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STATEMENT OF SIDNEY A. DIAMOND  
COMMISSIONER OF PATENTS AND TRADEMARKS  
APRIL 24, 1980

I AM EXTREMELY PLEASED TO APPEAR BEFORE YOU AND EXPLAIN SOME VERY IMPORTANT IMPROVEMENTS THE ADMINISTRATION HAS PLANNED FOR OUR PATENT SYSTEM. AT THE CONCLUSION OF MY TESTIMONY, I WILL BE GLAD TO ANSWER ANY QUESTIONS YOU OR THE SUBCOMMITTEE MEMBERS MAY HAVE.

AS PART OF PRESIDENT CARTER'S DOMESTIC POLICY REVIEW ON INDUSTRIAL INNOVATION, AN ASSESSMENT WAS MADE OF THE UNITED STATES PATENT SYSTEM AND ITS RELATIONSHIP TO INNOVATION. THIS REVIEW CONCLUDED THAT PATENTS SERVE SEVERAL IMPORTANT FUNCTIONS IN THE INNOVATION PROCESS. THEY PROVIDE AN INVENTOR WITH THE INCENTIVE OF A "LIMITED MONOPOLY" FOR HIS INVENTION. I USE THE PHRASE "LIMITED MONOPOLY" ADVISEDLY SINCE THE EXCLUSIVE RIGHTS PROVIDED BY A PATENT LAST ONLY SEVENTEEN YEARS AND PROTECT JUST THOSE ASPECTS OF THE INVENTION COVERED IN THE CAREFULLY DRAWN CLAIMS OF THE PATENT.

ALSO, THE EXCLUSIVE RIGHTS PROVIDED BY A PATENT CAN STIMULATE A FIRM TO MAKE THE OFTEN RISKY INVESTMENTS REQUIRED TO COMMERCIALIZE AN INVENTION. EVEN WITH PATENT RIGHTS, AN ENTREPRENEUR HAS NO GUARANTEE THAT HIS INVENTION CAN BE SUCCESSFULLY COMMERCIALIZED OR WILL NOT BE INVENTED AROUND BY HIS COMPETITORS. ALL TOO FREQUENTLY, THERE IS ALSO THE POSSIBILITY OF THE PATENT BEING INVALIDATED IN COURT, LEAVING THE PATENTEE WITH NO MEANS TO PREVENT COPIERS FROM TAKING FULL ADVANTAGE OF ANY MARKET THE PATENTEE MAY HAVE CREATED.

FINALLY, PATENTS PROVIDE AN IMPORTANT MEANS FOR THE PUBLIC DISCLOSURE OF INFORMATION ABOUT INVENTIONS AND THEIR USES. ALTHOUGH PATENT RIGHTS LAST SEVENTEEN YEARS, THE INFORMATION A PATENT CONTAINS IS AVAILABLE TO THE PUBLIC IMMEDIATELY, AND CAN BE BUILT UPON FOR FURTHER ADVANCING THE FRONTIERS OF MAN'S KNOWLEDGE.

WHETHER OR NOT PATENTS WILL CONTINUE TO STIMULATE THE INNOVATIVE PROCESS AND CONTINUE TO BE A MAJOR VEHICLE FOR THE DISCLOSURE OF NEW TECHNOLOGY DEPEND IN LARGE PART ON THE STRENGTH OF THE LEGAL PROTECTION THAT A PATENT PROVIDES. UNCERTAINTY ABOUT THE VALIDITY AND CONTINUED RELIABILITY OF A PATENT RAISES THE THREAT OF LENGTHY AND EXPENSIVE LITIGATION TO RESOLVE THAT UNCERTAINTY. THESE THREATS, WITH THEIR DOUBTFUL OUTCOMES, DILUTE THE STRENGTH OF PATENTS AND DISSUADE BUSINESSES FROM RELYING ON THEM.

IN HIS OCTOBER 31, 1979 INDUSTRIAL INNOVATION MESSAGE TO THE CONGRESS, THE PRESIDENT ANNOUNCED HIS INTENTION TO SUBMIT TO THE CONGRESS SEVERAL LEGISLATIVE ITEMS FOR STRENGTHENING THE UNITED STATES PATENT SYSTEM. THE ADMINISTRATION'S BILL, H.R. 6933, INTRODUCED LAST MONTH, WOULD ACHIEVE THIS LONG-OVERDUE STRENGTHENING. THIS BILL CONTAINS PROVISIONS AUTHORIZING THE PATENT AND TRADEMARK OFFICE (PTO) TO REEXAMINE ISSUED PATENTS AND INCREASE ITS FEE RECOVERY LEVEL. WHILE THE BILL WOULD ALSO ESTABLISH A UNIFORM GOVERNMENT POLICY FOR THE ALLOCATION OF RIGHTS IN FEDERALLY FINANCED CONTRACTOR INVENTIONS, I WILL ADDRESS ONLY ITS REEXAMINATION AND FEE PROVISIONS.

#### REEXAMINATION

THE REEXAMINATION SYSTEM THAT THIS BILL WOULD EFFECT WAS STRENUOUSLY URGED DURING THE PRESIDENT'S DOMESTIC POLICY REVIEW ON INDUSTRIAL INNOVATION BY THE ADVISORY SUBCOMMITTEE ON PATENTS AND INFORMATION POLICY. THE SUBCOMMITTEE RECOMMENDED REEXAMINATION AUTHORITY FOR THE OFFICE AS ONE OF THE CHANGES MOST NEEDED FOR THE CONTINUED EFFECTIVE FUNCTIONING OF THE PATENT SYSTEM.

THE SUBCOMMITTEE IS CERTAINLY NOT ALONE. IN FACT, IT REFLECTS A COMMON SENTIMENT. PATENT REEXAMINATION WAS STRONGLY ADVOCATED BY THE COMMITTEE ON ECONOMIC DEVELOPMENT IN ITS RECENT INNOVATION STUDY.

BUSINESS AND PROFESSIONAL ORGANIZATIONS CONCERNED WITH THE ROLE OF PATENTS IN PROMOTING TECHNOLOGY, INCLUDING THE AMERICAN PATENT LAW ASSOCIATION AND THE AMERICAN BAR ASSOCIATION, ENDORSE PATENT REEXAMINATION.

REEXAMINATION IS A LONG-OVERDUE IMPROVEMENT FOR A PATENT SYSTEM STRUGGLING TO PROMOTE INNOVATION AND ENTREPRENEURSHIP IN A NATION FACING ECONOMIC PROBLEMS THAT TECHNOLOGY MUST HELP SOLVE. THE 1967 PRESIDENT'S COMMISSION ON THE PATENT SYSTEM RECOMMENDED THE ESTABLISHMENT OF A REEXAMINATION SYSTEM. FROM 1967 UNTIL TODAY, ITS ESTABLISHMENT HAS BEEN INCLUDED AS AN IMPORTANT FEATURE OF MANY PATENT LAW REVISION BILLS. THE DEPARTMENT OF COMMERCE HAS CONTINUOUSLY SUPPORTED ESTABLISHMENT OF A REEXAMINATION SYSTEM.

THE MAIN REASON REEXAMINATION IS NEEDED IS BECAUSE MEMBERS OF THE PUBLIC INTERESTED IN THE VALIDITY OF A PATENT ARE SOMETIMES ABLE TO FIND PERTINENT PRIOR PATENTS AND PRINTED PUBLICATIONS NOT KNOWN OR AVAILABLE TO THE PTO. PATENTS AND PUBLICATIONS BEARING ON THE PATENTABILITY OF A PARTICULAR INVENTION ARE OFTEN DISCOVERED ONLY AFTER A PATENT HAS ISSUED AND BECOME COMMERCIALY IMPORTANT.

THE PATENT OWNER'S COMPETITORS WILL DEVOTE GREAT EFFORT AND EXPENSE TO INVALIDATING A PATENT THAT AFFECTS THEIR BUSINESSES. THEY CAN AFFORD TO LOOK FOR DOCUMENTARY EVIDENCE OF UNPATENTABILITY IN LIBRARY COLLECTIONS, TECHNICAL JOURNALS AND OTHER SOURCES NOT WITHIN THE PTO'S SEARCH FILE. BECAUSE OF BUDGETARY AND TIME CONSTRAINTS, THE EXAMINER'S SEARCH SELDOM EXTENDS BEYOND THE PTO'S 22 MILLION DOCUMENT COLLECTION.

NEITHER WE, THE PATENT BAR, NOR THE TECHNICAL COMMUNITY HAVE ANY RESERVATIONS ABOUT OUR ABILITY TO ANALYZE PRIOR ART AND APPLY IT PROPERLY IN JUDGING THE PATENTABILITY OF AN INVENTION. PRIOR ART IS THE LEGAL TERM FOR THE BODY OF TECHNICAL INFORMATION AND PUBLICATIONS

AN INVENTION IS COMPARED TO IN JUDGING ITS NOVELTY AND UNOBVIOUSNESS. WHILE AN INVENTION MUST SATISFY MANY REQUIREMENTS TO BE PATENTABLE, NOVELTY AND UNOBVIOUSNESS DEMAND MOST OF OUR ATTENTION AND ARE USUALLY THE HARDEST TO DECIDE. PATENTS AND PUBLICATIONS MAKE UP THE GREAT BULK AND MOST IMPORTANT PART OF PRIOR ART. REEXAMINATION IS CONCERNED WITH ESTABLISHING A PROCEDURE FOR MAKING RELEVANT PRIOR ART AVAILABLE TO THE PTO AND ALLOWING THE PTO TO ASSESS ITS IMPACT ON A PARTICULAR INVENTION.

A PRIVATE 1974 STUDY FOUND THAT IN MORE THAN TWO-THIRDS OF THE CASES WHERE PATENTS WERE FOUND INVALID BY THE COURTS, THE COURT CONSIDERED PRIOR ART WHICH HAD NOT BEEN CONSIDERED BY THE PTO (KOENIG, PATENT VALIDITY - A STATISTICAL AND SUBSTANTIVE ANALYSIS, SEC. 5.05, CLARK, BOARDMAN AND Co., (1974)). BECAUSE OF THE ECONOMIC INTERESTS INVOLVED IN PATENT LITIGATION, PARTIES TO SUCH LITIGATION USUALLY CONDUCT PRIOR ART SEARCHES FAR MORE EXTENSIVE THAN THOSE CONDUCTED BY THE PTO. AT PRESENT THE PTO IS NOT ABLE TO TAKE FULL ADVANTAGE OF SUCH HELP FROM THE PUBLIC IN UNCOVERING RELEVANT PRIOR ART.

THE ADMINISTRATION'S BILL WILL ESTABLISH A SYSTEM BY WHICH ANY PERSON AT ANY TIME DURING THE LIFE OF A PATENT WILL BE ABLE TO BRING OUR ATTENTION TO PRIOR ART PATENTS AND PUBLICATIONS THE PERSON BELIEVES HAVE A BEARING ON THE PATENTABILITY OF THAT PATENT. AT THE SAME TIME OR LATER, THAT PERSON OR ANYONE ELSE WOULD BE ABLE TO REQUEST THE PTO TO REEXAMINE THE PATENT ON THE BASIS THAT THE INFORMATION IT CONTAINS RAISES A SUBSTANTIAL NEW QUESTION OF PATENTABILITY. IN THE ABSENCE OF SUCH A REQUEST, THE COMMISSIONER OF PATENTS AND TRADEMARKS COULD INITIATE A REEXAMINATION ON HIS OWN VOLITION.

THE PRIVATELY-CONDUCTED SEARCHES ON WHICH REEXAMINATION DEPENDS WILL BE CARRIED OUT BY THE PERSONS MOST CONCERNED WITH PATENT VALIDITY--POTENTIAL OR ACTUAL COMPETITORS OF THE PATENT OWNER OR EVEN THE PATENT OWNER HIMSELF--AND MOST ANXIOUS, THEREFORE, TO FIND THE

BEST PRIOR ART. THESE SEARCHES ARE NOT LIMITED BY THE BUDGET AND PERSONNEL CONSIDERATIONS APPLICABLE TO THE OFFICE. DOCUMENTS IN LIBRARIES AND COLLECTIONS AROUND THE WORLD COULD BE SEARCHED, IF THE INVENTION'S VALUE MAKE THIS WORTHWHILE.

THIS IS, OF COURSE, AN IMPOSSIBLE BURDEN FOR THE PTO ITSELF TO ASSUME. THE CONSTANTLY INCREASING AMOUNTS OF TECHNICAL PUBLICATIONS AND PATENTS TOGETHER WITH OBVIOUS BUDGET RESTRAINTS SOMETIMES PRECLUDE DISCOVERING THE MOST RELEVANT PRIOR ART DURING THE EXAMINATION PROCESS. ALSO, OUR SEARCH FILE INTEGRITY, WHICH THE PRESIDENT IN HIS MESSAGE PLEDGED TO UPGRADE SIGNIFICANTLY, IS FAR BELOW THE LEVEL THAT GUARANTEES A THOROUGH SEARCH IN EVERY INSTANCE.

JUST BECAUSE PRIOR ART CAN SOMETIMES BE DIFFICULT TO FIND DOES NOT MEAN THAT WE USUALLY DO NOT FIND WHAT WE ARE LOOKING FOR. OUR FILES CONTAIN OVER 22 MILLION AMERICAN AND FOREIGN PATENTS AND TECHNICAL DOCUMENTS AVAILABLE TO EXAMINERS. OUR PATENT EXCHANGE PROGRAMS WITH OTHER COUNTRIES KEEP THIS COLLECTION GROWING AT A RAPID RATE. IN ADDITION, EXAMINERS HAVE ACCESS TO AND REGULARLY USE OUR SCIENTIFIC LIBRARY.

MOST OF THE TIME, THEREFORE, WE DO FIND ALL THE PERTINENT PRIOR ART. REEXAMINATION IS A REMEDY FOR THESE FEW INSTANCES WHEN SOME PERTINENT PRIOR ART ELUDES US AND AN INVALID PATENT ISSUES.

UNDER THE PRESENT LAW, ONLY THE PATENT OWNER CAN OBTAIN A REEVALUATION OF PATENT VALIDITY BY THE PTO ON THE BASIS OF NEWLY-DISCOVERED PRIOR ART. THE PTO HAS A SPECIAL REISSUE PROCEDURE FOR THIS PURPOSE, BUT IT CANNOT BE INITIATED BY A MEMBER OF THE PUBLIC OR EVEN BY THE PTO ITSELF.

MEMBERS OF THE PUBLIC TODAY HAVE ONLY TWO WAYS OF CONTESTING PATENT VALIDITY, NO MATTER HOW AFFECTED OR CONCERNED THEY MAY BE ABOUT THE VALIDITY OF A PARTICULAR PATENT. A PERSON MAY EITHER WAIT TO BE SUED FOR PATENT INFRINGEMENT AND THEN RAISE THE DEFENSE OF INVALIDITY OR, IF A BUSINESS INTEREST IS DIRECTLY THREATENED, BRING A DECLARATORY JUDGMENT SUIT.

BOTH OF THESE REMEDIES MUST BE SOUGHT IN A FEDERAL COURT, AND THEY ARE ALMOST ALWAYS EXPENSIVE, PROTRACTED, AND UNCERTAIN AS TO OUTCOME. THEY PLACE SPECIAL HARDSHIPS ON SMALL BUSINESSES AND INDIVIDUAL INVENTORS -- THOSE LEAST ABLE TO FINANCE AND AWAIT THE OUTCOME OF LITIGATION. REEXAMINATION WOULD PROVIDE A SIMPLER, FAR LESS EXPENSIVE, AND PROMPTER ADMINISTRATIVE PROCEDURE FOR EVALUATING THE EFFECT OF NEWLY-DISCOVERED PATENTS AND PUBLICATIONS ON PATENT VALIDITY.

AS YOU KNOW, MR. CHAIRMAN, I AND OTHERS CONCERNED WITH THE FUTURE AND EFFECTIVENESS OF THE PATENT SYSTEM TESTIFIED SEVERAL MONTHS AGO ON S. 1679. THE SENATE HAS SINCE MODIFIED S. 1679 AND PASSED IT AS S. 2446. IT HAS EXACTLY THE SAME OBJECTIVES AS THE ADMINISTRATION'S BILL AND ITS PROVISIONS ARE QUITE LIKE OURS. IN THAT TESTIMONY, I SPOKE AS ENTHUSIASTICALLY AS I AM CAPABLE ABOUT THE NEED FOR REEXAMINATION. I AM JUST AS ENTHUSIASTIC NOW, AND TRUST THAT MY EARLIER TESTIMONY CAN BE CONSIDERED AS PART OF THE RECORD OF THIS HEARING. IN FACT, SOME OF WHAT I AM SAYING NOW WAS SAID THEN.

OUR BILL WAS STILL UNDER PREPARATION AT THE TIME OF THAT TESTIMONY AND I WAS LIMITED, OF COURSE, IN MY COMMENTS. OUR BILL, I BELIEVE, DOES HAVE CERTAIN ADVANTAGES OVER S. 2446. I WOULD LIKE TO EXPLAIN THE MAJOR CONCEPTS IN OUR BILL.

IT WOULD ALLOW PATENT CLAIMS TO BE TESTED IN THE SAME WAY THEY WERE ORIGINALLY TESTED FOR PATENTABILITY, I.E., THROUGH EXAMINATION BY AN EXPERT PATENT EXAMINER. ALL OF THE OFFICE'S PROCEDURES AVAILABLE TO PATENT APPLICANTS WOULD BE AVAILABLE IN REEXAMINATION CASES.

WHERE THE CLAIMS IN AN ISSUED PATENT ARE DETERMINED BY THE EXAMINER TO BE TOO BROAD, REEXAMINATION WOULD PERMIT THE PATENTEE TO AMEND THEM SO THAT THEY BECOME COMMENSURATE WITH THE SCOPE OF HIS INVENTION. UNPATENTABLE CLAIMS WOULD BE PURGED FROM THE PATENT. EXACTLY THE SAME OPPORTUNITIES ARE PROVIDED UNDER OUR NEW REISSUE PROCEDURE, BUT, AS I HAVE EXPLAINED, IT IS AVAILABLE ONLY TO PATENT OWNERS. THE BILL WOULD NOT IN ANY WAY AFFECT THE SUBSTANTIVE STATUTORY CRITERIA FOR THE GRANT OR ENFORCEMENT OF A PATENT.

REEXAMINATION WOULD ELIMINATE OR SIMPLIFY SOME PATENT LITIGATION. IN CERTAIN CASES, THE PTO WOULD CONCLUDE AS A RESULT OF REEXAMINATION THAT A PATENT SHOULD NOT HAVE ISSUED. IN THESE CASES, LITIGATION OVER VALIDITY AND INFRINGEMENT WOULD BE COMPLETELY AVOIDED. CONCOMITANT LITIGATION OVER SUCH TIME CONSUMING AND COMPLEX ISSUES AS PATENT MISUSE ALSO WOULD BE REDUCED.

THE STATUTORY PRESUMPTION OF VALIDITY OF A PATENT PROVIDED BY SECTION 282 OF OUR PATENT LAWS (TITLE 35 OF THE UNITED STATES CODE) HAS BEEN HELD BY MANY COURTS TO APPLY ONLY WITH RESPECT TO ART CITED BY OR TO THE PTO IN THE COURSE OF THE PROSECUTION BEFORE THE PTO OR IN CONNECTION WITH A REISSUE PROCEEDING. UNDER OUR REEXAMINATION SYSTEM, COURTS ARE EXPECTED TO ACCORD THE SAME PRESUMPTIVE VALIDITY TO ART CITED DURING REEXAMINATION THAT THEY DO TO ART CITED DURING INITIAL EXAMINATION.

REEXAMINATION CAN, OF COURSE, AND FREQUENTLY WILL BE INSTITUTED DURING CIVIL LITIGATION OVER PATENT VALIDITY OR INFRINGEMENT. BY STAYING PROCEEDINGS IN SUCH LITIGATION, A COURT WILL BE ABLE TO OBTAIN THE OFFICE'S EXPERT JUDGMENT ABOUT THE NEW PRIOR ART.

AFTER REEXAMINATION, THE PRESUMPTIVE VALIDITY OF THE PATENT AS IT LEAVES THE REEXAMINATION PROCESS WILL BE ENHANCED. THE COURT WILL HAVE GREATER CONFIDENCE THAT THE PATENT CLAIMS ARE OF EXACTLY THE

RIGHT SCOPE AND THAT ANY UNPATENTABLE ORIGINAL CLAIMS HAVE BEEN CANCELLED. KNOWLEDGE OF THE EFFECTIVENESS OF REEXAMINATION BY PROSPECTIVE LITIGANTS WILL PROMOTE OUT-OF-COURT SETTLEMENTS OR ENABLE LITIGATION TO BE RESOLVED MORE QUICKLY. LICENSING WOULD BE ENCOURAGED AND POTENTIAL COMPETITORS WOULD BE BETTER ABLE TO JUDGE THE FEASIBILITY OF ENTERING A PARTICULAR FIELD OF TECHNOLOGY.

THE ADMINISTRATION'S BILL CAREFULLY PROTECTS PATENT OWNERS FROM REEXAMINATION PROCEEDINGS BROUGHT FOR HARASSMENT OR SPITE. THE POSSIBILITY OF HARASSING PATENT HOLDERS IS A CLASSIC CRITICISM OF SOME FOREIGN REEXAMINATION SYSTEMS AND WE MADE SURE IT WOULD NOT HAPPEN HERE.

EACH REQUEST FOR REEXAMINATION WILL BE CAREFULLY SCREENED BY A MEMBER OF OUR PROFESSIONAL STAFF TO ASSURE THAT IT AT LEAST RAISES A CREDITABLE CASE OF INVALIDITY OR, IN THE BILL'S WORDS, THAT THERE BE A "SUBSTANTIAL NEW QUESTION OF PATENTABILITY". ALSO, WE WOULD SET THE FEE FOR REEXAMINATION AT A LEVEL THAT FULLY RECOVERS THE COSTS INVOLVED. THIS COST WILL DISCOURAGE MOST SPURIOUS REQUESTS.

LET ME NOW COMPARE THE TWO BILLS.

THE ADMINISTRATION'S BILL ALLOWS PERSONS CITING PRIOR ART TO THE PATENT AND TRADEMARK OFFICE TO REMAIN ANONYMOUS, WHICH IS NOT PROVIDED FOR IN S. 2446. THE AVAILABILITY OF ANONYMITY, WE FEEL, WILL ENCOURAGE THE SUBMISSION OF PERTINENT INFORMATION BY COMPETITORS OF PATENT OWNERS.

BOTH THE ADMINISTRATION BILL AND S. 2446 REQUIRE THE OFFICE TO CONDUCT REEXAMINATION EXPEDITIOUSLY. OUR BILL DOES NOT SPECIFY A DEADLINE FOR COMPLETING REEXAMINATION, AS DOES S. 2446. WE NEVERTHELESS EXPECT TO BE ABLE TO COMPLETE REEXAMINATION IN MOST CASES IN WELL UNDER THE ONE-YEAR DEADLINE REQUIRED IN S. 2446.

NEITHER BILL ALLOWS THE PATENTING OF A CLAIM DURING REEXAMINATION OF GREATER SCOPE THAN ANY CLAIM CONTAINED IN THE ORIGINALLY- ISSUED



PATENT. BOTH BILLS RECOGNIZE, EVEN SO, THAT SOMEONE CAN BECOME AN INFRINGER WHEN REEXAMINATION INTRODUCES VALID CLAIMS TO A PREVIOUSLY INVALID PATENT. PROTECTION FOR INTERVENING RIGHTS IS PROVIDED IN BOTH.

BOTH BILLS PROVIDE FOR APPEAL OR CIVIL ACTION FROM A FINAL OFFICE DETERMINATION ON REEXAMINATION. THIS RIGHT OF APPEAL, HOWEVER, BELONGS ONLY TO THE PATENT OWNER.

BOTH BILLS REQUIRE THE COMMISSIONER AT THE CONCLUSION OF REEXAMINATION TO PUBLISH A CERTIFICATE STATING THE OUTCOME OF THE REEXAMINATION. THE CERTIFICATE WILL CANCEL UNPATENTABLE CLAIMS, CONFIRM ORIGINAL CLAIMS FOUND PATENTABLE, INCORPORATE AMENDED PATENTABLE CLAIMS INTO THE PATENT AND, IN THE ADMINISTRATION'S BILL, ADD NEW PATENTABLE CLAIMS.

S. 2446 SPECIFIES THE CONDITIONS UNDER WHICH A COURT MAY TAKE INTO ACCOUNT THE PRIOR ART CONSIDERED DURING REEXAMINATION. NO SUCH ART MAY BE RELIED UPON UNLESS IT HAS BEEN EVALUATED DURING A REEXAMINATION OR UNLESS THE COURT, ON MOTION, CONCLUDES THAT REEXAMINATION IS UNNECESSARY. IT ALSO ALLOWS ANY PARTY TO A CIVIL ACTION INVOLVING PATENT VALIDITY TO SECURE A STAY OF ALL PROCEEDINGS IN ORDER FOR REEXAMINATION TO BE CONDUCTED.

THE ADMINISTRATION'S BILL HAS NO EQUIVALENT PROVISIONS TO EITHER OF THESE. THE QUESTION OF WHETHER TO ORDER REEXAMINATION OR TO GRANT A STAY TO PERMIT A PARTY TO OBTAIN REEXAMINATION IS LEFT TO THE TRIAL COURT'S JUDGMENT. THE GRANTING OF A STAY WILL DEPEND ON WHETHER OR NOT A STAY WILL PROMOTE THE RESOLUTION OF LITIGATION AND IS FAIR TO THE PARTIES. THEREFORE, THERE WILL BE NO OPPORTUNITY, AT LEAST UNDER OUR BILL, TO USE REEXAMINATION AS A WAY OF UNFAIRLY DELAYING LITIGATION.

THE SUCCESS OF ANY EXAMINATION OR REEXAMINATION SYSTEM DEPENDS, MOST OF ALL, ON THE CAPABILITIES AND DEDICATION OF OUR PROFESSIONAL STAFF. WE ARE VERY FORTUNATE. OUR EXAMINERS ARE AS COMPETENT AND

WELL-TRAINED AS ANY IN THE WORLD. THEY CAN HANDLE EVERY ADMINISTRATIVE ASPECT OF REEXAMINATION JUST AS THOROUGHLY AS THEY NOW HANDLE THE EXAMINATION OF PATENT APPLICATIONS.

NATURALLY, TRAINING IS LIMITED BY FINANCIAL CONSIDERATIONS. ADDITIONAL TRAINING AS PROPOSED IN THE PRESIDENT'S FY 1981 BUDGET WOULD HELP INCREASE OUR EFFICIENCY BY BRINGING EACH EXAMINER CLOSER TO HIS FULL POTENTIAL. THE ADVERSE EFFECTS OF PROFESSIONAL STAFF TURN-OVER WILL ALSO BE PARTIALLY REDUCED BY THIS ADDITIONAL TRAINING.

IT IS IMPORTANT TO POINT OUT THAT REEXAMINATION WILL NOT BE A SUBSTITUTE FOR EXAMINATION. ANYTHING LESS THAN A FULL EXAMINATION OF PATENT APPLICATIONS WOULD BE COMPLETELY UNFAIR TO THE PUBLIC AND PATENT OWNERS, WHO RELY ON THE THOROUGHNESS OF THE PATENT GRANTING PROCESS. SMALL BUSINESSES AND INDIVIDUALS, LESS ABLE TO ABSORB LEGAL COSTS AS PART OF DOING BUSINESS, ARE ESPECIALLY ANXIOUS TO SEE THE PRESENT HIGH STANDARDS CONTINUE UNABATED.

OVER THE YEARS, WE HAVE ESTABLISHED AND CURRENTLY OPERATE A QUALITY CONTROL REVIEW PROGRAM. APPLICATIONS ARE SELECTED ON A RANDOM BASIS FOR THIS REVIEW. IT DELVES INTO THE ADEQUACY OF THE EXAMINER'S SEARCH, HIS USE OF THE PRIOR ART TO EVALUATE THE PATENTABILITY OF THE CLAIMS IN THE APPLICATION AND HIS COMPLIANCE WITH OFFICE PROCEDURES. ERRORS AND DEFICIENCIES ARE CALLED TO THE EXAMINER'S ATTENTION AND STEPS TAKEN TO PREVENT THEM FROM HAPPENING AGAIN. WE BELIEVE OUR RELIANCE ON THIS PROGRAM TO MAINTAIN OUR HIGH EXAMINATION STANDARDS IS JUSTIFIED.

IN ADDITION TO OUR QUALITY REVIEW, WE ARE BUDGETING SUBSTANTIAL SUMS OVER THE NEXT FEW YEARS FOR THE IMPROVEMENT OF OUR SEARCH FILES. BOTH OF THESE ARE, OF COURSE, INTIMATELY INTERWOVEN WITH OUR ABILITY TO DISCOVER PRIOR ART. THE PRESIDENT'S MESSAGE PLEDGED HIS SUPPORT FOR THESE ACTIVITIES.

I CANNOT LEAVE THE SUBJECT OF REEXAMINATION WITHOUT MENTIONING ITS COSTS.

THE PTO EXPECTS BETWEEN 1,000 AND 3,000 REEXAMINATION PROCEEDINGS EACH YEAR. AN ESTIMATE HAS BEEN MADE OF THE EXPENSES OF CONDUCTING REEXAMINATION UNDER THE BILL. THE ESTIMATE WAS MADE BY COMPARING REEXAMINATION PROCEDURES TO THE PTO'S PRESENT EXAMINATION AND RE-ISSUE PROCEDURES. HOWEVER, THE UNIQUE CONCEPTS INVOLVED IN REEXAMINATION PRECLUDE A PRECISE FORECAST.

WITH THIS CAVEAT, WE ESTIMATE THAT REEXAMINATION COSTS WILL AVERAGE SOMEWHERE BETWEEN \$1,000 AND \$1,500 PER PROCEEDING. WE ALSO ESTIMATE THAT FROM 25 TO 92 WORK/YEARS WILL BE REQUIRED TO FULFILL OUR REEXAMINATION RESPONSIBILITIES. WITH THE FULL COST RECOVERY REQUIRED BY THIS BILL'S FEE PROVISIONS, REEXAMINATION WILL NOT IMPOSE ANY COSTS ON TAXPAYERS.

BY LIMITING REEXAMINATION TO A CONSIDERATION OF PRIOR PATENTS AND PRINTED PUBLICATIONS, THE PTO WOULD BE GIVEN A TASK THAT IT CAN PERFORM EFFECTIVELY AT A REASONABLE COST TO THE REQUESTER. ALSO, IT WOULD COST VAST AMOUNTS, FAR BEYOND WHAT WE COULD REASONABLY JUSTIFY SPENDING, TO CARRY ON SEARCHING AS EFFECTIVE AS REEXAMINATION WOULD PROVIDE. REEXAMINATION IS A BARGAIN.

#### NEW PATENT AND TRADEMARK FEES

FOR SOME TIME, TAXPAYERS HAVE BORNE AN INORDINATE PORTION OF THE PATENT AND TRADEMARK OFFICE'S EXPENSES IN ADMINISTERING THE PATENT AND TRADEMARK LAWS. THE OFFICE HAS LITTLE CONTROL OVER THE PERCENTAGE BORNE BY THE PUBLIC, SINCE MOST PATENT AND TRADEMARK FEES ARE FIXED BY STATUTE. CONGRESS LAST ENACTED LEGISLATION RAISING FEES IN 1965. AT THAT TIME, FEES RECOVERED ONLY 29 PERCENT OF THE COSTS OF OPERATING THE OFFICE. IN 1967, WHEN THESE FEE INCREASES MADE THEIR FULL IMPACT, THE PERCENTAGE OF THE OFFICE'S OPERATING COSTS RECOVERED BY FEES ROSE TO 67 PERCENT. IN THE SUCCEEDING TWELVE-YEAR

PERIOD, THIS PERCENTAGE HAS STEADILY DECLINED, FALLING TO 27 PERCENT OF THE OFFICE'S OPERATING COSTS FOR FISCAL YEAR 1979.

THE NOVEMBER 14, 1978 COMPTROLLER GENERAL'S REPORT TO THE CONGRESS, ENTITLED "PATENT AND TRADEMARK FEES NEED TO BE RAISED," DOCUMENTS THE DECLINE IN THE PERCENTAGE OF OPERATING COSTS RECOVERED BY FEE INCOME. THE REPORT RECOMMENDS THAT FEES BE RAISED TO PROVIDE A MORE EQUITABLE BALANCE BETWEEN THE BENEFITS RECEIVED BY USERS OF THE PATENT SYSTEM AND THE GENERAL PUBLIC. THE REPORT MAKES NO RECOMMENDATION, HOWEVER, AS TO HOW HIGH FEES SHOULD BE RAISED.

THE ADMINISTRATION'S BILL WOULD COMPLETELY RESTRUCTURE AND MODERNIZE THE BASIC FEE PROVISIONS OF BOTH THE PATENT AND TRADEMARK LAWS. IT WOULD AUTHORIZE THE SECRETARY OF COMMERCE TO SET FEES ADMINISTRATIVELY FOR PROCESSING A PATENT APPLICATION, FOR MAINTAINING A PATENT IN FORCE, AND FOR PROVIDING ALL OTHER PATENT SERVICES AND MATERIALS. RECOVERY RATES FOR THESE THREE CATEGORIES OF FEES ARE SPECIFIED IN THE BILL. IN ESTABLISHING THE RECOVERY RATE SPECIFIED, WE HAVE TAKEN CARE TO FOLLOW THE ADMINISTRATION'S AND CONGRESSIONAL POLICIES ON ADMINISTRATIVE FEE SETTING.

PATENT APPLICATION PROCESSING IS THE WORK PERFORMED BY THE OFFICE FROM THE TIME AN APPLICATION IS FILED UNTIL IT IS DISPOSED OF BY ISSUANCE OF A PATENT OR ABANDONMENT OF THE APPLICATION. THIS WORK IS THE PART OF THE OFFICE'S FUNCTIONS FROM WHICH BOTH THE PATENTEE AND THE GENERAL PUBLIC BENEFIT. WHEN A PATENT ISSUES, THE PATENTEE BENEFITS FROM BEING GIVEN A SEVENTEEN-YEAR PERIOD OF EXCLUSIVE RIGHTS TO COMMERCIALIZE HIS INVENTION. THE PUBLIC ALSO BENEFITS FROM THE PUBLICATION AND DISSEMINATION OF NEW TECHNOLOGY, WHICH CAN BE BUILT UPON IMMEDIATELY AND FREELY COMMERCIALIZED LATER, AFTER THE PATENT HAS EXPIRED. ACCORDINGLY, IT SEEMS REASONABLE TO ASK THE PUBLIC TO FUND A PART OF THE COST OF PROCESSING PATENT APPLICATIONS.

UNDER THE PRESENT STATUTORY FEE SCHEDULE, PATENT APPLICANTS AND PATENTEES PAY APPROXIMATELY 20 PERCENT OF THE COSTS OF PROCESSING PATENT APPLICATIONS AND THE PUBLIC PAYS APPROXIMATELY 80 PERCENT. CLEARLY, PATENT APPLICANTS AND PATENTEES SHOULD SHOULD A HIGHER PERCENTAGE OF THESE COSTS.

THE HIGHER PATENT FEES BECOME, HOWEVER, AND CONSEQUENTLY THE LOWER THE PUBLIC'S SHARE, THE MORE LIKELY INVENTORS AND BUSINESSES WILL TURN AWAY FROM SEEKING PATENTS AND DISCLOSING INVENTIONS THROUGH PATENTING. A BALANCE IS NEEDED.

THE BILL, THEREFORE, REQUIRES THAT THE SECRETARY OF COMMERCE ESTABLISH FEES FOR PROCESSING PATENT APPLICATIONS, FROM FILING TO DISPOSITION BY ISSUANCE OR ABANDONMENT, EQUAL IN THE AGGREGATE TO 30 PERCENT OF THE ESTIMATED AVERAGE COST OF PROCESSING AN APPLICATION. AS FEE REVENUES AND COSTS CHANGE, THE SECRETARY WOULD ADJUST FEES TO ACHIEVE THE SPECIFIED RECOVERY RATE.

PATENT APPLICATIONS IN SOME TECHNOLOGICAL FIELDS REQUIRE DIFFERENT AMOUNTS OF THE PTO'S RESOURCES FOR EXAMINATION THAN PATENT APPLICATIONS IN OTHER FIELDS. ACCORDINGLY, THE SECRETARY COULD SET ANY FEE FOR APPLICATIONS INVOLVING A PARTICULAR FIELD OF TECHNOLOGY AT A HIGHER OR LOWER AMOUNT THAN THE CORRESPONDING FEE CHARGED FOR APPLICATIONS IN OTHER TECHNOLOGICAL FIELDS, TO THE EXTENT THAT COSTS FOR WHICH THE FEE IS CHARGED DIFFER.

IN ORDER TO RECOVER 30 PERCENT OF THE PROCESSING COSTS FOR PATENT APPLICATIONS, THE PROCESSING FEES WHICH THE SECRETARY WOULD ESTABLISH WOULD BE SOMEWHAT HIGHER THAN THE PRESENT STATUTORY FEES. IN SETTING THESE NEW FEES, THE SECRETARY MAY CHOOSE TO KEEP THE FILING FEE SOMEWHAT LOWER THAN THE ISSUE FEE. THIS WILL BE ESPECIALLY BENEFICIAL TO INDIVIDUAL INVENTORS AND SMALL BUSINESSES. OTHERWISE, THESE IMPORTANT USERS OF THE PATENT SYSTEM MAY NEED TO PAY LARGER FRONT END COSTS THAN THEY CAN AFFORD FOR OBTAINING PATENT PROTECTION.

KEEPING THESE FEES IN THE SAME RATIO AS THEY ARE TODAY, THE TOTAL FEES FOR FILING AN APPLICATION AND RECEIVING A PATENT WOULD BE INCREASED TO AN AVERAGE OF \$376 FROM TODAY'S AVERAGE OF \$239. THIS IS AN INCREASE SINCE 1967 OF ABOUT 57 PERCENT.

MAINTENANCE FEES WILL BE REQUIRED THREE TIMES IN A PATENT'S LIFE; SIX MONTHS PRIOR TO THE FOURTH, EIGHTH, AND TWELFTH ANNIVERSARIES OF THE PATENT'S ISSUANCE. LATE PAYMENT WILL BE ACCEPTED DURING A SIX-MONTH GRACE PERIOD. A PATENT WILL EXPIRE IF THE MAINTENANCE FEE IS NOT PAID BY THE END OF THE GRACE PERIOD.

THE SECRETARY WOULD ESTABLISH MAINTENANCE FEES AT LEVELS THAT RECOVER ANOTHER 30 PERCENT OF THE COSTS OF PROCESSING PATENT APPLICATIONS. IN 1981 DOLLARS, WE ESTIMATE THAT THE FIRST MAINTENANCE FEE WILL BE \$200, THE SECOND FEE WILL BE \$400 AND THE THIRD FEE WILL BE \$800. TOTAL FEES FOR MAINTAINING A PATENT IN FORCE FOR SEVENTEEN YEARS WOULD, THEREFORE, BE \$1400, IN 1981 DOLLARS, WHICH COMPARES EXTREMELY FAVORABLY WITH MAINTENANCE FEES IN OTHER INDUSTRIALIZED COUNTRIES.

WHILE TOTAL MAINTENANCE FEES OF \$1400 ARE SUBSTANTIAL, ONLY THOSE PATENTEES WHOSE PATENTS ARE LIKELY TO OR DO BECOME COMMERCIALY VALUABLE WOULD BE EXPECTED TO KEEP THEIR PATENTS IN FORCE. THUS, THOSE PATENTEES WHO BENEFIT THE MOST FROM PATENTING WILL SHOULDER A LARGER PORTION OF AGGREGATE PROCESSING COSTS.

PRESENT SECTION 31 OF THE TRADEMARK ACT SPECIFIES THE FEES TO BE CHARGED FOR EXAMINING AND REGISTERING TRADEMARKS AND OTHER MARKS. THESE FEES CANNOT BE ADJUSTED ADMINISTRATIVELY.

THE BILL WOULD MODERNIZE THE TRADEMARK FEE SYSTEM. THE PRESENT STATUTORY FEES SPECIFIED IN THIS SECTION WOULD BE ENTIRELY REPLACED BY FEES ESTABLISHED BY THE SECRETARY. FEES FOR TRADEMARK EXAMINATION AND PROCESSING, AS WELL AS FOR PRODUCTS AND SERVICES PROVIDED IN

CONNECTION WITH TRADEMARKS, WOULD BE SET AT LEVELS THAT FULLY RECOVER THE COSTS OF PROVIDING THESE PRODUCTS AND SERVICES. IMPROVEMENTS NEEDED IN THE TRADEMARK SYSTEM TO REDUCE THE PRESENT BACKLOG OF UNEXAMINED TRADEMARK APPLICATIONS WOULD BE PAID FOR BY THE SYSTEM'S USERS. IN SUM, THE NEW FEE SYSTEM WOULD MAKE THE TRADEMARK SYSTEM IMMEDIATELY AND ENTIRELY SELF-SUPPORTING.

ASIDE FROM FUNDING IMPROVEMENTS TO THE TRADEMARK EXAMINING SYSTEM, AN AVERAGE INCREASE OF 223 PERCENT IN THE PRESENT STATUTORY FEES, BASED ON 1980 FISCAL YEAR OPERATING COSTS, WOULD ACHIEVE FULL COST RECOVERY. THE PRESENT FILING FEE FOR REGISTRATION OF A MARK IS ONLY \$35, AND IT WAS LAST INCREASED IN 1965. OTHER FEES WERE NOT INCREASED AT THAT TIME. RAISING FEES BY 223 PERCENT WOULD MEAN A FILING FEE INCREASE TO \$113.

AT THE PRESENT TIME, THE PTO RECEIVES ANNUAL APPROPRIATIONS TO FUND THE BULK OF ITS ACTIVITIES. FEE REVENUES ARE NOT AVAILABLE FOR THE OFFICE'S USE; THEY MUST BE TRANSFERRED TO THE TREASURY. REVENUES FROM PTO FEES AMOUNTED TO \$27.2 MILLION IN 1979.

SINCE THE ADMINISTRATIVE FEE SETTING AUTHORITY PROVIDED BY THIS BILL REQUIRES RECOVERY OF SPECIFIED PERCENTAGES OF COSTS, IT WOULD BE APPROPRIATE TO PROVIDE A MECHANISM FOR DIRECT APPLICATION OF FEE REVENUES TO THE COSTS OF FUNDING THE SERVICES OR MATERIALS FOR WHICH FEES ARE PAID. THIS BILL WOULD CREDIT FEE REVENUES DIRECTLY TO THE PTO APPROPRIATION ACCOUNT IN THE UNITED STATES TREASURY, WHERE THEY WOULD BE AVAILABLE TO THE COMMISSIONER TO FUND PTO ACTIVITIES.

BUDGET CONTROL OVER THE OFFICE'S EXPENDITURES WILL BE MAINTAINED, SINCE THE OFFICE WOULD CONTINUE TO RECEIVE APPROPRIATIONS FOR THE PORTION OF ITS EXPENSES NOT COVERED BY FEES. MOREOVER, THE USE OF FEE REVENUES WOULD BE LIMITED "TO THE EXTENT PROVIDED FOR IN APPROPRIATIONS ACTS." HOWEVER, PARTICULARLY IN THE AREAS OF PATENT AND TRADEMARK SERVICES AND TRADEMARK EXAMINATION AND PROCESSING, IT IS EXPECTED THAT THE CONGRESS WOULD GRANT CONSIDERABLE LATITUDE TO THE PTO SO THAT IT COULD PROVIDE USERS WITH THOSE PRODUCTS AND SERVICES WHICH THEY PAID THE ENTIRE COST OF PROVIDING.

DUE TO THE SEASONAL NATURE OF THE OFFICE'S WORK, IT IS DESIRABLE TO KEEP USER FEES BEYOND THE FISCAL YEAR IN WHICH THEY ARE COLLECTED. THEREFORE, THE ADMINISTRATION WILL SEEK OFFICE APPROPRIATIONS THAT REMAIN AVAILABLE WITHOUT FISCAL YEAR LIMITATION -- I.E., "NO-YEAR" APPROPRIATIONS.

CREDITING FEES DIRECTLY TO THE OFFICE APPROPRIATION ACCOUNT FOR THE PURPOSE OF FINANCING OUR ACTIVITIES TOGETHER WITH REVISED PATENT AND TRADEMARK ADMINISTRATIVE FEE SETTING AUTHORITY FOR THE SECRETARY OF COMMERCE WILL SUBSTANTIALLY CHANGE OUR FISCAL MANAGEMENT SYSTEM. DIRECT APPROPRIATIONS FOR THE OFFICE FOR THE FIRST FISCAL YEAR UNDER THIS AUTHORITY WOULD BE REDUCED BY APPROXIMATELY \$40 MILLION. THE OFFICE WOULD BE RESPONSIBLE FOR MANAGING ITS FINANCES MORE IN ACCORDANCE WITH BUSINESS-LIKE PROCEDURES.

THIS CONCLUDES MY PREPARED TESTIMONY. I HOPE I HAVE CONVINCED YOU OF THE PRESSING IMPORTANCE OF THESE PROVISIONS. I WILL TRY TO ANSWER ANY QUESTIONS YOU WISH TO ASK.