over fourteen hundred suggestions on patent-reform-related issues.

Faced with increased foreign competition and the growing importance of technology in today's economy, the United States must ensure that its patent system continues to promote the technological and economic growth of the Nation. Although the current patent system has generally worked well in the building of this great economic and innovative country, several important patent areas need to be changed and improved to maximize the benefits provided by the U.S. patent system to enhance America's competitiveness.

It is our sincere belief that the recommendations proposed in this report will strengthen the patent system and assist in the attainment of the Nation's domestic and international goals.

We deeply support your efforts to promote America's competitiveness, and submit these recommendations for your consideration.

Sincerely,

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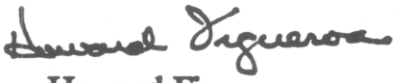

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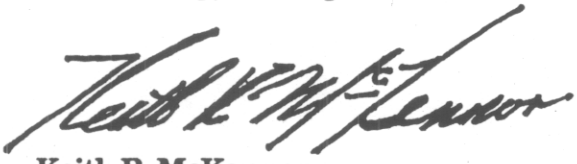

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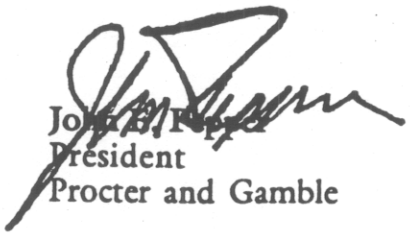

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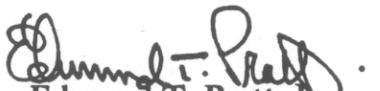

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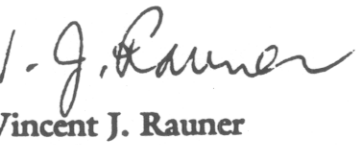

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PATENT SYSTEM OVERVIEW AND BACKGROUND OF COMMISSION

Since Congress enacted the Nation's first patent statute in 1790, the U.S. patent system has promoted the technological and economic development of the United States by stimulating innovation and investment in technology. For over two hundred years, the patent system has functioned to reward inventors and stimulate technological advances pursuant to its Constitutional grant of authority "to promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries."

The basic incentive of the patent system remains as valid today as it did to the framers of the Constitution. As new technologies emerge, the lure of a patent not only fosters research and development, but also permits inventors to attract the necessary capital and resources to bring the fruits of ingenuity to the marketplace for society's use. As the inventor Abraham Lincoln once so aptly said: "The patent system added the fuel of interest to the fire of genius."

Benefits for individual inventors, however, are not the sole function of the patent system. In exchange for the valuable rights conferred by a patent, the patent system demands from the inventor a complete disclosure of the invention. This disclosure promotes additional development and discourages the unnecessary duplication of research. Thus, the rights of individual inventors are balanced against the rights of the public.

Internationally, there has been an increased awareness of the importance of adequate and effective intellectual property protection to the development of domestic industries, in stimulating foreign investment, and to the enhancement of free and fair trade. The United States has been active, both on a bilateral and multilateral basis, in pursuing higher levels of patent protection worldwide. Currently, U.S. negotiators are seeking a conclusion to international agreements to harmonize the patent laws of different nations and to establish minimum standards for the acquisition and enforcement of patent laws worldwide.

This growing awareness has also prompted a series of domestic initiatives to strengthen the U.S. patent system. Perhaps the most significant legislation reform has been the creation of the Court of Appeals for the Federal Circuit in 1982. The Federal Circuit, through its interpretation of the patent laws, has provided a much-needed clarification of standards for interpreting patent rights and increasing predictability in the application of the patent laws. This added certainty, together with several other improvements to the patent laws, has ushered in an era of increased respect for the rights of inventors and the patent system as a whole.

BACKGROUND AND MANDATE OF THE ADVISORY COMMISSION ON PATENT LAW REFORM

Because technology is becoming increasingly important in the competitive global economy, the United States must ensure that its patent system continues to maximize the incentives for innovation and development. The past success of the patent system in providing this stimulus is a direct result of its ability to evolve and adapt to changing times and to new technologies as they arise. Yet, to evolve, the U.S. patent system must periodically be studied and refined. Direction and guidance from the public, industry, and the patent user community serve an important, if not essential, role in shaping the patent system to ensure that it does continue to meet the Nation's competitive needs. To this end, advisory groups representing a cross-section of the corporate and public patent user community have periodically been called upon to analyze, discuss and devise ways to improve the patent system.

The 1966 Presidential Commission on the Patent System (1966 Commission), was established by Executive Order No. 11215 on April 8, 1965, to address a range of issues comparable to the present Commission. The 1966 Commission extensively studied the U.S. patent system and made a series of recommendations for significant changes. In its Report, the 1966 Commission emphasized that it was not presenting a "catalogue of discrete remedies," but instead was offering a comprehensive and coordinated series of suggestions.[1] The Report itself presented thirty-five specific recommendations, classified in general areas such as patentability of inventions, procedures for amending and canceling patents, and issues relating to liability and enforcement. Several features of our current patent system, such as the reexamination process, internal quality review program, and certain automation efforts, were an outgrowth of the 1966 Commission recommendations. A number of other recommendations, however, were not adopted. For example, the 1966 Commission made specific recommendations to adopt a first-to-file system, provide a patent term of 20 years from filing date, automatically publish patent applications after a fixed period, and allow either the inventor or the assignee to file patent applications. It is somewhat ironic that many of these reforms were later introduced in both Europe and Japan, but not in the United States.

Former Secretary of Commerce, Robert Mosbacher, following the bicentennial celebrations of the United States patent and copyright laws, established the Advisory Commission on Patent Law Reform to advise him on the state of and the need for any reform of the U.S. patent system. In order to evaluate the impact of suggested changes on different segments of the public, a diverse membership for the Commission was purposely selected. The Advisory Commission thus includes representatives from U.S. businesses, both large and small, universities, the patent bar, the antitrust bar, and the public.

The issues studied by the Advisory Commission range from key harmonization questions to methods for reducing the cost and complexity associated with modern patent litigation. For each issue, the Commission sought and received extensive public input, through the use of open meetings, invitations for public comment, and informal discussions with bar and industry groups and private individuals. Thus, the Advisory Commission, during its tenure, held four public meetings, sought public input on proposed topics,[2] and sought to incorporate suggestions from the public into its recommendations for reform. The public input has been essential in not only identifying what problem areas exist, but in deciding which course of action will be most appropriate for the United States as a whole to pursue. This public input, along with the expertise and experience of the members of the Commission, has enabled the Commission to consider, assess and endorse a series of recommendations for reform that will ensure that the U.S. patent system continues to promote technological and economic growth.

OVERVIEW OF RECOMMENDATIONS

SUMMARY

This report identifies improvements that will help to ensure that the patent system (as it applies to utility patents only) continues to evolve and serve its role as an incentive for innovation and development in the United States. The areas addressed by the Commission can be grouped into three general areas.

The first series of recommendations would conform the U.S. patent system to a rapidly emerging global model. These changes would advance, but remain contingent upon, the goal of harmonization of the patent systems of the United States and other countries.

The second series of recommendations is designed to streamline the process of defining and enforcing patent rights, and to reduce the cost of this process for all parties involved. The recommendations in part two of the report thus aim to decrease transactional costs associated with patent enforcement, reduce uncertainty in rights of the patent holder and the public, and to provide an easier route to resolve challenges to the validity of improperly issued patents.

Finally, the third series of recommendations addresses a number of discrete issues facing inventors using the patent system. These issues are the subject of concern in different sectors of the patent user community.

Some of the recommendations of the Commission, if adopted, will effect fundamental changes to the United States patent system. These reforms are intended to make the patent system more accessible to all inventors, to provide certainty in defining and enforcing patent rights, and to facilitate acquisition and enforcement of patent rights, domestically and abroad, by U.S. inventors. The Commission's full report should be consulted for a full discussion and the specific details of each recommendation.

HARMONIZATION-RELATED ISSUES

Although the focus of this Commission is the U.S. patent system, suggestions advanced by the Commission are intended to influence U.S. policy in the foreign arena as well as domestically. The Commission agreed to study many of the issues related to the worldwide harmonization of patent laws as part of its broader study.

International patent law harmonization efforts began in 1984 under the auspices of the World Intellectual Property Organization (WIPO), the specialized United Nations agency responsible for intellectual property matters. Since that time, WIPO has convened numerous meetings of a "Committee of Experts on the Harmonization of Certain Provisions in Laws for the Protection of Inventions" to draft a treaty for a harmonized patent law. U.S. Government and private sector representatives have actively participated throughout these discussions. The dominant issue in the domestic debate is whether the United States should implement a system of awarding priority of inventions to the first party to file a patent application, rather than the current U.S. system which awards the patent to the first inventor. In the development of the draft treaty, work proceeded on the assumption that the United States could embrace a first-to-file patent system, provided that the package of provisions found in the treaty was, on balance, of benefit to the United States. However, without consensus in the United States on the pivotal first-to-file issue, there is little prospect of patent law harmonization, because other countries appear unwilling to change their systems absent acceptance of first-to-file by the United States.

The Commission's recommendations on these harmonization-related issues outline a carefully balanced approach that should make a first-to-file system acceptable for the United States. The Commission's approach reflects a consensus among the various affected groups that should enable the United States to successfully conclude a meaningful patent harmonization treaty. Such a treaty would require improvements in the patent systems of other countries, as well as in the United States, and would benefit U.S. inventors who rely on patent protection in foreign markets.

Issue -- First-to-File

The Commission recommends adoption of a first-to-file system in the United States. This recommendation is contingent upon reaching a global patent law harmonization treaty which, on balance, provides an overall benefit to U.S. interests. Adoption of the proposed first-to-file system is also contingent upon inclusion of three specific elements.

First, inventors should be able to file low cost, informal "provisional applications" to secure their rights to obtain patent protection both domestically and abroad in a first-to-file system. Under the Commission's model, inventors would be given up to a full year after filing a provisional application to satisfy the formal application requirements for a complete patent application. Provisional applications would increase access to the patent system for all inventors, particularly those of limited means, by providing a simple and inexpensive method of preserving priority rights and by giving the inventor time to explore the commercial opportunities for the invention.

Second, inventors must be provided with a grace period of one year during which they will be able to publish without fear of loss of patent rights. This right is a key element of the patent law harmonization effort, and its retention in the patent system is considered crucial.

Finally, a limited prior user right should be provided in a U.S. first-to-file system. This right should be cast as a limited equitable defense to a claim of infringement that would be available only to those who had used or made substantial preparation for use of a patented invention prior to the filing date of a subsequently issued patent. The prior user right proposed by the Commission seeks to protect the legitimate interests of U.S. industry without unduly detracting from the

exclusivity and marketability of the patent grant.

The proposed first-to-file system thus would provide a simple and inexpensive means for establishing priority of invention, while at the same time making it easier for all inventors to gain access to the patent system. The new system would reduce the time and expense of obtaining patents by providing a readily determinable date of priority, and would afford greater certainty in rights for U.S. inventors.

Issue II -- Patent Term

Under current United States law, patents remain in force for 17 years from the date of the patent grant. Delays in the grant and expiration of patent rights are not consistent with the objectives of early disclosure and dissemination of technical information, and can lead to problems when the delays in grant are excessive.

In contrast, a patent term of 20 years measured from the filing date of the first application is rapidly emerging as an international standard. Many countries have adopted or intend to adopt this term. This term is also under consideration in the Negotiating Group on Trade Related Aspects of Intellectual Property of the Uruguay Round of General Agreement on Tariffs and Trade (GATT) multilateral trade negotiations.

Consistent with the objectives of patent law harmonization, the Commission recommends that the U.S. patent term be changed to one that will run 20 years from the date of filing of the patent application. The Commission is confident that this change will benefit the interests of both the individual U.S. inventor and the public.

In addition to the recommendation for a 20-year patent term, the Commission recommends maintaining existing provisions for patent term restoration for delays due to required Federal regulatory approvals. In view of the Commission's proposed reform of the patent secrecy order program, patent term extension for a period of up to five years due to delays incurred by the imposition of a secrecy order should be authorized.

Issue III -- Publication of Patent Applications

The Commission recommends that patent applications be published at a fixed time after their filing date. Early publication fairly balances the rights of patent applicants and of the public, by specifying conditions to accompany early publication. In addition, provisional protection should be provided to compensate inventors for unauthorized use of published inventions in the interval between publication and patent grant.

Early publication of applications is common to nearly every other country in the world. In contrast, the current U.S. system mandates that patent applications remain confidential until the date of patent grant, at which time, the application is printed and disseminated to the public. Early publication affords significant benefits to the public, primarily through early dissemination of the technical information in patent documents. This enables others to use the information and further the technological process, and to keep abreast of developments by competitors.

Issue IV -- In re Hilmer

A topic that has gained prominence through the context of patent law harmonization discussions is the effect of foreign-originated U.S. patents on later filed patent applications. Under the current "Hilmer" rule, such patents are effective as prior art only as of their U.S. filing date, and not their foreign priority dates.

The Commission recommends that, if a successful harmonization treaty is concluded, U.S. patents and published U.S. applications be applicable as prior art references for novelty as of their earliest effective filing date (foreign priority date), and for both novelty and obviousness as of their U.S. filing date.

Second, in the event that the U.S. retains the present first-to-invent system, the Commission recommends preservation of the Hilmer rule as it exists in the current U.S. patent law.

Finally, in the event that the U.S. implements automatic publication of patent applications with or without harmonization, the Commission recommends that the date of publication serve as the equivalent to the date of issuance for purposes of availability of the published application as prior art.

PATENT ENFORCEMENT-RELATED ISSUES

The value of patent rights stems ultimately from the grant of exclusive rights to make, sell or use the patented invention. Realization of that value, therefore, is contingent upon the ability of a patent holder to enforce those exclusive rights. Exercising these rights requires participation by the Federal Government, through the forum of the judiciary.

Under the existing system of civil justice in the United States, enforcement of patent rights has become expensive and time consuming. The problems of modern civil litigation, while not being unique to patent litigation, do pose unique problems for both patent rights holders and the public. If there is no cost-effective means for enforcing the right, there is a direct reduction, if not elimination, of the value of the patent.

Likewise, the public's right to utilize technology not subject to patent rights must not be impeded. The well-balanced right of a patent grant must not be disturbed so as to provide patent owners with excessive rights made possible through an inefficient process of enforcement.

In view of these concerns, the Commission has studied the process of defining patent rights in the United States, and proposes reform at several levels to make this process easier, less complicated, and less expensive. The recommendations offered address the direct question of cost and complexity involved in patent enforcement, with the objective of reducing transactional costs of defining patent rights. Similarly, ensuring that an inexpensive, rapid process for challenging the validity of patents where one has possession of evidence to the contrary has led the Commission to recommend reform of the reexamination system. Thus, the theme for this set of issues is to ensure that transactional costs do not prejudice the rights of patentees or the rights of the public through the process of patent enforcement.

Issue V -- Reduction of the Cost and Complexity of Patent Enforcement

The Commission proposes implementation of measures to reduce transactional costs in modern patent litigation. The primary theme for these recommendations is greater control over patent litigation without creation of additional burdens for the judiciary.

Specific proposals pertain to expanded use of differential case management, and include such elements as

- the early setting of a firm trial date,
- discovery case management,
- reform of discovery practice including mandatory disclosure of core information, and
- mandatory mediation to encourage early settlement and simplification of patent-related disputes.

Greater civility between parties and attorneys during litigation will go a long way toward simplifying the process and reducing its costs. Furthermore, in conducting patent trials, the Commission recommends greater control over the use of experts to restrict their role to factual experts, rather than advocates, and urges careful study of the use of jury trials in patent litigation.

To avoid creating additional burdens on the judiciary, the Commission recommends broader use of magistrates or special masters to assist in pretrial activities, as well as filling existing judicial vacancies more promptly throughout the Federal district court system. Finally, any realistic solution to the problems in scheduling and the conduct of modern civil litigation must include a means for lessening the adverse impact of criminal trials due to the requirements of the Speedy Trial Act on conduct of civil litigation.

The Commission also recommends consideration and use of other means of resolving patent disputes. For example, the Commission urges greater awareness and use of alternate dispute resolution to resolve patent disputes, as well as consideration of special procedures to conduct patent litigation. The Commission urges that three proposals be studied further, specifically,

- designating specialized patent courts,
- intra-circuit sharing of judges with experience in patent litigation, and

- adoption of a "small claims" procedure for patent cases in Federal courts.

The Commission also encourages further study of the nature of patent cases to identify specific features which differ from other forms of complex civil litigation.

Finally, to eliminate excessive transactional costs, the Commission recommends removing bases for challenging patent validity that do not provide a corresponding public benefit. In particular, the Commission recommends that the best mode requirement of 35 U.S.C. 112 be eliminated, and that the "on sale" bar of 35 U.S.C. 102(b) be restricted to actual completed sales, measured in terms of completed sale plus delivery, rather than mere offers to sell.

Issue VI -- Grounds for Holding Patents Unenforceable

The Commission reaffirms the necessity of the defense of unenforceability to ensure open and fair dealing between the U.S. Patent and Trademark Office (USPTO) and patent applicants, but recommends that certain specific concerns be addressed.

With respect to inequitable conduct, the Commission recommends retention of the defense of unenforceability to remedy findings of inequitable conduct, but encourages courts to adopt a more objective standard to measure conduct of patent applicants. In particular, the Commission urges courts to take note of the recently changed standards for measuring conduct as embodied in 37 CFR 1.56. In this regard, the Commission encourages courts to employ a more objective standard for measuring materiality of information withheld during prosecution, and to permit the presumption that obligations for disclosure are satisfied if the required information is actually considered by the examiner in a timely manner, regardless of how the information came to the attention of the examiner before issuance of the patent.

The Commission also recommends that courts provide flexibility in implementation of the new definition of materiality to ensure that rights of parties established prior to the new definition are not adversely impacted during litigation by the mere fact of a changed standard of conduct before the USPTO.

Finally, the Commission proposes a legislative clarification of the significance of possession of intellectual property rights in the context of antitrust proceedings. Specifically, such rights should not give rise to a per se presumption of market power.

Issue VII -- Reexamination

The Commission recommends that the basis for and scope of reexamination be expanded to include compliance with all aspects of 35 U.S.C. § 112, except best mode. This will ensure that all significant issues related to patent validity that are commonly raised and considered during the original prosecution may be addressed in a subsequent reexamination of the patent.

The Commission also recommends providing third parties with more opportunities for substantive participation during the reexamination proceeding. The objective of the Commission in this regard is to build confidence in the reexamination process so that third parties will be inclined to raise patent challenges in this forum rather than through litigation. The primary benefits of this will be reduced costs of resolution of patent validity issues, and a more rapid determination of rights. However, the Commission recommends that the increased third party participation be implemented through a balanced approach to ensure that the reexamination process fulfills its intended role.

Issue VIII -- Licensee Challenges to Patent Validity

The Commission proposes that legislation be enacted to improve the balance between the rights of a licensee to challenge the validity of a licensed patent and the right of the patent owner to enforce the licensed patent. Such legislation should permit the parties to agree to contract provisions which do not conflict with the basic policy objectives articulated in *Lear v Adkins* that permit licensees to challenge patent validity.

Issue IX -- Reissue

The Commission recommends elimination of the concept of error as a condition for reissue, and proposes eliminating the prohibition in reissue practice against recapturing subject matter surrendered during

original prosecution. In addition, the Commission proposes a one-year limit on broadening of claims through a reissue proceeding.

Issue X -- Federal Protection for Trade Secrets

The Commission does not recommend enactment of Federal statutory protection for trade secrets. The Commission endorses trade secret protection under State laws with the adoption by all States of the Uniform Trade Secrets Act.

UNIQUE ISSUES FACING THE PATENT SYSTEM

A number of issues were brought to the attention of the Advisory Commission independent of the questions of harmonization or efficiency of defining and enforcing patent rights. These issues represent areas of significant public interest, or areas which have served to generate interest in the past. The Commission studied these issues, and has reached a general consensus on the recommendations proposed.

Issue XI -- Protection of Computer-Related Inventions

The public expressed significant interest on the issue of protection of computer program-related inventions. A number of divergent perspectives were offered by the public, and considered by the Commission, as to how best to protect this key area of U.S. competitiveness.

After thoroughly considering the public comment, analyzing the options offered, and evaluating the potential impact of such options, the Commission concludes that the current framework of laws available to protect computer program-related inventions should be maintained.

On the procedural level, however, the Commission believes that refinements can be made to the patent examination process for this class of inventions to ensure high quality examination. The specific recommendations of the Commission include improvements to building and maintaining searchable prior art collections, classification of patents in this field, and hiring and training of patent examiners for this technology. To address concerns expressed by many public respondents, the Commission also recommends that procedures for citation of prior art to the USPTO by the public be publicized and expanded, and that a trial program be established to assess the merits of such an expanded procedure.

Finally, the Commission endorses and supports efforts to promote protection for such inventions from other countries that do not already provide it.

Issue XII -- Secrecy Order Program

The Commission is cognizant of the changing world order, changes in how information and new technologies are disseminated, and the subsequent commercialization of new technologies in markets previously inaccessible to U.S. inventors. As part of its survey of the current U.S. patent system, the Commission assessed how the existing secrecy order program functions in the modern international commercial market, and concludes that there are several aspects of this system that require reform.

Secrecy orders bar the grant of a United States patent if they are imposed on a pending patent application. This has the effect not only of depriving the inventor of exclusive rights within the United States, but also of such rights abroad, as an inventor who has received a secrecy order on an application cannot obtain patent rights abroad. The USPTO does not determine if the subject matter of the patent application is of a nature that would warrant imposition of a secrecy order; this is the duty of various governmental entities charged with administration of the National Security.

The Commission has determined that the administration of the secrecy order program has become inefficient, particularly with respect to the process of determining that a secrecy order should be imposed, and the conditions under which orders should be rescinded. Furthermore, while recognizing the constraints of possible reform of the system, the Commission was alarmed at the volume of secrecy orders issuing to bar patenting of privately owned technology.

Accordingly, the Commission recommends reform of the secrecy order program to streamline the process of review and rescission of secrecy orders, and to implement measures to ensure greater consistency in application of standards for imposing secrecy orders. To accomplish these goals, the Commission recommends placing the authority for review of patent applications for secrecy orders into a single body, which will

ensure that standards remain consistent between the export control laws and the secrecy order program. Finally, the Commission favors certain procedural changes to assist patent applicants in seeking review of secrecy orders, and to prevent unnecessary secrecy orders from continuing in force.

Issue XIII -- Assignee Filing

In many other countries, the owner of an invention has the direct authority to file for and obtain patent protection. This flexibility often avoids unnecessary delays in filing patent applications, which thereby avoids unnecessary loss of priority rights to inventions. Safeguards are common in such systems to avoid abuse of inventor rights, and to date, these safeguards have proved sufficient.

The Commission therefore recommends increasing the flexibility of owners of new technology to obtain patent protection by permitting assignees of inventions to file on their own behalf. This recommendation is contingent upon the inclusion of the appropriate safeguards to prevent abuse of inventor rights. The recommendations offered would make filing of patent applications easier—something which is desirable in either a first-to-file system or a first-to-invent system. As such, the Commission endorses adoption of assignee filing independent of successful conclusion of a patent law harmonization treaty.

Issue XIV -- Deferred Examination

Deferred examination systems are used in some countries to allow applicants the discretion to defer the examination process of a filed patent application. This is not consistent with the current examination system in place in the United States, which ensures a rapid determination of rights to technology. The Commission views this rapid determination of rights to be a significant benefit, both to inventors and to the public, and for this reason, urges that it continue.

The Commission therefore recommends retention of the current system of automatic examination of patent applications as they are filed. The Commission unanimously opposes a system which would give the patent applicant discretion to defer examination of patent applications. Furthermore, in the event that automatic publication of applications is implemented, the Commission recommends that an accelerated examination procedure be provided to those applicants or third parties desiring it.

Issue XV -- U.S. Patent and Trademark Office Funding

The Commission proposes a fair and equitable allocation of the funding burden of the USPTO by recommending public funding for those USPTO activities that particularly benefit the public, and a guarantee that user funds be used solely in support of the examination and issuance of patents and trademark registrations. The Commission further recommends that an advisory board be established to assure efficient operation of the USPTO.

The Commission also recommends that the small entity subsidy be continued as a matter of public policy, but urges that it be publicly funded, rather than through use of revenues from large entity fees, and that it should not be extended to maintenance fees. Furthermore, the small entity definition should be periodically reviewed to ensure that benefits are provided to only those users needing the subsidy.

RECOMMENDATIONS

I. FIRST-TO-FILE

Recommendation I-A

Change the U.S. patent system to award patents to the first party to file a patent application, as opposed to the first party to invent, as a necessary part of a global harmonization package which provides, on the whole, advantages to U.S. inventors, subject to the following conditions:

(i) adoption of a provisional patent application procedure to facilitate early filing at reduced cost, allowing the inventor to claim a right of priority for a later-filed complete application;

(ii) provision of a grace period during which public disclosure of an invention by an inventor would not affect the patentability of that invention if claimed in an application filed by that inventor within 12 months of the disclosure; and

(iii) establishment of a personal right for a third party who uses or makes substantial preparation for use of an invention in good faith, before the filing date of an application on which a patent is granted to another, to continue that use under certain conditions ("prior user right").

II. PATENT TERM

Recommendation II-A

Change the term of patents from 17 years from the date of grant to a term of 20 years from the date of filing of the complete patent application as part of a first-to-file system.

Recommendation II-B

Where a patent is granted on an application which invokes the benefit of one or more earlier domestic complete applications, the term of the patent shall be counted from the filing date of the earliest-filed complete application invoked in the subsequent application.

Recommendation II-C

Address exceptional circumstances affecting the patent term in the following manner:

(i) provide no extensions for administrative delays, such as appeals; however, such proceedings should be handled expeditiously;

(ii) maintain existing provisions for patent term restoration under 35 U.S.C. § 155-156 for delays due to the Federal regulatory approval process; and

(iii) permit extension of the term of any patent whose grant has been delayed by the imposition of a secrecy order for a period equal to the period of the delay, up to a maximum of five years, and amend 35 U.S.C. § 183 to provide compensation for the period of delay, if any, which exceeds five years.

III. PUBLICATION OF PATENT APPLICATIONS

Recommendation III-A

(i) Publish patent applications within 24 months from the earliest priority date claimed by the applicant, including the date of filing a provisional application.

(ii) Publication should take the form of laying open to public inspection of the specification and claims of the patent application, as well as the search report when available, and should be accompanied by publication of an abbreviated format of the application.

(iii) Give patent applicants a claim for compensation from an infringer of published claims which later issue in a patent where the infringer has been given written notice during the period after publication; the claim will entitle the patent owner to compensation for the period from the date of actual notice until issuance of the patent.

(iv) Permit applicants, through the payment of a special fee, to request an accelerated examination by the USPTO and/or publication of the application prior to the 24th month.

(v) Urge the USPTO to issue first actions on the merits on patent applications in time to permit applicants to decide, with that knowledge, whether to abandon their applications without publication or to proceed with prosecution of their applications.

IV. IN RE HILMER

Recommendation IV-A

(i) If the U.S. retains the present first-to-invent system, the "Hilmer rule" should be maintained "as is." The U.S. should only change the "Hilmer rule" in the context of a global harmonization package.

(ii) If first-to-file is adopted as part of harmonization, U.S. patents and published U.S. applications should be applicable as prior art references for novelty as of their earliest effective filing date (foreign priority date), and for both novelty and obviousness as of their U.S. filing date (including filing date of provisional application).

(iii) Whether or not the U.S. adopts a first-to-file system, if publication of applications is adopted, the applicability of a prior-filed U.S. application as prior art should occur when the U.S. application either issues as a U.S. patent, or is published, whichever occurs first. The earliest U.S. filing date should be the effective date for prior art purposes.

V. REDUCTION OF THE COST AND COMPLEXITY OF PATENT ENFORCEMENT

Recommendation V-A

(i) Encourage implementation by the district courts of differentiated case management plans for cases raising issues of patent validity or infringement, where that plan includes:

(a) the early setting of a firm trial date;

(b) use of a discovery-case management system that requires the court, either through direct intervention of the trial judge, use of a magistrate, or through appointment of a "special master" pursuant to Rule 52 of the Federal Rules of Civil Procedure, to exhibit careful and deliberate monitoring over discovery so as to encourage the limiting of issues by the parties, the range of issues discoverable, and the number and extent of discovery requests;

(c) strict deadlines for filing, hearing and deciding discovery-related motions;

(d) use of a mandatory disclosure procedure for core information having the following elements:

(1) an automatic protective order that will cover any information provided under the core disclosure requirements which the parties designate, and which the court shall issue prior to the disclosure of such designated core information;

(2) a short time frame to comply with the mandated disclosure requirement;

(3) the use of Rule 11 sanctions for non-compliance with the mandated disclosure provisions; and

(4) a pre-trial conference to define the remaining scope of discovery, to finalize the pleadings, and to limit issues pending in the action to take place shortly after the mandated disclosure has been completed;

where the information to be disclosed by each party is established by the Court according to preestablished guidelines, and shall not be subject to change through actions of the parties or the court;

(e) use of a mandatory mediation conference to resolve some or all issues pending in the action, conducted not by the trial judge but by a person trained in the conduct of mediation, to be held at a time before the final pre-trial conference;

(ii) Provide formal recommendations to the advisory groups of each district on key provisions for inclusion in the district's civil justice expense and delay reduction plan.

(iii) Implement changes to practice in a uniform and consistent manner among the Federal district courts.

Recommendation V-B

Make broad use of magistrates or Special Masters pursuant to Rule 52 in pretrial matters such as discovery and motion practice, provided that such use does not detract or displace the proper role of the trial judge in the litigation.

Recommendation V-C

Find a solution to address problems created by accommodation of the need for speedy criminal trials which does not disrupt the conduct of complex cases such as patent cases.

Recommendation V-D

(i) Reduce the use of "experts" to the giving of testimony in areas where expertise is required and diminish their role as advocates.

(ii) Prohibit contingent fees for expert witnesses, and require the disclosure of all fees paid to experts.

Recommendation V-E

(i) Promote greater awareness and use of alternative dispute resolution (ADR) through mandatory law school programs and through continuing education programs.

(ii) Require courts in each case to identify issues suitable for resolution through voluntary ADR and to assist the parties in designing an appropriate ADR process for those issues.

Recommendation V-F

Promote study and consideration of special procedures or systems for conducting patent litigation and enforcing patent rights, including:

(i) restriction of patent jurisdiction to one designated court per circuit;

(ii) designation of judges having special expertise in conducting patent litigation in each judicial district and provision of flexible authority over judicial assignments to permit such judges to hear patent cases throughout each district where necessary; and

(iii) implementation of a "small claims" procedure for resolving patent disputes in existing Federal district courts.

Recommendation V-G

Remove challenges to patent validity which create a disproportionate effect on costs and delays during patent litigation without providing a corresponding public benefit, specifically:

(i) eliminate the "best mode" requirement of 35 U.S.C. § 112, first paragraph; and

(ii) restrict the application of the "on sale" bar to patentability of 35 U.S.C. § 102(b) to completed sales, where a completed sale is defined as sale plus actual delivery, rather than extending to merely an offer to sell.

Recommendation V-H

Encourage opposing trial counsel to respect appropriate standards for civility during litigation, including respect of the role of the attorney as an officer of the court, and through cooperation not inconsistent with the role of the attorney as an advocate of his or her client.

Recommendation V-I

Gather statistically valid data from a representative sample of the Federal judicial district courts to permit determination as to whether or not the trial of patent cases is substantially different from the trial of other complex cases and, if different, in what ways.

Recommendation V-J

Initiate public debate on the appropriateness of the use of juries to resolve questions of patent validity or infringement in litigation, and in particular:

(i) the applicability of the VIIth Amendment of the U.S. Constitution to the right to have a jury decide issues of infringement or validity; and

(ii) the extent to which a "complexity exception" can and should be applied to deny a demand for a jury trial.

VI. GROUNDS FOR HOLDING PATENTS UNENFORCEABLE

Recommendation VI-A

Clarify the nature of conduct by a patent rights holder that justifies the use by a defendant to a patent infringement action of the equitable defense of unenforceability consistent with the following guidelines:

(i) continue to hold unenforceable patents in which the applicant, its attorney or its representative during the prosecution of the application for that patent before the Patent and Trademark Office failed to meet the appropriate requirements for disclosure of information within their knowledge having to do with the allowability of presented claims;

(ii) implement a more objective standard for materiality of information than one based upon the perspective of a "reasonable examiner"; and

(iii) create a presumption that the standard of disclosure is satisfied if required information is before the examiner in a timely manner, regardless of how that information came to the attention of the examiner.

Recommendation VI-B

Changes to the standards for judging inequitable conduct before the United States Patent and Trademark Office should not prejudice the rights of patent rights holders, so that in any action to enforce a patent which was granted prior to the effective date of such changes, the patent rights holder should be given the choice of being judged by either the standard used before, or the standard employed after the amendment.

Recommendation VI-C

Enact legislation which establishes that possession of intellectual property rights should not give rise to a per se presumption of market power, in the context of an antitrust proceeding.

VII. REEXAMINATION

Recommendation VII-A

The basis for and scope of reexamination should include compliance with all aspects of 35 U.S.C. § 112 except for best mode.

Recommendation VII-B

The order for reexamination and the first office action should be consolidated and any third party requester should be permitted, within strict time deadlines, to submit written comments on the patent owner's response to the first office action. The third party's comments should be limited to issues covered by the examiner's office action and the patent owner's response.

Recommendation VII-C

A third party requester should have the right to participate in any examiner interview initiated by the patent owner or by the examiner. Such an interview should be conducted under controlled conditions before the examiner and a senior USPTO representative. The third party should not be permitted to initiate interviews.

Recommendation VII-D

A third party requester should have the right to submit written comments at the close of prosecution of a patent under reexamination. Such comments, which should be limited to issues raised during *ex parte* reexamination, should be considered by the examiner before any appeal by the patent owner of an adverse decision and before issuance of a Notice of Intent to Issue a Reexamination Certificate. If the third party's comments cause the examiner to change his decision, the examiner should be permitted to reopen prosecution to the extent of issuing a supplemental final action to which the patent owner should be entitled a single response under 37 C.F.R. § 1.116. If, in the single response, the patent owner makes any claim amendment, the third party should be permitted to submit comments limited to the claim amendments. Thereafter no further comments should be received from either the patent owner or a third party. The third party comments should be a part of the record considered on any appeal by the patent owner or the third party.

Recommendation VII-E

A third party who requested and participated in a reexamination should be permitted to appeal any adverse decision of the Examiner to the Board of Patent Appeals and Interferences and to the Federal Circuit. The third party and the patent owner should be permitted to participate in any appeal by the other. The third party's appeal to the Board and the Federal Circuit should be limited, respectively, to issues raised in the third party's comments after close of prosecution and to issues dealt with by the Board. A third party's right to appeal to the Federal Circuit should be conditioned upon filing of a written waiver by the third party of any right to assert, in any forum, the invalidity of any claim determined to be patentable on appeal on any ground which the third party raised or could have raised during the reexamination.

Recommendation VII-F

A reexamination should not be initiated or continued on any patent claim held valid in an entered judgment, or its equivalent, of a district court in an action in which the requesting party or its privies raised or could have raised the same issues.

VIII. LICENSEE CHALLENGES TO PATENT VALIDITY

Recommendation VIII-A

Enact legislation to improve the balance between the right of a licensee to challenge the validity of a licensed patent, in accordance with the holding in Lear v. Adkins, and the right of the patent owner to enforce the licensed patent by:

(i) Permitting the parties to agree that either party may terminate the agreement if the licensee has asserted in a court action that the patent is invalid; and

(ii) Permitting the parties to agree that the licensee will be required to continue performance in accordance with the agreement until either the agreement is terminated or a final determination has been made that the claims practiced by the licensee are invalid.

IX. REISSUE

Recommendation IX-A

The concept of "error" as a required condition for reissue should be eliminated.

Recommendation IX-B

The prohibition in reissue practice against "recapturing" subject matter surrendered during the original prosecution should be eliminated.

Recommendation IX-C

The right to seek by reissue claims broader than originally issued should be limited to one year following grant of the original patent.

X. FEDERAL PROTECTION FOR TRADE SECRETS

Recommendation X-A

Protection of trade secrets is adequate under state laws.

XI. PROTECTION OF COMPUTER-RELATED INVENTIONS

Recommendation XI-A

The current framework of laws protecting computer program-related inventions should be maintained.

Recommendation XI-B

(i) . Patent protection should continue to be available for computer program-related inventions.

(ii) No special test or interpretation of the law should be applied to computer program-related patent applications.

(iii) The patent examination process should be improved as specified in Recommendations XI-E through XI-H.

Recommendation XI-C

No change should be made in the U.S. patent laws or in U.S. patent policy that would substantively or procedurally disadvantage U.S. inventors compared to their international competitors.

Recommendation XI-D

The U.S. Government should continue to place emphasis in its negotiations with other countries or multinational bodies that categorically do not grant patents for computer program-related inventions to encourage modification of their systems to allow the grant of such patents.

Recommendation XI-E

The USPTO should assemble a larger, more complete non-patent art collection, and provide its examiners better access to the non-patent prior art in the computer program-related technologies.

Recommendation XI-F

The USPTO should make further efforts to classify the patent and non-patent computer program-related art to maximize the ability to search inventions in this field.

Recommendation XI-G

(i) The USPTO should train patent examiners in the computer program-related technologies to raise and maintain their level of technical expertise.

(ii) The USPTO should recruit, as examiners, individuals who are experienced in this technology, and take special action to retain experienced examiners.

Recommendation XI-H

(i) Encourage the public to use the citation procedure under 35 U.S.C. § 301 and 37 C.F.R. § 1.501 to cite to the USPTO patents or printed publications pertinent to any issued patent. The USPTO should use non-patent citations, where possible, to expand the collection of art available for use in examining pending applications.

(ii) Encourage the public to use the "Protest proceeding" under 37 C.F.R. § 1.291 and the "Public use proceeding" under 37 C.F.R. § 1.292 for pending applications and instruct the public how to become aware of some pending U.S. applications through a database search of foreign applications or through published information on reissue applications. Furthermore, encourage the public to use the "Protest Proceeding" under 37 C.F.R. § 1.291 and the "Public use proceeding" under 37 C.F.R. § 1.292 if the U.S. adopts a system that provides for publication of pending applications.

(iii) The Commissioner should implement a study and/or program under 35 U.S.C. § 6 that expands the citation of prior art under 35 U.S.C. § 301 and 37 C.F.R. § 1.501 to include the citation of not only patents or printed publications but also other material evidencing a verifiable date of prior public use or sale which is shown to be pertinent to an issued patent. Such a study and/or program should be limited to the computer program-related arts, if possible, for a limited period of time. Such a study should be used to determine a) the effectiveness and usefulness of the citation of material evidencing a verifiable date of a prior public use or sale, b) whether this new procedure should be expanded to include other areas of technology, and c) whether a statutory rule change should be made to make this a permanent procedure for all technologies.

(iv) The USPTO should adjust its fee schedule, as it deems appropriate, for the citation of patents or printed publications or other material evidencing a verifiable date of prior public use or sale. Any such fee should discourage the public from submitting non-relevant information, but should not have the effect of discouraging the public from submitting pertinent information which may be used by the USPTO in its examination of patent applications. Such submissions assist the USPTO in fulfilling its mission of issuing valid and enforceable patents.

(v) The USPTO should establish submission guidelines to help ensure the relevancy of the material being submitted and to control the amount of material being submitted including, but not limited to, the following: a) the minimum prima facie standard that the material being submitted must meet; b) the minimum requirement needed to establish a verifiable date of prior public use or sale, e.g., the requirement of declarations, affidavits, and/or identification of at least one party having knowledge of the evidence; c) the requirement of a precise explanation of relevance of the evidence to at least one claim of a patent; d) a limitation on the number of pages submitted; and e) a minimal level of evaluation by the USPTO of the submitted material to ensure that it meets the submission guidelines as established by the USPTO.

(vi) The USPTO should encourage private efforts directed towards assimilating and organizing information with respect to prior public use or sale of technological advances. The USPTO should initiate studies with the private sector in determining other forms and mediums of information useful to the USPTO in expanding its collection of art for examining pending applications.

Recommendation XI-I

Encourage implementation of a system allowing for early publication of pending applications, which would be particularly beneficial for faster-moving technologies, in accordance with any harmonization efforts that may be undertaken.

Recommendation XI-J

The USPTO's development of the Patent Application Management (PAM) System for electronic filing and processing of patent applications is strongly supported.

XII. SECRECY ORDER PROGRAM

Recommendation XII-A

(i) Discontinue the use of secrecy orders in patent applications to implement the export control laws, and amend 35 U.S.C. § 181 to permit the imposition of secrecy orders only in patent applications that contain either:

(a) information that is or can be classified with then-current Federal security regulations; or

(b) previously unpublished information, the publication of which would be reasonably expected to cause damage to the National Security.

(ii) If such use is not discontinued, amend 35 U.S.C. § 181 to require that secrecy orders may be imposed for export control purposes on inventions in which the Federal Government does not have a property interest only upon recommendation from the government agencies responsible for administration of the export control laws.

Recommendation XII-B

If the secrecy order program continues to function as a means to implement the export control laws, amend 35 U.S.C. § 181:

(i) to provide that, for the purposes of Section 181, the Federal Government has a property interest in an invention only if the invention was made in the performance of work under a contract with the Federal Government which establishes such interests; and

(ii) to specify that no secrecy order shall be renewed beyond the fifth year unless the head of any agency requesting such renewal first makes a finding that, based on his or her personal investigation, adequate grounds exist for continuation of the order.

Recommendation XII-C

Agencies responsible for the review of patent applications for secrecy order purposes should coordinate their reviews on a regular basis to ensure consistent interpretation and application of the orders and regulations defining security requirements, both for the imposition of secrecy orders and for consideration of petitions to rescind such orders.

Recommendation XII-D

Petitions for rescission should be reviewed at a higher agency level than that which requested the order.

XIII. ASSIGNEE FILING

Recommendation XIII-A

The owner or owners of full legal title to an invention should be permitted to file a patent application on the invention, to prosecute the application, and to receive any resulting patent thereon, provided:

(i) within such time after filing the application as the Commissioner prescribes, the owner(s) submits to the USPTO a declaration which

(a) identifies the application by title and filing date;

(b) provides the name and last known address of the inventor or inventors of the claimed invention;

(c) states that the identified inventor(s) is/are believed by the applicant to be the original and first inventor(s) of the claimed invention;

(d) states that the applicant(s) owns or is entitled to ownership of full legal title to the claimed invention;

(e) acknowledges the duty of disclosure to the USPTO of information material to examination of the application as set forth in the USPTO rules; and

(f) certifies that copies of the application as filed and the applicant's declaration were provided to, or sent to the last known address of, each named inventor, and provides the date thereof; and

(ii) prior to payment of the issue fee for any patent issuing from the application or relying upon the application for priority, the applicant(s) either has:

(a) filed in the USPTO an assignment by each inventor to the applicant(s) of full legal title to the specific invention disclosed in the application and an oath or declaration by each inventor meeting the requirements of 37 C.F.R. § 1.63 or

(b) has received a ruling from the Commissioner approving issuance without inventor(s) participation under conditions comparable to those set forth in 35 U.S.C. §§ 117 or 118.

Recommendation XIII-B

The name of the inventor should be printed on the face of any patent issued on an application filed by an owner-applicant.

Recommendation XIII-C

No examination of an application filed by an owner-applicant should be conducted until after receipt of the owner-applicant's declaration.

XIV. DEFERRED EXAMINATION

Recommendation XIV-A

(i) Do not enact provisions to permit a patent applicant to voluntarily defer examination of a filed patent application.

(ii) Accelerated examination should be available, with the payment of a special fee, upon the request of the patent applicant or third parties.

XV. U.S. PATENT AND TRADEMARK OFFICE FUNDING

Recommendation XV-A

The USPTO should be funded by a combination of fees and public funds. The fees should be adjusted annually to recover the projected, pro rata portion of the USPTO Budget expended in direct support of the examination and issuance of patents and trademark registrations. Other USPTO costs, funded by public funds, would include automation, public information activities, public search facilities, and legislative and international activities, and the like.

Recommendation XV-B

User fees should be guaranteed solely for use by the USPTO in support of the examination and issuance of patents and trademark registrations.

Recommendation XV-C

An advisory board, comprising representatives of users and reporting annually to Congress, should be established to advise the Administration on fee increases and to assure responsiveness by and efficient and effective operation of the USPTO.

Recommendation XV-D

A small entity subsidy should be continued as a matter of public policy.

Recommendation XV-E

A small entity subsidy should be funded by public funds.

Recommendation XV-F

The Commissioner should periodically reevaluate the definition of a small entity used by the USPTO for subsidy eligibility to ensure that the program as applied is benefiting only those intended by the policy behind the program.

Recommendation XV-G

A small entity subsidy should not apply to maintenance fees.

Recommendation XV-H

USPTO funding should be maintained at a level that supports an 18-month pendency of applications, provided that the quality of examination is not compromised.

Recommendation XV-I

Publication of pending patent applications should be funded by public funds, if publication of applications is adopted.

NOTES FOR OVERVIEW

1 *"To Promote the Progress of ... Useful Arts" In an Age of Exploding Technology* , Report of the President's Commission on the Patent System (Superintendent of Documents, U.S. Gov't Printing Office 1966)

2 See, e.g. *Request for Public Comment, Advisory Commission on Patent Law Reform*, 56 FED.REG. 22702 (1991).