

Y 4
. J 89/2
96-43

1042

96/1/4
0589/2
96-43

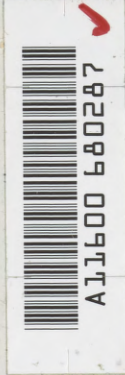
PATENT REEXAMINATION

GOVERNMENT
Storage

DOCUMENTS

APR 14 1980

FARRELL LIBRARY
KANSAS STATE UNIVERSITY



HEARING

BEFORE THE

COMMITTEE ON THE JUDICIARY

UNITED STATES SENATE

NINETY-SIXTH CONGRESS

FIRST SESSION

ON

S. 1679

A BILL TO AMEND THE PATENT LAWS, TITLE 35 OF THE
UNITED STATES CODE

NOVEMBER 30, 1979

Serial No. 96-43

Printed for the use of the Committee on the Judiciary



U.S. GOVERNMENT PRINTING OFFICE

56-985 O

WASHINGTON : 1980

4 Y
2 2/2
84-43

DOCUMENTS

APR 14 1980

FARMER LIBRARY
KANSAS STATE UNIVERSITY

COM

COMMITTEE ON THE JUDICIARY

[96th Congress]

EDWARD M. KENNEDY, Massachusetts, *Chairman*

BIRCH BAYH, Indiana
ROBERT C. BYRD, West Virginia
JOSEPH R. BIDEN, Jr., Delaware
JOHN C. CULVER, Iowa
HOWARD M. METZENBAUM, Ohio
DENNIS DeCONCINI, Arizona
PATRICK J. LEAHY, Vermont
MAX BAUCUS, Montana
HOWELL HEFLIN, Alabama

STROM THURMOND, South Carolina
CHARLES McC. MATHIAS, Jr., Maryland
PAUL LAXALT, Nevada
ORRIN G. HATCH, Utah
ROBERT DOLE, Kansas
THAD COCHRAN, Mississippi
ALAN K. SIMPSON, Wyoming

STEPHEN BREYER, *Chief Counsel*

JOSEPH P. ALLEN, *Professional Staff Member*

TOM PARRY, *Minority Chief Counsel*

YOLANDA McCLAIN, *Minority Counsel to Senator Dole*

(II)

CONTENTS

OPENING STATEMENTS

	Page
Bayh, Hon. Birch, a U.S. Senator from the State of Indiana.....	1
DeConcini, Hon. Dennis, a U.S. Senator from the State of Arizona.....	12
Dole, Hon. Robert, a U.S. Senator from the State of Kansas.....	12

PROPOSED LEGISLATION

S. 1679, a bill to amend the patent laws, title 35 of the United States Code.....	4
---	---

CHRONOLOGICAL LIST OF WITNESSES

Diamond, Sidney, Commissioner, U.S. Patent and Trademark Office.....	13
Dunner, Donald R., president of the American Patent Law Association.....	21
Banner, Donald W., former Commissioner, U.S. Patent and Trademark Office.....	23
Wyatt, Barbara N., president of FunnelcaP, Inc.....	31
Schellin, Eric P., chairman of the board of directors, National Small Business Association.....	46
Whale, Arthur R., chairman, National Council of Patent Law Associations.....	58
Benson, Robert B., chairman, President Carter's Domestic Policy Review's Subcommittee on Patents.....	69
Irons, Edward S., attorney, Irons & Sears, Washington, D.C.....	79
Gomory, Paul L., director, Washington office of Phillips Petroleum Co., Washington, D.C.....	146

ALPHABETICAL LISTING AND MATERIALS SUBMITTED

Banner, Donald W.: Testimony.....	23
Benson, Robert B.: Testimony.....	69
Prepared statement.....	75
Diamond, Sidney: Testimony.....	13
Dunner, Donald R.: Testimony.....	21
Gomory, Paul L.: Testimony.....	146
Press releases.....	153, 155
Prepared statement: I.—Introduction.....	156
A—Purpose of reexamination.....	156
B—Problem.....	156
C—Constitutional provision.....	156
D—Present situation remedied by S. 1679.....	156
1—Principal patent studied.....	157
2—Choices respecting principal patent.....	157
(a)—Ignore it, infringe it, or seek license.....	157
(b)—Principal patent holder refuses to grant license.....	157
(c)—Would-be Licensee Faces Dilemma.....	157
3—S. 1679—Bayh Reexamination Procedure.....	157
(a)—Provisions of S. 1679 and Commissioner's rules thereunder.....	157
(b)—Other bills.....	157
(c)—Scope of reexamination in PTO.....	157

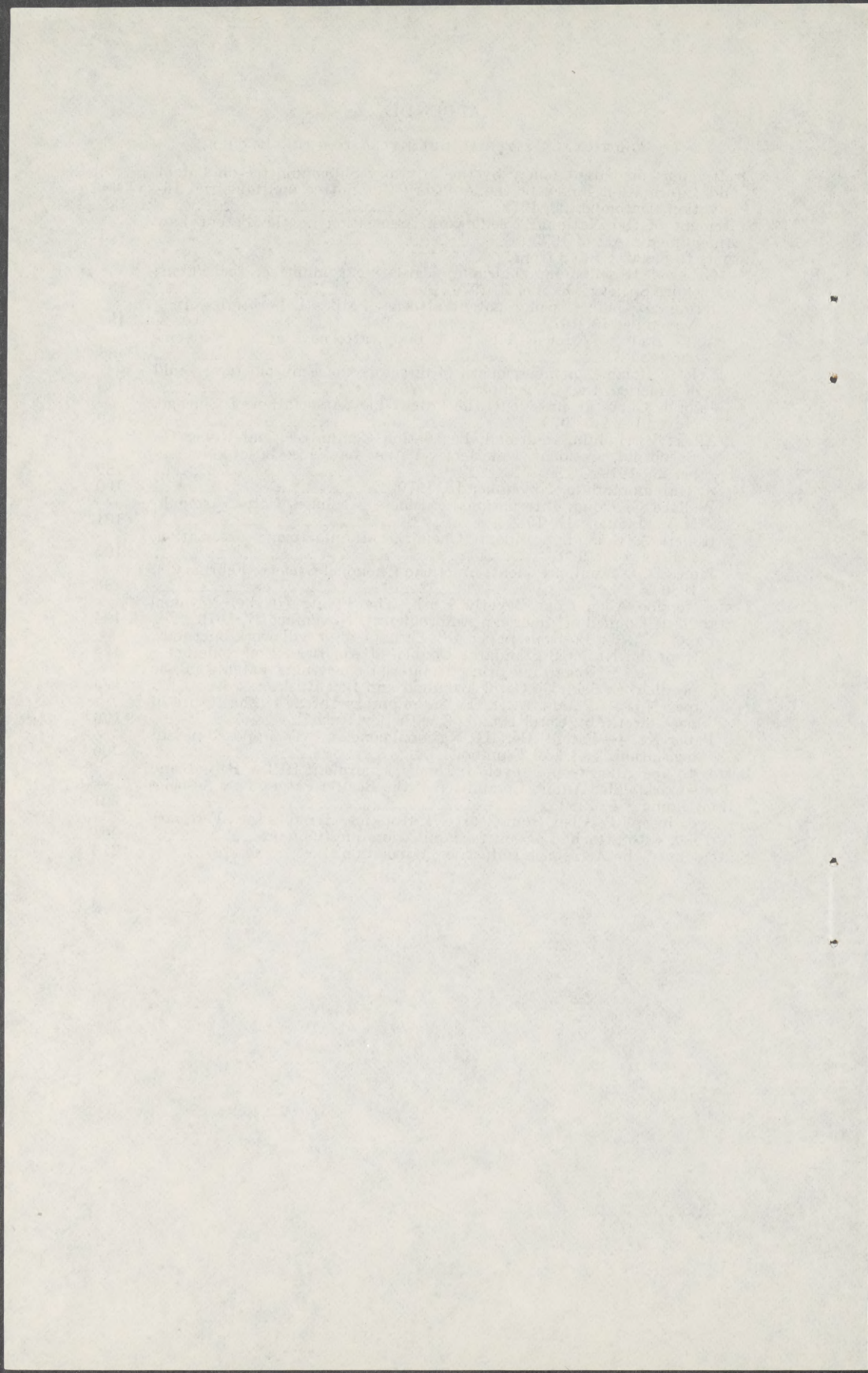
IV

Gomory, Paul L.—Continued	
Prepared statement—Continued	Page
II.—	
A—Historical, PTO budgets, searching, etc	158
B—Origin of reexamination procedure	158
1—ABA, section on patent, trademark, and copy-	
right law	158
2—S. 4259, 93d Congress; S. 214, 94th Congress,	
Fong	158
C—Judge Giles S. Rich, seniormost judge of Court of	
Customs and Patent appeals, comments sup-	
porting reexamination	159
D—Letters from former Commissioner of Patents and	
Trademarks, C. Marshall Dann, supporting	
chapter 31 reexamination	159
E—S. 1971, 89th Congress—Judicial Conference	
Committee report wants PTO expertise	160
F—Judge Henry J. Friendly supports reexamination	160
G—H.R. 16432, Wiggins, 94th Congress—A ² I ²	160
H—H.R. 5075, Butler, 96th Congress	160
I—Association approvals—committee votes	161
J—Patent and Trademark Commissioner's Advisory	
Committee favors reexamination	161
K—President Carter's Domestic Policy Review	
wants reexamination	161
L—President's message to Congress, October 31,	
1979	161
M—Other documentation supporting reexamination	
is available	161
III.—Procedures and advantages of S. 1679	162
(i)—S. 1679 is procedural only	162
(ii)—Advantages of S. 1679 procedure	162
(iii)—President's Commission on Patent System	163
(iv)—S. 1679 deals with the only real, principal prob-	
lem in the patenting procedure	163
IV.—S. 1679 satisfies objectives of President's Commission on	
Patent System	165
V.—American Patent Law Association, patent law committee	
poll strongly favored enactment first of reexamination	165
VI.—Needed modifications of reexamination procedure are in	
S. 1679	166
VII.—Abbreviated biographical sketch	166
VIII.—Addendum	167
Irons, Edward S.:	
Testimony	79
Prepared statement	85
Schellin, Eric P.:	
Testimony	46
Prepared statement	52
Attachment A: Small Business, Shackled Giant of Innovation: A	
commentary, from SmithKline Forum, volume I, No. 8, Decem-	
ber 1979	56
Whale, Arthur R.:	
Testimony	58
Prepared statement	63
Wyatt, Barbara N.:	
Testimony	31
"The Plight of the Lone Inventor," by Jeanne B. Kissane, from Small	
Business, February–March 1979	36
The Decline of Innovation: One Inventor's Viewpoint	40
Letter to Senator Bayh from Barbara N. Wyatt, legislation chair-	
man, Inventors Club of America, December 31, 1979	45

APPENDIX

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

	Page
Draft report on patent policy by the Advisory Subcommittee on Patent and Information Policy of the Advisory Committee on Industrial Innovation, December 20, 1978-----	183
Statement of the National Needlework Association on the Patent Law Amendments Act of 1979-----	186
Letters to Senator Bayh from:	
C. Fred Rosenbaum, chairman, legislative committee, the Patent Office Society, October 3, 1979-----	187
Jerome L. Jeffers, senior patent attorney, Miles Laboratories, Inc., November 13, 1979-----	187
A. C. Body, of Meyer, Tiberry & Body, attorneys at law, November 14, 1979-----	188
Celeste Boland, member, board of directors the Embroiderers' Guild of America, Inc., November 26, 1979-----	188
John J. Chrystal, president, the Patent Law Association of Chicago, November 26, 1979-----	189
Albert P. Halluin, chairman, Legislation Committee, and Robert L. Bacchtold, president, New Jersey Patent Law Association, November 26, 1979-----	189
Memorandum, November 15, 1979-----	190
Wallace C. Doud, International Business Machines Corp., Armonk, N.Y., January 17, 1980-----	191
Robert A. Roland, president, Chemical Manufacturing Association, February 8, 1980-----	192
James D. D'Ianni, president, American Chemical Society, February 8, 1980-----	193
Letter to Joe Allen from Beverly Rush, The Flying Needle, National Standards Council of American Embroiderers, November 21, 1979-----	194
Paper No. 1: Position paper re: Patents on needlework methods, from the National Standards Council of American Embroiderers-----	194
Paper No. 2: Regarding printed material concerning patents in the needlework field, by Carol Frumhoff and Bev Rush-----	195
Paper No. 3—Patent Alert I: Contemporary threat to the future of needlework, by Carol Frumhoff with Bev Rush-----	196
Paper No. 4—Patent Alert II: National concern over proposed patent legislation, by Carol Frumhoff-----	200
Letter to Joe Allen from Steven J. Henry, chairman, BPLA Patent and Trademark Office Affairs Committee of the Boston Patent Law Association, January 8, 1980-----	201
Letter to Joseph P. Allen, from George H. Hopkins, Hercules Inc., February 5, 1980, with attached patent reexamination questionnaire-----	204
Statement of the Aerospace Industries Association, Inc-----	213



PATENT REEXAMINATION

FRIDAY, NOVEMBER 30, 1979

U.S. SENATE,
COMMITTEE ON THE JUDICIARY,
Washington, D.C.

The committee met, pursuant to notice, at 9:30 a.m., November 30, 1979, in room 5110, Dirksen Senate Office Building, Hon. Birch Bayh presiding.

Present: Senators Bayh and Thurmond.

Also present: Subcommittee on the Constitution; Kevin O. Faley, chief counsel and executive director; Mary K. Jolly, staff director and counsel; Linda Rogers-Kingsbury, deputy staff director; Joseph P. Allen, professional staff member; Christie F. Johnson, clerk. Kim Pearson, staff counsel to Senator Hatch; and John Nash, Jr., counsel to Senator Laxalt.

OPENING STATEMENT OF HON. BIRCH BAYH, A U.S. SENATOR FROM THE STATE OF INDIANA

Senator BAYH. This brings our hearing to order this morning.

Today the Senate Judiciary Committee is holding a day of hearings on S. 1679, the Patent Law Amendments Act, which I introduced on August 3, 1979. This bill provides an inexpensive alternative to litigation in patent validity cases by allowing the Patent Office to consider new data that might have been overlooked during the initial patent examination and determine whether or not the patent should have been issued. This legislation will reduce litigation, and also give the courts the option of referring those cases that are litigated to the Patent Office for reexamination as an aid in making an informed decision on the patent's validity.

I introduced this legislation because of my conviction that a strong, dependable patent system is absolutely essential to our continued ability to innovate to meet the challenges of the future. I have frequently cited such factors as our slow productivity growth rates, the decline in American patent applications since 1974, and the feeling of distrust in the business community over the worth of U.S. patents as contributors to the present innovation and productivity crisis. While it is difficult to pinpoint something like an innovation slump in scientific terms, I think that our importation of foreign manufactured goods to the tune of \$6 billion last year speaks for itself. This is the second largest drain on our hard-earned dollars right behind imported oil. Yesterday's Washington Post ran an article entitled "Productivity Declines for Quarter" which went on to say that rather than

experiencing a modest gain in productivity which had been predicted last month, the United States suffered its third straight quarterly drop. Unless forceful actions are taken soon to turn this situation around we will continue to witness our dollars and jobs slipping away to foreign countries.

In virtually every assessment of this disturbing trend that I have seen the patent system is cited as a special concern of the American businessman and inventor. The present weaknesses in our patent system mean that our Government is no longer able to uphold its agreement with an inventor that in exchange for disclosure of new inventions the inventor's rights will be protected. All too often the granting of a U.S. patent turns out to be an invitation to endless litigation as competitors pull out all of the stops to invalidate or infringe on an important patent. Small businesses and independent inventors are especially susceptible to this threat, but the delays and expenses inherent in litigation can make patent infringements economically attractive even against large businesses. The possibility of such actions being taken against inventors who have come up with important discoveries can make the person who plays by the rules a tempting target that can be preyed on with little risk and often great economic rewards.

All too often patent holders find themselves in lengthy court proceedings where valuable patents are challenged on the grounds that the patent examiner missed pertinent data during the initial patent search. District court judges are asked to consider materials during these cases which are frequently very technical in nature in order to determine the patent's validity. The costs of such litigation to both parties frequently exceeds \$250,000. Many independent inventors and small business owners not able to pay such fees are susceptible to being "blackmailed" into allowing infringements on their patents or are forced to license them for nominal fees to avoid going to court. This creates a situation where the patent system is used as a club to beat down the very people that it was formed to protect. While patents are important to all businesses, they are the lifeblood to the independent inventor or small business owner who uses the patent grant as a shield to protect their invention from stronger competitors.

Presently about 50 percent of the litigated patents are found to be invalid in the courts. For a business that is considering investing millions of dollars and years of work into developing new products based on a U.S. patent this is a very frightening statistic. Having a patent issued dubious worth is a cruel hoax that benefits no one, least of all the patent holder. It is much better to be able to go back to the Patent Office under a reexamination procedure to determine the patent's validity than it is to spend thousands of dollars in court and wind up with an invalid patent.

The bill that I introduced will allow the Patent Office to reexamine issued patents quickly and at a reasonable cost whenever they are challenged on the basis that an incomplete search was made prior to issuance. This will help to remove some of the fear about the real worth of American patents that grips our patent holders. Patent reexamination will be a step forward but it must be coupled with other efforts if we are to return to the patent system which was once the model for the rest of the world.

Patent reexamination by itself will not solve all of the ills of the Patent Office. Many of the most vexing problems arise from continued underfunding that has resulted in an understaffed and overworked office trying to handle an ever increasing workload. The Patent Office has done an admirable job under the circumstances, but unless this situation is remedied, little appreciable progress is really possible. Earlier this year I attempted to provide additional funding to the Office in the fiscal year 1980 budget request. I learned that from 2 to 28 percent of the patents in every subclass are missing. This means that the patent examiner has a very good chance of missing important materials in the hurried patent search no matter how competent the examiner might be. For reexamination as well as the initial examination to be meaningful this situation must be corrected and I will be ready to fight to see that the Patent Office receives the support that it needs in the Appropriations Committee to fulfill its important mission.

I am also introducing legislation that will remove the Patent Office from within the Commerce Department and set it up as an independent agency so that the real experts on our patent system are allowed to run the show and get their house in order without interference. When we combine patent reexamination with a secure, updated search file and an independent Patent and Trademark Office we will be well on our way toward restoring confidence in the patent and trademark system.

A well working patent system is the keystone to increasing this Nation's productivity and insuring our place as a leader of innovation in the world.

I would like to submit for the record a statement from my colleague Senator Robert Dole who is a cosponsor of S. 1679 but who is necessarily absent.

I will also place in the record a statement by Senator Dennis DeConcini who was called away on other business but who wanted to congratulate our first witness Mr. Sidney Diamond, on his becoming our new Patent and Trademark Commissioner. I would also like to congratulate you Mr. Diamond and I am looking forward toward working with you.

[The text of S. 1679, Senator Dole's and Senator DeConcini's statements follow:]

96TH CONGRESS
1ST SESSION

S. 1679

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

IN THE SENATE OF THE UNITED STATES

AUGUST 3 (legislative day, JUNE 21), 1979

Mr. BAYH introduced the following bill; which was referred to the Committee on the Judiciary

A BILL

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

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That this Act may be cited as the "Patent Law Amendments
4 of 1979".

5 SEC. 2. Title 35 of the United States Code, entitled
6 "Patents", is amended by adding the following chapter:

1 **“CHAPTER 30—PRIOR ART CITATIONS TO PATENT**

2 **OFFICE AND REEXAMINATION OF PATENTS**

3 **“§ 301. Rules established by Commissioner of Patents**

4 “The Commissioner shall establish rules and regulations
5 for the citation to the Office of prior art patents or publica-
6 tions, pertinent to the validity of patents, and for the reexam-
7 ination of patents in the light of such prior art.

8 **“§ 302. Citation of art**

9 “Any person may, at any time within the period of en-
10 forceability of a patent, cite to the Office prior patents or
11 publications which may have a bearing on the patentability of
12 any claim of the patent: *Provided*, That the person citing
13 such prior art identifies in writing the part(s) of the same
14 considered pertinent and the manner of applying the same to
15 at least one claim of the patent. The writing identifying and
16 applying the same shall become a part of the official file of
17 the patent. The identity of the person citing the prior art will
18 be excluded from such file upon his request to remain anony-
19 mous.

20 **“§ 303. Request for examination**

21 “Any person may, at any time within the period of en-
22 forceability of a patent, request reexamination of the patent
23 as to the patentability of any claim thereof in the light of any
24 prior art cited under the provisions of section 302 of this
25 chapter, by filing in the Office a written request for such

1 reexamination accompanied by a reexamination fee pre-
2 scribed according to this title and by a statement of the rela-
3 tion of such prior art to the patentability of the claim or
4 claims involved. Unless the requesting person is the patentee,
5 the Commissioner shall promptly send a copy of such request
6 and statement to the owner of the patent appearing from the
7 records of the Office at the time of the filing of the request.

8 **“§ 304. Determination of issue by Commissioner of**
9 **Patents**

10 “(a) Within 90 days following the filing of a request for
11 reexamination under section 303 of this chapter, the Com-
12 missioner shall make a determination as to whether a sub-
13 stantial new question of patentability affecting any claim of
14 the patent concerned, not previously considered in examina-
15 tion or reexamination of such claim, is raised by the consider-
16 ation, with or without any other prior art, of the prior art
17 which has been cited in relation to the patent according to
18 section 302 of this chapter. The Commissioner on his own
19 initiative may make such a determination at any time.

20 “(b) A record of the Commissioner’s determination
21 under paragraph (a) of this section shall be made in the file of
22 the patent, and a copy of it sent promptly to the owner of the
23 patent.

1 **“§ 306. Response or amendment by patent owner**

2 “The patent owner shall be provided an opportunity in
3 any reexamination proceeding under this chapter to amend
4 any claim of his patent in order to distinguish the claim from
5 prior art cited according to section 302 of this chapter, or in
6 response to a decision adverse to the patentability of the
7 claim, but no amendment enlarging the scope of a claim shall
8 be permitted in a reexamination proceeding under this chap-
9 ter.

10 **“§ 307. Appeals**

11 “The owner of a patent involved in a reexamination
12 proceeding under this chapter may appeal from a final deci-
13 sion in such proceeding adverse to the patentability of any
14 claim, or amended claim, of the patent.

15 **“§ 308. Certificate of patentability; unpatentability and**
16 **claim cancellation**

17 “When in a reexamination proceeding under this chap-
18 ter the time for appeal has expired or any appeal proceeding
19 has terminated, the Commissioner shall issue and publish a
20 certificate canceling any claim of the patent finally deter-
21 mined in such proceeding or on appeal therein to be
22 unpatentable, confirming any claim of the patent so deter-
23 mined to be patentable, and incorporating in the patent any
24 amended claim thereof so determined to be patentable.

1 "§ 309. Reliance on art in court

2 "No patent or (printed) publication may be relied upon
3 as evidence or nonpatentability in a civil action involving an
4 issue of validity or infringement of a patent unless (a) the
5 patent or publication was cited by or to the Office during
6 prosecution of the application for the patent or was submitted
7 for consideration by the Office in accordance with sections
8 302 and 303 of this chapter and was actually considered in
9 accordance with section 304, or (b) the court, upon motion,
10 concludes such submission and reconsideration to be unneces-
11 sary for its adjudication of the issue of validity or infringe-
12 ment.

13 "The limitation provided by this section shall apply in
14 any civil action in which a pleading presents a claim for in-
15 fringement or for adjudication of the validity of a patent,
16 upon the basis of the contents of the patent file as it existed
17 on the date of the filing of such pleading, excepting that a
18 party may rely upon a patent or publication cited later, and
19 upon the final determination had on a request for reexamina-
20 tion in the light of such patent or publication if such patent or
21 publication was cited and such request was filed in the Office
22 within the period of a stay ordered by the court in accordance
23 with section 310 of this chapter.

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

2 “(a) Any party to a civil action against whom a pleading
3 presents a claim for infringement or for adjudication of the
4 validity of a patent shall have the right, by motion brought
5 before any responsive pleading, to secure a stay of all pro-
6 ceedings in the action by order of the court for a period, not
7 less than four months, sufficient to enable such party to
8 search for and cite patents or publications considered perti-
9 nent to the patent and to request reexamination of the patent
10 in view of such prior art according to sections 302 and 303 of
11 this chapter. If such party files a request for such reexamina-
12 tion in the Office and serves and files a copy of it in the
13 action within the period of the stay provided by such order,
14 the stay shall be extended by further order of the court until
15 at least 20 days after the final determination of the request
16 for reexamination.

17 “(b) The court, on motion and upon such terms as are
18 just, may at any time stay the proceedings in a civil action in
19 which the validity of a patent is in issue for a period sufficient
20 to enable the moving party to cite to the Office newly discov-
21 ered additional prior art in the nature of patents or (printed)
22 publications and to secure final determination of a request for
23 reexamination of the patent in the light of such additional
24 prior art, provided the court finds that such additional prior
25 art, in fact, constitutes newly discovered evidence which by

1 due diligence could not have been discovered in time to be
2 cited to and considered by the Office within the period of a
3 stay of such proceedings that was or could have been secured
4 according to subsection (a) of this section.

5 **“§ 311. Dismissal of complaint**

6 “The party or parties whose complaint commencing a
7 civil action presents a claim for infringement or for adjudica-
8 tion of the validity of a patent shall have the right, by notice
9 served upon the other party or parties and filed in the action
10 at any time within the period of a stay ordered by the court
11 pursuant to section 310 of this chapter, to dismiss such com-
12 plaint without prejudice and without costs to any party.”.

**OPENING STATEMENT OF HON. BOB DOLE, A U.S. SENATOR FROM
THE STATE OF KANSAS**

Senator DOLE. Mr. Chairman, I am pleased to note that Senator Bayh and I have once again joined forces in pursuing the intent of an earlier bill that we introduced last February the "University and Small Business Patent Procedures Act," which was recently reported out favorably by this committee. Our continuing intent, as demonstrated by the Patent Law Amendment Act, is to update what has clearly become an archaic patent system, hampering our leadership role in the field of innovation and technology transfer.

Under the present system, when the validity of a patent is challenged on the basis that it was issued without a complete search of the patent files, the inventor must go to court to defend his patent. However, the difficulty of locating search files at the Patent and Trademark Office has been a long standing problem, and one that creates a catch-22 situation. The often unsuccessful search for missing information on previous patents results in delays which, in turn, generate uncertainty over the validity of patents among businesses. This brings to light the seeming necessity to address the problem of underfunding at the Patent and Trademark Office, which is blamed for their inability to locate files, in coordination with the consideration of this bill.

S. 1679 proposes to transfer the task of reexamining challenged patents from the courts to the Trademark Office, where available expertise would permit faster determinations based on the evidence at hand.

I am not unaware of some of the imperfections of this proposal. A difference in standards observed by the Patent Office as opposed to those the courts seek to uphold is viewed by some as a real problem. I shall refrain, at this time, from passing a value judgment on such perception. Indeed, the Patent Office may apply different standards in examining patents, and perhaps indeed many patents that are issued, based on the "unobvious" should have been withheld. However, the Patent Office decision can be argued on the basis that it was justified if it resulted in bringing a product to the marketplace. I believe that the important factor that we must bear in mind, as it affects the economy, is that the patent system's primary responsibility is to create an incentive for products to be brought to consumers.

The fee for filing a request with the Patent and Trademark Office would be modest. The Commissioner would issue his decision within 90 days upon receipt of the request. The workload of the Federal court system would be substantially decreased.

It should be pointed out that the Patent Law Amendment Act does not withdraw from the courts the option of accepting validity cases. It merely offers an inexpensive alternative to legal action.

Your views and suggestions on this bill are more than welcome.

**OPENING STATEMENT OF HON. DENNIS DECONCINI, A U.S.
SENATOR FROM THE STATE OF ARIZONA**

Mr. Chairman, I regret that a previous commitment prevents me from attending today's hearing. I especially regret that I will not be present to welcome newly appointed Commissioner Sydney Diamond.

Commissioner Diamond is a well-respected and active Arizonan who will bring credit both to Arizona and the Commission with his handling of Commission matters. We in Arizona are very proud that Commissioner Diamond was appointed to this very important post. He will bring honesty and experience to the position.

I welcome Commissioner Diamond to national service.

Senator BAYH. Please proceed with your statement, Mr. Diamond.

TESTIMONY OF SIDNEY DIAMOND, COMMISSIONER, U.S. PATENT AND TRADEMARK OFFICE

Commissioner DIAMOND. Thank you very much, Mr. Chairman. I hope the record can reflect my own appreciation both to you and to Senator DeConcini for your very warm welcome and your kind remarks.

Mr. Chairman, I welcome this opportunity to testify before you on the extremely important subject of patent reexamination. Rene D. Tegtmeier, Assistant Commissioner for Patents, on my left, and David A. Guberman, Special Assistant to the Assistant Secretary of Commerce for Science and Technology, on my right, are accompanying me. At the conclusion of my testimony, we would be pleased to answer any questions you may have concerning the concept of reexamination.

Let me begin by stating that the administration wholeheartedly supports the principle of legislation broadening the authority of the Patent and Trademark Office (PTO) to reexamine patents.

As part of President Carter's Domestic Policy Review of Industrial Innovation—which I'll refer to as DPR for short—an assessment was made of the U.S. patent system as it relates to the innovation process. The DPR found that patents serve important functions in the innovation process. First, they provide an inventor with an incentive—a limited monopoly in his invention. Second, the exclusive rights provided by a patent can stimulate a firm to make the often risky investment that is required to bring an invention to market. Finally, patents provide an important method for the disclosure to the public of information about inventions and their uses.

Indeed, the patent system was established to provide certain incentives for the conduct of activities critical to our economic and technological prosperity—the invention of new and improved technology, the disclosure of this technology to the public, and the investment in its commercialization. Whether or not these activities will take place depends in large part on the strength of protection that a patent provides.

As the DPR recognized, there is a problem today with respect to the uncertain reliability of patents and the time and expense required to resolve that uncertainty through litigation. Uncertainty arises because pertinent prior patents and printed publications—the most significant part of what is referred to as prior art by patent lawyers—often are discovered only after a patent has issued and become commercially important. Under the present law, only a patent owner can obtain a reevaluation by the PTO of patent validity on the basis of newly discovered prior art. The PTO itself cannot initiate such a

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

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

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

The patent bar and the technical communities agree that the PTO competently applies known prior art in judging the patentability of pending applications. A private study in 1974 concluded that the PTO and the courts reach the same decision regarding validity in the vast majority of cases when considering the same prior art. I am referring to a work entitled "Patent Validity—A Statistical and Substantive Analysis," by G. Koenig, published by C. Boardman, New York, in 1974, and specifically to section 5.05.

A PTO study in the same year reached a similar conclusion. As a matter of policy, there is no difference in the standard of patentability applied by the courts and the Office. The vast proliferation of technological information in a time of budgetary restraint, however, sometimes, precludes the PTO from discovering and considering all relevant patent literature during the initial examination process. Also, our search file integrity, which the President announced would be upgraded significantly, is far below a level that would assure a complete search. Accordingly, our patent examination system must balance the comprehensiveness of an examination against the need to complete the examination expeditiously. Faced with existing impediments, it is inevitable that some patents of questionable validity will issue.

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

of many patent law revision bills. The Department of Commerce has continuously supported the establishment of a reexamination system.

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

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

Under S. 1679, a court could stay proceedings in any litigation in which the validity or infringement of a patent is in question in order to permit reexamination by the Office. This opportunity for patent reexamination would enable the court hearing the litigation to rely on the expertise of the PTO. S. 1679 would not affect any substantive criteria for granting a patent. It merely would provide a simple, comparatively inexpensive and expeditious procedure for testing the validity of patents against newly discovered prior art. Where patent claims are too broad, reexamination would permit the patentee to amend them so that they become commensurate with the scope of his invention. Unpatentable claims would be purged from the patent.

Most courts accord to a patent the statutory presumption of validity only with respect to prior art cited by or to the PTO in the course of its prosecution. The sole means for obtaining a PTO evaluation of later discovered patents or printed publications is through reissue proceedings which can be initiated only by the patentee. Under a reexamination system, any person would be allowed to test patent claims against newly discovered prior art in the same way they were originally tested, that is, examination by an expert patent examiner. Thus, a reexamination system could complement the existing reissue practice in assuring that a patent provides protection commensurate with the contribution of the inventor.

In order to encourage the concentration of reexaminations on commercially important patents, the person requesting reexamination would be required to pay a substantial fee designed to fully recover the cost of reexamination. Absent a commercial interest, businessmen will not seek reexamination.

Reexamination would eliminate or simplify a significant amount of patent litigation. In some cases, the PTO would conclude as a result of reexamination that a patent should not have issued. A certain amount of litigation over validity and infringement thus would be

completely avoided. Concomitant litigation over such time consuming and complex issues as patent misuse also would be reduced. In other instances, a reexamination proceeding in the PTO might more accurately define the scope of the patent. This would enable litigation to be resolved more quickly, or would promote out-of-court settlements. Licensing would be encouraged and potential competitors would be better able to judge the feasibility of entering a particular field of technology.

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

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

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

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

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

This concludes my prepared testimony. We will be pleased to try to answer any questions you may have. Thank you, Mr. Chairman.

Senator BAYH. Thank you very much, Commissioner Diamond, for taking the time to be with us here this morning. I judge from the very strong statement at the end of your testimony that you feel this is a very important bit of business to be about.

Commissioner DIAMOND. I certainly do, sir.

Senator BAYH. I wonder why we have taken so long to realize we had problems.

Commissioner DIAMOND. Mr. Chairman, as I said in my testimony, this has been around at least since 1967, but it has come up before only in the context of broader reform bills, that would have amended various features of, and perhaps the entire Patent Act. This is the first time we have had an opportunity to focus on reexamination as a separate item, and we think that politically it stands a much better chance of success as a separate item. We also think that it is the type of change in the Patent Act that can be made as an individual amendment, just a new chapter of the Patent Act, without making other changes in the rest of the system, except with respect to fees.

Senator BAYH. You have no hesitancy about the ability of the Office to perform these tasks. I mean, does it have the competence and the capability to implement this important program? Can you give us some idea about the cost of a patent reexamination based on the procedure contained in S. 1679?

Commissioner DIAMOND. We have made some preliminary very rough estimates, Mr. Chairman. Let me state by way of background that we do not have any doubt about the competence of the Office to handle the reexamination process. You are quite right about that. But it must be obvious to anyone that with this added burden, the people who would perform the reexamination process will be taken away from other tasks.

Our preliminary rough estimate is that reexamination costs will average somewhere around \$1,000 to \$1,500 per case. On the basis of the 1,000 to 3,000 reexamination proceedings per year which I mentioned in my prepared testimony, we would think that it would take, going from the low end to the high end, somewhere from 25 to 100 employee work-years. In terms of dollars, we would estimate the cost to range from—again going from the low end to the high end—\$1 million to \$4.5 million.

The President's message on industrial innovation, as you may recall, Mr. Chairman, mentioned adjusting the PTO's fee schedule so that those who benefit will pay. Of course, that's not part of this bill, but we would expect the fees set under this bill to permit full-cost recovery. Full-cost recovery, without other changes in the patent laws means that the \$1 million to \$4.5 million that I spoke about will simply go into the General Treasury. Reexamination with full-cost recovery would fit quite neatly into the President's overall program.

Senator BAYH. What would be the average fee. I understand it is difficult to say absolutely. What do you estimate the average fee would be for reexamination?

Commissioner DIAMOND. For examination?

Senator BAYH. For reexamination.

Commissioner DIAMOND. For reexamination. I'm sorry I misunderstood you. I had mentioned that we estimate roughly somewhere between \$1,000 and \$1,500 each.

Senator BAYH. That's for the reexamination?

Commissioner DIAMOND. That's for the reexamination.

Senator BAYH. How does the fee system work now, does it go directly into the Treasury?

Commissioner DIAMOND. All the fees go directly into the Treasury.

Senator BAYH. What percentage of the costs of the Office are recouped by fees?

Commissioner DIAMOND. Just under 30 percent of the overall costs of the operation is matched by the fees that go into the Treasury.

Senator BAYH. Do you feel that a new fee system could help you pay for the new employees you would need to perform reexamination?

Commissioner DIAMOND. With full-cost recovery, there would be no additional cost to the taxpayer. However, since all fees we receive go to the Treasury, they are not at our disposal.

Senator BAYH. Now, have you been there long enough, Commissioner Diamond, to be able to assess what additional resources are necessary to do the job of the Patent Office the way it ought to be done. As you point out, if you have 25 to 100 additional employees, we're either going to provide them and let you go out and hire new ones, or they are going to be taken from other jobs that currently need to be done. What additional resources do you feel you need in the way of personnel and money? You may reach a different conclusion, but I must say most of the experts that have talked to Mr. Allen, my staff assistant, conclude that there is a significant amount of upgrading that needs to be done down there, and a pressing need for more resources. If you reach a different conclusion, I'd be glad to have that. If you don't, then I'd like to know where you believe the current problems are. This is one of the most important jobs as far as innovation, creativity, and productivity. What do we need to do to see that it's done right?

Commissioner DIAMOND. Mr. Chairman, I don't have any dollars and cents figures for you. This is going to be addressed, of course, in the fiscal year 1981 budget, which is coming up in the not-too-distant future. We hope for additional funding. It's impossible to swallow large quantities all at one time, even if they were presented to us. It's a matter of adjusting personnel ceilings. It's a matter of finding space, when there's a space freeze on. It's a matter of buying furniture when there's a furniture freeze on. I think that within the constraints of OMB regulations, about all I can say in response to your question is I can't give you any specific figures but we are addressing the problem of upgrading the system in the fiscal year 1981 budget.

Senator BAYH. You're no total stranger to the governmental process, so perhaps this is a gratuitous kind of advice and recommendation. I certainly am not in a position to advise you how to run that office. I think perhaps I am in a position to alert you, if you haven't already been alerted, to the kind of confrontation you're going to be faced with from the Office of Management and Budget. Now, I salute those folks for wanting to make each tax dollar go as far as it can go. And I salute them for being determined to do what they can as far as Federal expenditures are concerned to lessen inflationary pressure. But I have found that there is a rather remarkable naivete on the part of people at Office and Budget who are looking at how expenditures can be cut, with little personal knowledge whatsoever of what the impacts those cuts will have on specialized operations such as the Patent and Trademark Office. As chairman of the Intelligence Committee, I am confronted with a Budget Office that is going to save

the taxpayers a million dollars and destroy a whole intelligence gathering system and deny us the opportunity to develop an unbelievable new ability to provide information that our President, and our Congress, and our country might need. Now they don't do that intentionally, but that is like shooting your friend with an empty gun—he's still dead. I don't suppose they have too many past Commissioners of the U.S. Patent and Trademark Office over at the Office of Management and Budget, and that understandably, they are not experts in your area. I understand the present situation and I don't mean this personally or critically toward you, but it seems to me you have to be willing to stand up and make your needs known to OMB and to the Congress. Your Office must say forcefully "look we just have to have what we need." The Patent and Trademark Office is rather remarkable in that you annually return about one-third of your budget to the Treasury from the fees you charge, but, of course, this does not help you meet your expenses.

We were told last year by the Patent Office in response to my questions that it needed an additional \$14 million just to update its operations and meet its current needs. Unfortunately I was only able to get an additional \$1.1 million appropriated. Is \$14 million a ball park figure of your current needs?

Commissioner DIAMOND. That was a figure that was given by my immediate predecessor, Commissioner Banner, who is in the room today, I believe, in a slightly different capacity, which was the ball park figure at that time, Mr. Chairman.

Senator BAYH. Unfortunately, this year the Commerce Department opposed my effort. Basically, that's why we weren't able to get the needed additional appropriation. Next year we're going to start at a little earlier stage, and if you hang tough, I will be glad to communicate the congressional desire to try to update your operation and give you the necessary resources for the job. If all that fails, of course, we'll be in a battle once again in the appropriation process.

I think it's important—I know this thing has to go up through the chain of command—but I think it's important for you, if I might so suggest, to hang as tough as you can with those people, who have a lot of very important competing interests for the limited dollars we have today. But I don't know of very many places where we get as much back in fees and a lot more back in terms of the national interest as in the area that you're involved with. That, I'm sure, is the kind of advice you're already being given by your staff and advisers, but I guess it doesn't hurt to have an amen from the Congress.

Commissioner DIAMOND. On the contrary, I appreciate it very much, Mr. Chairman. I've only been Commissioner for 1 day, but I hope to have the opportunity of taking your advice.

May I just continue in the same vein for one moment. We talked about recovery from fees briefly a few moments ago. Part of the President's program, which eventually I trust will reach you in the form of proposed legislation, would increase the fee recovery level of the Patent and Trademark Office. Filing and issue fees would recover an equitable portion of the cost of processing patent applications, with supplemental income being derived through a maintenance fee system. The rest of the Office's operations including miscellaneous services and the trademark operations would be fully self supporting

through user fees. There would also be authority in the legislation to recycle funds so that this part of the Office would be paying its own way.

Senator BAYH. When will that be forthcoming?

Commissioner DIAMOND. I can't give you an exact date. I'm sure you are well aware of the other aspects of the OMB function, one of which is the clearance of proposed legislation. That makes it impossible for me to give you an estimate. All I can tell you is that it is in draft form now in our office.

Senator BAYH. Has it been submitted to OMB?

Commissioner DIAMOND. Not yet, sir.

Senator BAYH. Does it have to go up through the chain of command in Commerce before it goes to OMB?

Commissioner DIAMOND. Yes, Mr. Chairman, it does.

Senator BAYH. Is it reasonable to assume that you may get some pressure from people above you that do not want to see an independent funding mechanism, which really would be beyond the control of the hierarchy there in the Department?

Commissioner DIAMOND. I'm sorry, I didn't hear the question.

Senator BAYH. You did say that Commerce will have to sign off on the establishment of revolving funding mechanism.

Commissioner DIAMOND. Perhaps Mr. Guberman would like to respond to that.

Mr. GUBERMAN. Mr. Chairman, the Department strongly advocated establishment of a revolving fund during the domestic policy review on industrial innovation. While we are still considering what should be the limits and parameter of the revolving fund, I can assure you that the Department will "sign off" on the submission of such legislation to OMB and will advocate with OMB and the rest of the administration submission of such legislation to the Congress.

Senator BAYH. Very good. Gentlemen, thank you very much. We look forward to working with you and hope we can have the kind of communication so that if there are any problems we can help one another deal with them before they get out of hand.

Commissioner DIAMOND. I'd be delighted. Thank you very much, Mr. Chairman.

Senator BAYH. I don't want to take up any more of your time but we might need some additional information from you sometime in the future.

Commissioner DIAMOND. I'd be very happy to respond.

Senator BAYH. Thank you. I wish you well on your new responsibilities.

Commissioner DIAMOND. Thank you again.

Senator BAYH. We now will have a panel representing the American Patent Law Association with Mr. Donald R. Dunner, the president of the American Patent Law Association and Mr. Donald W. Banner, the former Commissioner of the U.S. Patent and Trademark Office. Gentleman, shall we off the record have a quick chorus of "Hail, Hail to Old Purdue"? I'd ask Bob Benson to join us in that, if he's here yet. All right, we'll have a quartet.

Gentlemen, it's good to have you here. Why don't you get right into it.

TESTIMONY OF DONALD R. DUNNER, PRESIDENT OF THE
AMERICAN PATENT LAW ASSOCIATION

Mr. DUNNER. Thank you, Mr. Chairman. At the outset of my testimony I would like to commend both the Senate Judiciary Committee and Senator Bayh for your interest in the intellectual property system, for your assistance in making that system a better system. Both the intellectual property community and the country are in your debt for your interest in those efforts.

The American Patent Law Association is a national organization of more than 4,000 lawyers engaged in the practice of patent, trademark, copyright, and related fields of law. I think it's important to note that we represent all facets of the intellectual property community. We represent big businesses; but we also represent small businesses. We represent universities. We represent not for profits, and for profits. We deal domestically, and we deal internationally.

The American Patent Law Association wholeheartedly supports providing for reexamination of issued patents. Almost 2 years ago, the board of the American Patent Law Association expressed its strong support in principle for that concept. In the last 2 weeks, the board of the American Patent Law Association expressed its equally strong support for S. 1679 with certain suggestions for improvements which I will address in a short moment.

Before I discuss those suggestions, I would like to address some general comments to the broad concept of reexamination. As you are aware, Mr. Chairman, the cost of patent litigation in the United States has literally gotten out of hand. It conventionally reaches a level of \$250,000 per case, or even more. That places a big enough burden on large corporations. It places an almost impossible burden in many situations, if not most situations, on the small inventor or individual inventors in small businesses. As a consequence, the patent system functions at only part efficiency. It functions as less than the effective business tool that it can be. It also falls far short of performing its goal of stimulating innovation and invention in the useful arts, which are vitally needed at this time of declining innovation.

There are a number of ways to deal with the problem. One approach, which our association supports completely and unequivocally, is to upgrade the Patent and Trademark Office by providing adequate funding and support so that that Office can do its job. That, obviously, would lead to the enhancement of the reliability of the patent grant, would permit businesses and individuals to make better business judgments, innovate, and to take important steps to solve the current problem of declining innovation.

Now that is absolutely essential for the proper functioning of the patent system, and our support for reexamination, we want to make clear, should not be construed as a suggestion that that aspect of the present system be diminished, because it is our feeling that regardless of how much money is spent in the patent system to improve the operation of the Patent Office, it is inevitable, with computers or otherwise, that all of the prior art will not be uncovered. A determined advocate, desiring to do in a patent, spending tens of thousands of dollars in litigation situations, can often, if not always, find something that has

not been considered by the Patent Office. Therefore, it is our feeling that no matter what is done to improve the operation of the Patent Office, reexamination is an idea whose time is here, that we need to augment the process of patent reexamination.

It is exactly that function that S. 1679 will perform. Now it is also a fact that S. 1679 is performing that function will avoid many of the deficiencies that currently exist in a quasi-examination process which is presently being carried out by the PTO. Current procedures permit only the patent owner to seek reexamination. S. 1679 would open that option to any party. At the same time, small businesses have expressed concern about being harassed. They would not be harassed under S. 1679, because it has a built-in antiharassment provision in permitting reexamination to go forward only when the Commissioner finds that a substantial new issue of patentability is raised. The patentee is not called upon to do anything until that determination is made.

Moreover, current procedures have become extremely expensive and time consuming in that they permit any kind of prior art to be considered and also permit extended third-party involvement. S. 1679 contemplates consideration only of patents and printed publications, which the PTO is eminently qualified to review, and in that manner, S. 1679 comes very close to simulating an ideal condition, which we would love to achieve, but which we never do, in which the PTO the first time through gets all of the prior art so that we don't need reexamination. Were that possible, we would be delighted, but it is not.

In light of these features, we support wholeheartedly S. 1679. In my prepared testimony I mention four different items of improvement that we feel are critical. Let me just summarize those.

One is that we feel there should be a maximum period of reexamination to avoid delays. We feel intervening rights of third parties should be protected. We feel that it's essential that parties be permitted in litigation going on concurrently with reexamination to get temporary restraining orders or preliminary injunctions or other protective relief that courts presently provide. We also feel that stays beyond an initial maximum 4-month period to permit reexamination should be discretionary with the courts. It should not be mandatory, since there may be many situations where courts feel that stays are not desirable. And, finally, appropriate language should be provided to prevent people from purging deceptive acts occurring in the original examination.

If you want, Mr. Chairman, we would be pleased to submit a detailed list of suggestions for modifying S. 1679 in conjunction with Mr. Allen, or whatever you wish.

Now, before concluding, I would just like to address several criticisms of S. 1679, which have come to my attention, and which I feel are spurious criticisms.

It has been suggested that reexamination would remove effective determination of patent validity from the courts and it would result in a lowering of the standard of patentability and that it would avoid reform where it is most needed in the Patent Office. We have already said that we don't favor eliminating the reform of the kind you have talked about with Commissioner Diamond. Moreover, the purpose of this is not to remove validity determinations from the courts.

It is merely to give the courts the benefit of PTO expertise, of PTO examination, which everybody agrees would be desirable in the first instance, but which is not attainable in reality. Moreover, it has been argued that these efforts would result in a second chance to give the Patent Office what they should have looked at the first time. As I said, that is unrealistic. It's a dream to think that the PTO can get everything the first time around, no matter how much money is spent, and particularly looking at realistic figures.

Finally, it has been suggested that if that is not attainable, we should have a registration system. That is poppycock. We abandoned that concept in 1836 as unworkable. Every major intellectual property system in the world has abandoned it. The trend is away from that, rather than toward it.

Finally, there is the suggestion that the Patent Office will try to do what it should have done the first time, and will be biased in favor of correcting mistakes by showing that the patents really should have issued anyway. That does not happen. It does not happen under the present procedure, under which many patents never survive the re-examination process which presently exists in the Patent Office. I have personally been involved in a number of those that have gone down the tubes and that will never see the light of day and which will probably never end up in litigation, saving the courts, saving the parties, saving everybody a lot of effort and money.

In summary, we would like to strongly urge your support for S. 1679, with some amendments as we have suggested. If there is anything else we can do to help, we remain ready, willing and able to do so.

Senator BAYH. Thank you very much, and I trust we will have the kind of communication relationship between yourself and the folks on our staffs that will make it possible for us to consider these amendments and flush out the present legislation and make it an even better kind of approach.

Mr. DUNNER. Absolutely. We'd be delighted to do that.

Senator BAYH. We certainly appreciate that.

Mr. Banner, it's good to have you with us here this morning.

TESTIMONY OF DONALD W. BANNER, FORMER COMMISSIONER, U.S. PATENT AND TRADEMARK OFFICE

Mr. BANNER. Thank you, Mr. Chairman. I appreciate the opportunity to be here with you this morning. I don't have any prepared paper. You'll be happy to hear that. I am in complete agreement with the paper that Mr. Dunner read.

Senator BAYH. When that happens in the Senate, it means we can have extended debate here. I'm not sure I'm happy to hear that. Of course, here we operate under no time constraints.

Mr. BANNER. Splendid, thank you. May I add my personal congratulations to you, in addition to those expressed by Mr. Dunner, for your interest in and initiative in the extremely important area of the patent system and innovation in our country. I don't think we could have had a better champion. There has been no time in my life in which it's been more important, and I personally extend my congratulations and gratitude to you, sir.

Senator BAYH. Thank you.

MR. BANNER. You might be interested to know that the Patent Law Association of Chicago had a meeting on November 12 at which former Commissioners Gottshalk and Dann appeared with me—and others—on the program, and they both enthusiastically endorsed the principles of S. 1679.

One of the things that I would like to mention, however, particularly in connection with the matter before us, is the impact of this legislation on the Office. There is no question in my mind but what reexamination of the type set out in S. 1679 is essential. It is not, however, as Donald Dunner has just said, in any sense a substitution for proper initial search—proper initial search, done through a proper search base with sufficient time devoted to that exercise, so that we do have an initial determination coming out of the U.S. Patent and Trademark Office which is the kind of thing that can be relied upon in the general case.

I mention this because what we are talking about here, obviously, is the operational impact upon the Office. The Office has indicated that there probably will be something between 25 and 100 employees that will become involved in reexamination. If there is not proper funding, that merely means that we are going to be detracting from the present operations of the Patent Office the equivalent of that much effort.

When we got involved with the PCT, as you know, there was no additional funding, and we just borrowed in effect from an already insufficient supply of dollars and people, and devoted it to this other activity, a new activity, the PCT. It lowered the operational standards of the Office. I don't want to see that happen again, particularly with respect to something as important as reexamination. We cannot afford it. We cannot afford to run the Office, today, right now, on the present budget. We're going backward in terms of backlog. We're going backward in terms of trademark backlog tremendously. We're not keeping up the files as we should. It's interesting that in this bill there is a provision for putting prior art in the official file of the patent. There is never enough money in the patent budget, and hasn't been for many years, so that there can be a microfilm made of the official file of the patent. In many cases, there is no official file of the patent. The reason there is no official file is that those official files go into the public search room where they are copied by the public—that's why they are put there—and parts, sometimes all parts, disappear. That strikes me as a rather peculiar way to run a railroad, but nonetheless that's the case. I don't think we should further burden an already overburdened office by additional jobs unless we are willing to pay for it.

We simply cannot afford, it seems to me, to add additional jobs, which require people and money, when we are not doing the jobs we should be doing right now. I point out in conclusion, sir, that it's not a question of full cost recovery to the Government. As long as the funds come from the public, and are not devoted to the Patent and Trademark Office, it doesn't make any difference what the cost recovery is. It doesn't make any difference if the fee for reexamination is \$1,500 a case if that \$1,500 goes into the Treasury and the Patent and Trademark Office does not see any of it, either in terms of money or in terms of other assets.

Thank you very much, sir. I appreciate the opportunity to be here today.

Senator BAYH. I thank both of you gentlemen. Mr. Banner, let me get right at that last point there. I'm not familiar enough with the jockeying and the interplay between the agency and the Department and the OMB. From your recent perspective, do you think it is possible for us to get the kind of resources into the Office if we establish in the legislation the right to adjust the fee. As Commissioner Diamond said, the intent is to have a sort of pay-as-you-go operation, so far as this new effort is concerned. You point out, as he did, that this is going to take some personnel to implement, and if you take it away from someplace else, that still leaves a hole somewhere else. Is it better do you think to continue the present practice of returning the Patent and Trademark Office fees to the Treasury, or would it be better to have a revolving fund? Would such a revolving fund eliminate the problem of having to go through agency personnel who really don't understand the Patent Office's needs?

Mr. BANNER. I think history would teach us, Senator, that revolving fund is the only way to go if you want to have a Patent and Trademark Office that operates properly over a long period of time. In the revolving fund approach, as far as I know, what we have always talked about is a system by which there is a requirement that the fees, which are paid by the public, are variable as time goes on and in a relatively automatic way are set by the Commissioner. Therefore if inflation goes on, the Commissioner can readjust the fees on a periodic basis to, for example, cover the full costs in the case of trademark operations, or 50 percent of the costs in terms of patent operations. Now if you don't let that funding go to the Office, if you don't let that funding go into the operating function, sooner or later, history tells us, you began to get this gap that we have today. Where we get money from the public and we put it into the Treasury, that money has very little to do with the operating budget of the group charged by statute with carrying out that operating function, especially in a case where the final determination is a choice between whether we spent it over here, in that agency, or that agency, or that agency. It's much better, in my view, to have a direct connection between what the public pays and the kind of service that they are getting.

Senator BAYH. Do you think the Office would function more efficiently, more aggressively, if it were established separate from the Commerce Department?

Mr. BANNER. Yes, I do, definitely.

Senator BAYH. You know, in my association with this problem, I have found it almost unbelievable to see a society as advanced technologically as ours handle patent files in a manner that appears to be straight from the horse and buggy days—the way materials are filed, the way they are handled, the whole way the patent system operates. Is it possible to use some of the technology we have to flash communications around the world in an instant, put men on the face of the Moon, and all kinds of creativity that this great country of ours has been able to mobilize, is it possible to utilize that and to bring the Patent and Trademark Office up to date so we have a space age system, using

computers, using microfilm, as mentioned, and other things. Is it possible to do that, or is it just asking something that's not possible?

Mr. BANNER. Of course, it's possible.

Senator BAYH. What does it cost to do that? How long would it take to do it? How do we go about it? It seems to me that all these other things we're doing are sort of adding on and trying to perfect something that even when we finish it is still going to be sort of rotten at the core as far as really having the kind of operation that can do the job the way it ought to be done.

Mr. BANNER. We have in the Patent and Trademark Office over 22 million documents in that library, all of which are "prior art" to something that's going to be filed today. So it's a big job. They are not 22 million different, separate, unique documents because there is some overlap but there's a tremendous amount of technology. I do not advocate, and I've never advocated, any system at this time to put all that into a computer and push buttons and get answers, because it's far too big a job, far too expensive.

But we are in a place, sir, where we can begin to utilize some of the new technology to great advantage. To give you an example, we have approximately 7 or 8 years of full text of U.S. patents in magnetic tape form. We have put them into that form for the purpose of printing them. What we can begin to do now, with that base particularly, is machine search, a computer search of that particular segment. Now how much would that take? I don't think that would take a great deal of money, particularly if you begin in terms of chemical acts, where there is less dependence on figures and drawings than you have in, for example, the mechanical acts. It should be started. As a matter of fact, in my latter days as Commissioner, I had discussions with people at Lexis who, as you know, have a computer based searching of law reports, and they were very interested and thought they could begin to work with the Patent and Trademark Office on an experimental, free basis to do just what I said. Certainly that could be done.

There are other things that have to be done, too. It is not a situation, I don't mean to leave the impression that one can merely computerize the whole Office and it will be a happy day from then on. You can't do that, and certainly not in our time with any kind of reasonable finances. But there are lots of things you can do on a step-by-step basis to improve the day-to-day operation of that Office, and that's the important thing.

Senator BAYH. Mr. Diamond, you're still here. Would you respond to a congressional request to post haste give us a shopping list of what your office needs to meet its responsibilities? Of course, you can consult with people like former Commissioner Banner and others who have been there in that seat before, and get us a shopping list of what you anticipate would be required, and submit it to us. Could you do that if you were requested to do so?

Mr. DIAMOND. We certainly would do our best. I, again, have to fall back on my new boy on the block defense. I'm sure that we would have to clear such a response with OMB before we could submit it to you, Senator, but we will attempt to comply with your request.

Senator BAYH. Well, wait just a minute. That's why I'm suggesting that if a member of the Judiciary Committee or a member of the

Senate Appropriations Committee that handles the budget, says either nicely or in a demanding, irritated voice, get it to us, could you get it?

Mr. DIAMOND. I will try.

Senator BAYH. Which way does it have to be requested?

Mr. DIAMOND. It has been requested.

Senator BAYH. I hope you'll consider that to be the case. As far as I'm concerned, it is in a cooperative, benevolent voice. If somebody downtown says you can't do it, you tell them Senator Bayh is mad as hell, and doesn't want any pussyfooting around, but we need that information. If you'll tell us what you need, and how soon you need it, and what it's going to cost, then I'm prepared to do battle for you. I have to confess to you that this issue is not one that has a constituency out there carrying signs and registering voters, and demanding response from the system, but it's one that I think is critical, and I'm prepared to undertake whatever is necessary to do the job. But you've got to help us help you.

Mr. DIAMOND. I'm very grateful, Mr. Chairman, and we'll certainly do everything we possibly can to help you help us.

Senator BAYH. Well, I hope you will. I insist that you do.

Mr. DIAMOND. I have received the message. Thank you.

Senator BAYH. Thank you. The message as you know is not meant for you but is designed to help you alert your superiors in the Department how serious I am about this request.

Mr. DIAMOND. Thank you, Senator, I do understand.

Senator BAYH. Thank you. I just thought since you were here I would make the request.

Mr. BANNER. I understand you're talking about 200 years of history. You're suggesting that we start with updating the information from the last 6 or 8 years in a way that has pretty good recall and retrieval and can go on from there. Is it unreasonable to suggest, for someone who can't find his way through a computer operation, that we need not be satisfied with that. Perhaps it is unreasonable to say that we're going to put all 200 years in a modern system, but is it unreasonable to say we're going to computerize the information from the last 50 years and we're going to take 5 years of information per year and update it so that within 10 years we're going to have it done and to be able to budget to hire people for such a mission. We'll divide whatever the time frame seems to be reasonable into yearly increments and put those people to work so that at the end of this time, we have everything that could reasonably be anticipated and handled in a manner where we could have modern recall. Is that unreasonable?

Mr. BANNER. No, sir, I don't think it's unreasonable. I would think that the practical way, however, to approach that goal would be to start with the utilization of what we now have, to see really how it performs. Is this searching matter—is it really truly a situation which we can search effectively with this method? To give you an example, what do you do when you get to the mechanical items, where drawings are very significant. How do you handle that? I don't know.

Senator BAYH. How would you handle it if you were General Motors or Exxon? You wouldn't have to go back into some dust-covered file and get out something that had turned yellow, would you?

Mr. BANNER. Yes, I might. General Motors hasn't computerized the patent file, I know that. But what I'm saying is, if we take what we have now and test it, and if it works, have a fuller program, bigger and bigger and bigger, this is the way to go about it. This is the way to get to that goal we're talking about. Rather than to say, we are now going to computerize the last 25 years, let's see what happens with what we now have. To give you an example of the cost of this activity, to my recollection, subject to correction, but I think it costs about \$112 or \$114 per patent, on an average, to put it into magnetic data base form. You can see very quickly you run into some big numbers. Furthermore, let me point out one other thing that might not be immediately obvious. If you take the last 6 or 7 years of full text of the U.S. patents, you have inherently incorporated a great deal of the earlier technology as well.

Senator BAYH. It makes very good sense to take what we have now that's been incorporated and see how it will work before you start some big, all-encompassing scheme. How long a period of time will it take to see if that will work or not?

Mr. BANNER. I think that the initial determination can be made in a couple of years.

Senator BAYH. And how long would it have to take to put that base in a workable condition?

Mr. BANNER. It's my recollection from my discussion with the Lexis people that what their term was to see whether it could be utilized properly, in writing the programs to use it properly, that we were talking of a period of about 2 years. That would be our first phase.

Senator BAYH. Well, I appreciate getting your thoughts on that. And Commissioner Diamond, I appreciate your willingness to help start that rolling. If we have to meet in the dark of night in my basement to get this moving, I'm prepared to do that.

Mr. DUNNER, I want to thank you and the other members of the APLA for your invaluable support of the effort that we're making. I think that together we can get this problem the attention it needs and deserves. I just want to emphasize the important role that I think your citizen members of the bar play in making the system respond. What we're trying to do, of course, is to establish a balance. On the one side we want prompt issuance of patents, and on the other we want the best possible search service. How can we make sure that the bill here, the patent reexamination bill, is used to strengthen the patent system, instead of being used as an excuse for lax patent examination?

Mr. DUNNER. Mr. Chairman, I don't think that to address that particular problem we need any separate legislation other than to make certain that the Patent Office is properly funded to examine in the first instance. It is my experience, some 25 years of experience, that tells me, including 3 under an existing reexamination system of sorts in the Patent Office, that having reexamination is not going to deter examiners in the Patent Office from adequately examining initially, if they have the resources. I don't think anything special need to be done to assure that, so long as we have the funds, and so long as we have a competent administration in the Patent Office. I think that will happen inevitably.

Senator BAYH. So it's a matter of getting the needed resources, to do the job?

Mr. DUNNER. Exactly.

Senator BAYH. Could you give us a comment as a member of the bar, and as the president of the APLA, of the role that the patent plays in this whole problem of boosting innovation and productivity. Could you just very quickly consider the importance of quick issuance of patents, the need for the best possible examination, and how the re-examination scheme in this bill fits into that overall picture?

Mr. DUNNER. First of all, I will give you an illustration. It obviously varies from industry to industry. I will give you one illustration of the importance of patents in the pharmaceutical industry about which I know something.

In the pharmaceutical industry unless there exists a potential for some meaningful, proprietary patent position, new drugs, which cost literally millions of dollars to bring to the marketplace, will not be developed by the R. & D. oriented pharmaceutical companies. It may cost as much as \$10 million or more to get a new drug application. I know from personal experience that unless the organizations can have some reasonable feeling that they are going to have some decent patent protection in the United States, they will not go through that process. You can go to other industries, and you can interview people like Dr. Edwin Land, which is a classic case of a company which existed from nothing, or the Xerox story which existed from nothing, and based on sound, proprietary protection grew to enormous proportions creating jobs and money for the country. So much for the function of patents in the process.

Now as far as reexamination is concerned, I think reexamination plays its critical role in the area of—it helps everybody—but the best illustration is the small businessman. The small businessman today, or the person looking for resources, looking for investment capital, has a tough time. He is told by his patent attorney, if the attorney is being honest with him, that you can get a patent, but enforcing that patent is going to be quite another thing. If you have an aggressive predator trying to capitalize on your contribution, you are not going to be able to fight him, because litigation, and it's not only expensive attorneys that result in this, litigation conventionally costs \$250,000 or more. A small businessman, an individual inventor, cannot possibly afford that. So the role reexamination plays in that process is when this third party comes up with new art that has not been before the Patent Office, the small inventor is able to go back to the Patent Office and say, "Mr. Commissioner, I'd like to have an opinion from you on whether or not my patent passes muster in the light of this new art." That is a relatively inexpensive proceeding compared with \$250,000 more litigation. Armed with that relatively inexpensive determination, he can go back to his adversary and say, "Look, do you really want to take a license at a reasonable fee, or will you litigate?" Now at that point he may be able to get people to invest in his patent to support that litigation, or he may be willing to run the risk himself to garner the resources to run that risk because the prospect of winning in a situation where the Patent

Office has had the best prior art before it is statistically much more significant. The study that Commissioner Diamond referred to suggests that the survival rate in court of patents that have had the best art before the examiner is something like 85 or 87 percent, compared to a survival rate under the most favorable studies of 50 percent, or even less, if you take the less favorable studies. So reexamination can play a vital role. In fact, it is my personal belief, and the belief of others, that reexamination is probably one of the two or three most significant things that could be done to improve the patent system.

Senator BAYH. Thank you. Commissioner Banner, I've been impressed, shocked I guess is the best word about this whole problem of issued patents being found to be invalid after such costly litigation. To a very great extent, this is the result of missing information in the search files. In every subclass, there is a significant amount of missing information. The estimates given to us were computed, to vary from 20 to 28 percent missing in every patent subclass. In your judgment, will the fact that under reexamination patent challenges will be alerting the Patent Office to materials that might have been overlooked help to correct this situation? Of course, we're assuming that an adequate funding level is provided so that we're not taking with one hand and giving away with another.

Mr. BANNER. That's, of course, why I had some pause before I answered your question, and with that kind of assumption, let me proceed, as best I can, to answer it.

If the quality, the integrity, of the base is not present, for whatever reason, the statistical chances of missing a reference that should be there increase clearly. Now there may be lots of reasons why a certain reference isn't there. Incidentally, one of the advantages, Senator, in computer based search, is that once you put the technology into magnetic tape, it always stays there, unless someone comes by with a big magnet. Nobody ever removes a particular patent from a magnetic file. But if you have a proper base, let us assume, for example, a base that is much better than we have now, it seems to me that with reexamination, you would actually tend to improve the initial search as well. If you're doing a job, whatever the job might be, and someone is going to check on your work later on, let us say, in a certain sense you have to do the job well. I think that human beings will always work that way. I think that having reexamination will tend to even make the initial search somewhat better. I can't tell you how much. I can't give you a specific figure. But in any event, I do have that opinion.

Senator BAYH. Thank you. Perhaps we had better move on because of the number of witnesses scheduled to testify today. I appreciate very much your taking the time to be with us and for making such a significant contribution to the hearing.

Mr. DUNNER. Thank you.

Mr. BANNER. Thank you, Mr. Chairman.

Senator BAYH. We have now a small business panel, of Ms. Barbara N. Wyatt, president of FunnelcaP, and Mr. Eric P. Schellin, chairman of the Board of Directors of the National Small Business Association.

TESTIMONY OF BARBARA N. WYATT, PRESIDENT OF FUNNELCAP,
INC.

Ms. WYATT. Good morning, and moving into afternoon. I would like to thank Senator Birch Bayh and the Judicial Committee for today's hearing. It is good to be here to tell you in person of our experience in trying to market our U.S. patented Funnelcap funnel, which was designed to snap on to quart cans of oil with an offset neck for hard-to-reach places. The funnel is also a cover to keep the oil clean and protected. My father invented this funnel.

Today I address you as president of a struggling manufacturing company, Funnelcap, Inc., of West Boylston, Mass. If I could have come before you in 1973, I would have been able to address you as president of a growth company with 12 fulltime employees, a network of independent sale distributors and total sales of \$200,000. What happened in 6 years to make the difference?

By 1973, after less than 2 years on the market, we had done our sale promotion work. We had letters, prices, and samples of our funnel into the hands of buyers. We had made national sales. By August 1973 we had received our U.S. patent. We went on to file and receive Canadian, Japanese, German, British, and Italian patents. However, in late October of 1973 when we displayed our Funnelcap funnels at the APAA (that's Automotive Parts and Accessories Association) trade show at McCormick Place in Chicago, we were surprised to find two other large established manufacturers selling our funnels. We were taken back because we had supplied samples of our funnel to them. Mass merchandisers like Sears had warned us if we wanted to sell to them, we would have to protect our patent. Since neither company manufacturing and selling our type funnel respected our U.S. patent, it seemed to stay in business we would have to sue to protect our patent.

So in 1974, we brought suit against Hollywood Accessories, division of Cal Custom Accessories, division of Orion, division of the Allen Group, with headquarters in Melville, Long Island, N.Y. They cross sued us for \$590,000. The fight was long and complex for us. We had their law suit, their false affidavits to counteract, and a venue fight. We had to subpoena their records. They wouldn't supply us with the necessary information, so we had to subpoena records from other mass merchandisers. We hated to have to subpoena these mass merchandiser's records, because it seemed like an action that would alienate the very people we were trying to sell. Our attorney supposedly couldn't build our case without this information.

One month prior to court our attorney warned us we only had a 50-50 chance. We were surprised our chances of winning were so slight. When we were getting our patent, we were told we had 17 years. No one mentioned the invalidity or obviousness doctrine problems. Just as we believed in our product and worked to bring our funnel product to the market mainstream, we trusted our attorney to work in the legal area. Hindsight tells me this was misdirected trust on our part. We were aware of complications and increasing costs as we tried to bring this case to court. But, once we were involved, we had everything to lose by quitting.

Finally in December of 1975 we had our 3 days in Federal district court. We had worked hard getting the necessary material into the court record. The legal battle was not easy. We were a small company. This was our first legal entanglement. They had been in court before. They were a company with a large staff and substantial resources. Their witnesses seemed to conveniently not recall or be responsible for actions. Our expert witness was the original inventor. As a small company we were honest and answered questions. Their expert witness was a paid expert. He was an expert at testifying. He never had anything to do with patenting or designing funnels.

Finally after a 9-month wait, the decision came down from the Federal district court. We were shocked to read the judge's ruling and to find we had lost in all areas of our court fight—patent infringement, trademark infringement, unfair competition, and deceptive trade. The judge had ruled against us based on gray areas of law—the obviousness doctrine and legal technicalities. In his decision the judge said, "It was a hot item and copying offered the promise of profit." It seemed there was nothing wrong in copying a hot item. One wonders what happened to patent protection. Does the free market system mean it is all right to steal a man's patent—his 6 years of work and investment?

When you lose, you ask yourself what went wrong. Did we fail in our presentation? Did our patent attorney fail? Did our trial attorney fail? Did the judge overlook some important facts? The answer is that the system failed us.

We were fighting to uphold our U.S. patent. Back in 1971 when we were encouraged to file for a patent, we partly based our decision to file on the fact we were told we would have 17 years of protection. One arm of Government, the Patent Office, gave us a patent, encouraged us to make investments in molds and catalog sheets, only to have another arm of Government 3 years later, the Federal district court, take our patent away.

After our loss, I did more research. I discovered approximately 50 percent of patents brought to Federal courts are held invalid; at the appeal level, 72 percent are held invalid. It seemed like a strange legal system when validity would depend as much of where you sued as to how your attorney fought your legal battle. We were limited in where we could sue. I discovered California hadn't upheld a U.S. patent for over 20 years. What kind of protection is this for the lone inventor?

I have talked to many attorneys since this case began. I have heard that a large company considers a patent suit no more than a speeding ticket. We were told "only weak patents get to court." However, due to our success in the marketplace, we knew we had a strong product that had value and was worth fighting for.

In the Federal district court, attorneys have to simplify and explain products and patents to judges. Judges aren't always engineers. Once the product is broken down into its simplest elements, the product idea becomes obvious. There are only so many scientific principles, chemicals, and ways that reactions take place. The Inventor's Club of America based in Springfield, Mass., is upset with this obviousness doctrine. The Inventor's Club takes the position that "what is

known is the art. What is known is obvious, and what is unknown at the time of invention is a patent." Even Edison was unhappy with our patent system. He said it always amazed him why something so obvious took him 20 years of struggle.

There are problems as the small company presents its case in the Federal courts. First, small companies don't have the legal staff or experience. Our principles are taking valuable time away from everyday decisions. Second, we don't even have the financial resources to make a strong fight. It cost us \$75,000 to go to court. A large multinational can deduct 50 percent of its legal fees. Third, the adversarial system of justice doesn't necessarily work with patents. All questions can't be answered with yes or no. In our case, their attorney was asking incorrect and fallacious questions. Our witnesses, the original inventor, was directed by the judge to answer yes or no to these faulty questions. Is this justice? I'm sure the Senators—I thought there'd be other Senators here today—realize that some questions can't be answered yes or no.

Finally, we as inventors have to depend on patent attorneys to represent our products and inventions in the claim or claims of the patent. It seems after the fact, we are told, the attorneys settled for too little. Sometimes inventors don't even realize the ramifications of their claims and inventions until they are being badgered on the witness stand. Is this the justice we are depending upon to encourage inventors in their work?

Prior to this court case, my father, the inventor of the FunnelcaP funnel, had more than 30 patents. Most of these were assigned to the companies he had worked for. His expertise is mechanical engineering. He loves to work and create a better product, a better way of doing something. However, since he saw FunnelcaP, Inc. lose its foothold in the market, 6 years of effort, \$75,000 in legal expenses, and unknown thousands of dollars in sales, he wouldn't dream of patenting a product in the present system. I personally feel that it's a shame he can't work in this system. How many other inventors have given up?

As chairman of the Legislative Committee of the Inventor's Club of America, and president of the Robert Goddard Chapter in Worcester, Mass., we meet many inventors. If we don't see some solid and real strength put into the patent system, we will have no choice but to recommend that our membership not patent their products. Is there patent protection if one's patent protection is only as good as one's financial ability to protect? Most independent inventors have a net worth of less than \$40,000. It cost us, in our simple case, more than \$75,000 to get to court and we lost.

You have heard the expression "mad inventor." The image is of an inventor madly and passionately at work with his project. He will go to any extreme to help get his product and project off the ground. Today the "mad inventor" that we see in the Inventor's Club of America is angry and frustrated with a system that isn't helping him in his work. It is a system that hinders his attempt to get his product to market. Inventors are busy working to perfect their products. They are knocking at the doors of corporations, trying to get appointments and make effective presentations. Without patents these corporations don't want to see us. Once the patent is granted, they usually tell us

that "upon the advice of legal counsel" they have been advised our patent is weak and can be designed around. In our case, the company we had to fight eliminated a one thirty-second inch inner ring on our funnel. We put this inner ring into the funnel to help oil drain back into the oil can. Taking the inner ring off, the funnel still works, but it does not make a better product. Hollywood Accessories, in effect were trying to design around our funnel patent.

A weak patent system allows mass merchandisers to bring inferior products to their shelves. There are fewer and fewer independent retailers in the country. A dozen key mass merchandisers and 50 wholesalers in the automotive aftermarket can control what products get on the shelf. These buyers increasingly are basing their decisions on price and not necessarily on bringing the best product to market. Their decisions are not giving consumers a choice. As a buyer for the largest retailer told me, "Who cares about quality in a 39-cent item? The customer usually won't bother bringing the product back to the store." How are we going to sell better products as long as mass merchandisers are willing to make their decisions on price considerations alone?

As small companies, we are tired of selling our product ideas to the mass merchandisers. We supply the samples only to find 6 months later our type product reaches their shelves but brought to the consumer via Hong Kong production by U.S. based multinationals. Just to my side here at the table I have several funnels, all of these are just a few of the companies that are making them today. This one funnel, I keep it in a bag because if you touch it, all the red dye comes off on your hands. This is some of the quality that we're up against. There are more; these are just all the ones I happen to have.

Senator BAYH. Were any of these on the market before your funnel?

Ms. WYATT. No. This one—the Hollywood model—was the first one to copy us and this—the Allison funnel—was right in there close, right at the beginning. I could—if I had time—bring others today but I kind of hate to go to the discount stores and have to buy someone else's funnel. But anyway, I don't do it anymore. I did this for the court records and I guess it wasn't useful anyway. Let's see, where are we.

The company we had to sue had offices in Hong Kong, Taiwan, and Japan. We have British and Japanese patents. I have tried to sell companies in Japan and have yet to make a sale. If we can't protect our U.S. patent, I wonder now why we even bothered getting a Japanese patent.

As long as U.S. companies find it so easy and profitable to invalidate U.S. patents, the U.S. court system is giving these companies a license to steal. At first I was amazed that these large U.S. companies would rather fight than settle. However, I suppose, it is so much more profitable to have an initial one time legal expense if very early in the life of a patent—in our case it was in less than 3 years—they can win a royalty-free item that fits into their established distribution. The multinationals don't bother stealing small company failures. They are smart enough to let the small company struggle to prove his product first in the market. We know how the struggle in the courts is almost always in vain for the small company.

My first reading of S. 1679 suggests it could be a first step to help make strong patents. I am concerned the bill does not directly address the obviousness issue. How many times will a small company have to face an anonymous adversary? We found it hard enough to fight when we knew who we were fighting. How does this anonymity help the small company inventor? Why shouldn't he know who is challenging his patent? I also found parts of the bill quite complex. Please keep the language simple and readable for inventors. We are not patent attorneys; we are not even attorneys. We should—and I'm certainly not an attorney—be able to easily read and understand what is happening.

The best help this committee could give to independent inventors would be a strong patent law. We would like to see the U.S. Patent Office only issue strong patents and be responsible for the patents they issue. For example, 1 year after we sold a carton of our funnels in California, the principal in that company took the dustcap off our funnel, widened the neck, filed for and received a U.S. design patent. We were busy fighting our other case. We couldn't afford to fight again.

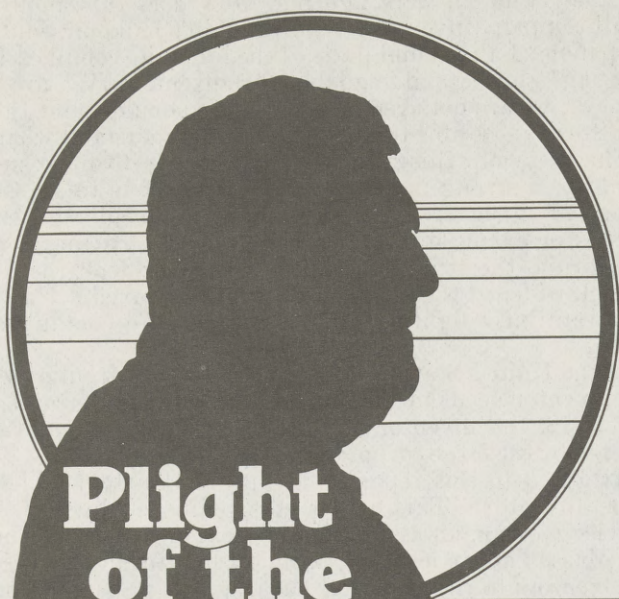
If the United States wants to be in the forefront of technology; yes, the inventor needs marketing advice, loans, and grants. But, most importantly, the inventor also needs a strong patent that will be respected by the large corporations.

Attached to this report is a copy of the story "The Plight of the Lone Inventor." This article was published by the Small Business Service Bureau, an association of smaller business owners in Worcester, Mass. This article has been most helpful in alerting the thousands of inventors to the potential hazards a U.S. patent can bring. And I have a copy of the article. I have about 10 that I can give to you and maybe you can put them in the right hands.

We certainly hope S. 1679 is not the last bill on this subject. It is important to correct the problems in our U.S. patent system so that inventors can bring more good products and jobs to the United States. Thank you.

Senator BAYH. I appreciate your taking the time to be here, and also I appreciate the letter you wrote to me a few months ago which I have never forgotten and about your experience with your patent suit. This was one of the things that really alerted me to this problem. I hope that we can continue to have that kind of communication. I think the kind of horror story that was represented in your real life experience is exactly the kind of thing we're trying to correct.

[The article submitted by Ms. Wyatt and a letter to Senator Bayh from Ms. Wyatt follow :]



Plight of the Lone Inventor

BY JEANNE B. KISSANE

Everyone curses when he's forced to work with a flawed tool or a broken piece of machinery—or without some perfectly reasonable gadget that, for some reason, has yet to be produced or discovered. Everyone curses in annoyance or frustration when the offending object won't do what it's supposed to do—or what we *want* it to do.

But inventors are different—at least according to Jacob Rabinow, a prolific inventor—because when he's through cursing, the inventive man begins to think ...

Roger Nowak is one of those people who curse and think. An inventor. One product of his thinking is a particular kind of plastic funnel—conceived, developed and produced by Nowak more than eight years ago in his home workshop in West Boylston, Massachusetts. In addition to his know-how, Nowak invested his time, energy and money in making several models of and improvements on the product: a funnel designed to serve as a combination pouring device and cap for a quart can of oil. The funnel, patented in 1973 as FunnelcaP*, includes an offset neck for getting at hard-to-reach places and a tight seal that allows for safe storage when the entire contents of the can are not used at one time.

Sounds simple enough. The need is certainly there. Anyone who's had to leave a half-empty can of oil in the trunk of his car will verify that. But no one had thought of it before. At least, no one had thought of it for long enough to design a model and spend time and money producing and perfecting it. And no one had marketed it.

Until late in 1970. That's when Nowak's daughter, Barbara Wyatt, began selling her father's funnel device. For about a year and a half the business did fine. Sales totaled 20,000 in that first year, over 200,000 in 1971 and over a million in 1972. By that time Wyatt had made her first national sale to Walgreen Drug Store and had managed to gain additional national distribution through Western Auto and J.C. Penney.

Nowak, who was working as an independent inventor, was more interested in designing more new products than in producing and marketing them. But his daughter was

interested in continuing to market the funnels. So in May of 1973 Barbara Wyatt and her husband Peter acquired the funnel business, including all rights, title and interest in the patent, from Barbara's father and incorporated the business as FunnelcaP*. Nowak had filed for a patent on the FunnelcaP* in May of 1971. By the time the patent was

"The least we can do, as people who've already been through this is to inform potential inventors that they've got to be aware of just what a patent does—and doesn't do. A patent will cost a lot more than the filing fee if you end up having to protect it."

issued in August of 1973, it was clear that the device was commercially successful and FunnelcaP* seemed well on the way to becoming one of the rare small businesses that manage to survive beyond a second birthday.

Last year, FunnelcaP* sold fewer than 10,000 funnels. Western Auto, Walgreen and J.C. Penney are no longer customers. Instead of the 40 people involved in manufacturing and marketing in 1972, Wyatt now employs only two people on a subcontract basis. FunnelcaP* is insolvent and it is only on the basis of personal loans and Barbara Wyatt's willingness to work without salary for nearly the past four years that the company continues to operate at all. As the owners the Wyatts are also out more than \$75,000 in legal expenses, spent on a lawsuit to protect their patent from infringement by a large corporation. But the money and time were not enough to keep Barbara Wyatt from losing the FunnelcaP* patent and nearly losing her business.

How did a business that showed such early promise come to suffer so dramatic a decline? The story is not an uncommon one. "If we'd

known, then, the history of patent law cases and what we were going to have to go through to finish this suit, we probably wouldn't have gone to court," Peter Wyatt conceded recently.

For the first three years of selling funnels, first for her father's company, and from 1973 on under the FunnelcaP* name, Barbara Wyatt had no

reason to suspect that her father's plastic funnel would lead her into a costly legal battle with a corporation whose annual sales were over \$65,000,000 and whose net annual profits were almost \$4,000,000. Her business was on a much smaller scale and her marketing methods were similarly modest. She introduced her product to potential buyers by sending them letters and product samples and by visiting the headquarters of large discount stores and other mass merchandisers.

At first, Wyatt assumed that these chains would be "eager to have something that their competitors didn't. But I gradually learned that the chain store buyers don't make their own decisions. I can remember the first time I went to Zayre [department store] headquarters. I was excited about the prospect of selling my funnel to a big chain and when I got in there, all the buyer wanted to know was who else I had sold to. Frankly, I had thought his account was so important that he'd be a nice one to start with. But after a while I realized how the selling game works. They don't want to be first.

They always want to know who else you've sold."

Wyatt had already made a sale to Pep Boys [manufacturers and distributors of auto accessories], "who, it turned out, is a leader in the field. The name meant something to him. But even with that it took several follow-up calls before I made even a token sale to Zayre and they never were repeat customers."

In 1972, however, she sold several hundred thousand funnels to Western Auto and began to think her product had made it. "I got a lot of inquiries from the chains and I kept expecting to make other sales to big companies—Sears or Ward—but they weren't quite developing and I began to wonder why. I knew we had the only funnel like it on the market. Yet, it wasn't really selling as well as I thought it should be."

In 1973, she found out why. "It was about a month and a half before the Annual APAA [Automotive Parts & Accessories Association] Show in Chicago. One of our customers called and said, 'Gee, Barbara, I see you've got problems.' I didn't know what he was talking about until he told me a company in California was making a funnel like ours."

In fact, when the Wyatts got to the APAA show they saw that two other companies were displaying similar products: the California company her customer had told her about—Hollywood Accessories—and a smaller company, Allison Company in New Jersey. Hollywood Accessories, whose catalogues and sales literature described it as "A Division of Orion Industries," put a significant dent in the sales the Wyatts had expected to make at the show. "It's a big company with an even bigger parent [Orion]. They have all the automotive accessories and they already sell to most

of the accounts I was trying to get. So naturally, the funnel was just one more item to check off on their order forms. We were just a small company. The buyers didn't know who I was, how established I was, how reliable I was. Not many were willing to take the chance, even though I'd been providing them with samples of our product long before these other two companies ever started making it."

Ironically, Hollywood was one of the companies that had written to Wyatt asking for sample funnels and prices, which she sent them in March of 1971. (In a letter to Wyatt, Hollywood had replied that the funnels were "overpriced".) "At the show we confronted them with the fact that they were infringing on our patent," Peter Wyatt recalls. Barbara's father had referred the Wyatts to a patent attorney in Chicago, Berton Scott Sheppard (of Wolfe, Hubbard, Leydig, Voit & Osann). Before they went out to the APAA Show, the Wyatts made an appointment to see Sheppard and discuss their situation.

"He advised us that it appeared to be a case of infringement and he prepared a letter to Hollywood explaining that we had a patent and that we considered their products an infringement," Peter explains. "We mailed the letter to their business address and at the Show the next morning I hand-delivered a duplicate original to Hollywood's representatives at the Show. [Bill Hyatt, vice president for marketing and Bud Gibbons, president]. We were open to the possibility of a licensing agreement with them. At that point we were hoping somebody with a big marketing organization like theirs would want to market it for us. There was no way we wanted to sue anybody."

Barbara remembers that

"they were cool about how they'd started producing, saying it was 'by accident'.... But they agreed that we could work things out if we licensed them to make it. They assured us that there would be no problems since they had done this many times before and would be willing to pay a royalty. So even though our sales had been disappointing, we went



"MAYBE I'M BEING THE IDEALIST OR THE OPTIMIST, BUT I REALLY THINK THINGS ARE SO BAD THAT THEY'VE GOT TO DO SOMETHING. IT'S HARD FOR ME TO BELIEVE THAT SEVENTY-FIVE THOUSAND DOLLARS IN PERSONAL LEGAL EXPENSE AND ALL OF THESE GOVERNMENT AGENCIES AND INDIVIDUALS ARE NOT ABLE TO PREVENT THE BIGGER MANUFACTURERS FROM SQUEEZING US OUT."
—Barbara Wyatt

home from the show a little optimistic, thinking this might work out for the best."

Over the next several months, the Wyatts' hopes were severely diminished. Peter thought "the next few months of negotiating would just involve haggling over price. I had several phone conversations with Hyatt in November and December but we disagreed over whether the license should be exclusive and what the down-payment and royalty rates should be. He told me he'd have Hollywood's lawyers prepare a suitable license agreement and send it to our lawyer."

The Wyatts and their lawyer waited but the proposed agree-

ment never came. Peter remembers that "during the last conversation I had with Hyatt he told me that unless Funnelcap® granted Hollywood an exclusive license at a very low royalty rate, he could put Funnelcap® out of business." The last phone call Wyatt made to Hollywood's office was in December of 1973. In that conversation Bud

to court against Hollywood."

Just before the 1974 APAA Show, Funnelcap® filed a suit against Orion Industries (which they believed to be Hollywood's parent company) for patent and trademark infringement. (In their sales literature, Hollywood referred to their product as a "funnelcap.") As the legal work got underway, Peter and Barbara Wyatt got a step-by-step lesson in the technicalities of patent litigation and the particular pitfalls of suing a big corporation.

Gradually they realized that suing for infringement was not going to be as clear-cut an action as they thought it should be.

"Hollywood's first response was a countersuit," Peter explains. "Then they initiated a venue fight insisting the trial should be held in California. Evidently this is chapter two of many legal fights. If they had won it, it would have meant that instead of driving to Delaware (the Wyatts filed their suit in Delaware District Court because that is where Orion Industries is incorporated), we'd have to fly ourselves and any witnesses to California. As it was, it cost us \$14,000 in legal fees just to answer their suit in California."

When Hollywood cross-filed it was in the name of Cal Custom Accessories and not Hollywood Accessories or Orion Industries. "We'd never heard of Cal Custom Accessories. Come to find out most of the employees of Hollywood hadn't heard of it either." Barbara notes, "but according to the countersuit Hollywood was then a subsidiary of Cal Custom Accessories. When we checked them out, we learned that it had only been incorporated in June of 1973. It must have been created primarily for tax purposes. They have these layers of companies—Hollywood, Cal Custom Accessories, Orion, Allen

SMALL BUSINESS/6

Group. They're all affiliates or divisions of each other."

In their countersuit Cal Custom Accessories did more than assert that the Funnelcap® patent was invalid. It included eight additional cross-actions for affirmative relief, accusing the Wyatts of trade label, label, inducing breach of contract (between Cal Custom Accessories and its customers) and interference with trade. They claimed their customers were demanding indemnity contracts to protect them against any patent infringement claims brought against Hollywood. Sheppard was forced to spend considerable time and expense preparing responses to those charges, only to see Cal Custom Accessories voluntarily dismiss them on the opening day of the trial. Peter Wyatt concludes that, "It was just one more ruse to delay the litigation and try to force us out because we're small and could only afford so much time and paperwork."

"While all this stalling was going on they also succeeded in confusing the marketplace," he continues. "Their funnel looks so much like ours—in color, shape, even the design and illustrations on the label—that it could easily be mistaken for ours in a store. The only difference is theirs isn't as good. In the beginning it didn't even fit securely on the cans so the can was not tightly sealed. Anyone who bought one of theirs and thought ours was the same product would never come back for seconds."

But when Barbara Wyatt tried to make the distinction between the Hollywood copies and the original Funnelcap® by calling the potential buyers' attention to the difference in quality, Hollywood sought an injunction to prevent

her, in her contacts with Hollywood's customers or potential customers, from referring to her patent rights or accusing Hollywood of infringement or unfair competition. They also sought to prevent her from referring to Hollywood's funnels as "inferior," claiming that she was damaging their reputation and interfering with customer relations.



BARBARA WYATT SPENT MONTHS GETTING SAMPLES OF EVERY KIND OF OIL CAN SHE COULD FIND ON THE MARKET, TO BE SURE THE FUNNELCAP® WOULD FIT EACH ONE. HER BOOTH AT THE 1975 AUTOMOTIVE PARTS AND ACCESSORIES ASSOCIATION SHOW IN CHICAGO EXHIBITED MORE THAN 30 DIFFERENT NAME BRAND OIL CANS WITH THE FUNNELCAP®.

Sheppard advised her not to contact any of Hollywood's customers until after the pre-trial hearing in July of 1975. "I really felt that there was something wrong with this," Barbara says. "They're a big company; they have their sales people visiting these merchandisers regularly. How am I supposed to get my product across? All I can do is provide samples and try to explain why ours is better. But then I was told—by my own attorney—that I wasn't to bring up any of the legal stuff or any references to the quality until after the pre-trial hearings. In the meantime what happened? They moved in and made the sales to some of these key mass merchandiser accounts that I felt I'd been getting close to."

Later in the pre-trial research

the Wyatts subpoenaed the records of the mass merchandisers who'd bought funnels from Hollywood. "I hated to do it," Barbara says, "since I felt it would be antagonizing the very people who were my potential customers. But we'd gotten no cooperation at all when we subpoenaed Hollywood's records. They refused for a long time to produce

J.C. Penny and K-Mart.

After the 1974 AFAA Show the Wyatts had broadened their patent infringement suit to include deceptive trade practice and unfair competition. In light of what they learned about the Hollywood-Western Auto agreement, they thought they had an even stronger unfair competition case, since that agreement was apparently what prompted Western Auto to drop Funnelcap® as a supplier.

In his final brief, Sheppard charged that Hollywood's pricing was discriminatory since its low price to Western Auto "was not designed to 'meet competition,' it was a 'special' low price intended to beat competition and drive Funnelcap® out of the mass merchandise market When the Robinson-Patman 'price discrimination' Act was adopted one of its objectives was to prevent large and powerful merchandisers from moving in with lower prices and driving the smaller 'mom and pop' type operators out of business. That is exactly what is involved here where Hollywood moved in on Western Auto, Funnelcap®'s largest customer, with a discriminatory price."

His case was heard in the United States District Court for the District of Delaware in December, 1975. The court's final opinion was issued on September 1, 1976. Judge Stapleton ruled that Hollywood's "second generation funnel does not literally infringe" on the Funnelcap® patent. [By second generation, the judge meant Hollywood's second version of its own cap which had been redesigned to eliminate a lip that is part of the Funnelcap® design.]

In addition, the judge held that the Funnelcap® patent was "invalid" on the grounds that Nowak's device would be "obvious at the time developed

their price lists or any of their correspondence with buyers. And I was still naive enough to think that we had a case that could win and that we'd have to have these merchandisers' records to do it. We ended up subpoenaing the records from Western Auto, Sears, K-Mart and J.C. Penny."

And they ended up uncovering more than they'd planned to: Western Auto's records showed that Hollywood agreed to supply funnels to Western Auto at a special price that was tied to Western Auto's purchase of another Hollywood product. The records also indicated that Hollywood's price to Western Auto for its funnel was lower than the prices they charged to comparable customers—

THE DECLINE OF INNOVATION: ONE INVENTOR'S VIEWPOINT

Jacob Rabinow knows something about U.S. Patents. He holds 213 of them himself for inventions he's developed over the past 40 years. He now works as Chief Research Engineer for the National Bureau of Standards which evaluates approximately 4,000 energy-related inventions a year. Rabinow has some very definite opinions about the potential role of the inventor in society and he's expressed his opinions on several occasions to everyone from inventors' councils to congressional committees.

In a 1977 talk on "The Decline of Innovation in American Technology," Rabinow began by quoting from several recent magazine and newspaper articles on the subject. A sample of the titles suggests the mood of the articles:

- "New R&D Indicators: Picture Is Grim"
- "R&D Is Losing its High Priority: The Shift Is Away from New Product Development. Is Research Too Costly?"
- "The Breakdown of U.S. Innovations: No-risk, Super-cautious Management Is One of the Prime Villains"

These articles make no reference to the possible links between this decline in innovation and the diminished role of the independent inventor and small manufacturer. But Rabinow doesn't hesitate to point out the connections himself.

The following excerpts are from Jacob Rabinow's comments to a Joint Meeting of the Philosophical Society of Washington and the Washington Academy of Science, October, 1977; Testimony before a subcommittee of the congressional Committee on Science and Technology, April 29, 1976; and a paper presented at the 50th Anniversary Meeting of the Institute of Canada in 1977. The comments reflect Rabinow's own opinions and are not intended to represent the views of the National Bureau of Standards or any other agency of the U.S. government.

The decrease in the number of patents issued to independent inventors is particularly significant since many of our greatest advances in technology have come from them. In my opinion, inventors can be roughly separated into three classes. The first is the employee of the large corporation. The second is the middle group of inventors who are highly trained and who work either in universities, government laboratories, small businesses, or occasionally for themselves. The third group is the basement tinkerer—that is a man or woman who is not highly trained technically and who comes up with inventions which, commonly, are not of great technical significance.

When one studies the output of these groups, one finds that the great advances in technology made in our lifetime were made by the middle group of inventors and were made outside of the laboratories or the engineering departments of the largest U.S. corporations

Atomic energy came out of universities; computers came from two university students; vacuum tubes came from Lee DeForest. Xerography was Carlson's He was a patent attorney who needed copies; so he invented Xerography and for 20 years he couldn't get anybody to support it. Eastman Kodak turned him down; DuPont turned him down; a little company called Haloid supported him and finally he became very rich. FM radio was Armstrong's. (Armstrong committed suicide from the frustrations over the patent fights he had.)

The laser was done by Townes at a university; radar was done by the government in government laboratories. Inertial guidance, that is, gyroscopes that guide airplanes and missiles, was done at MIT Insulin was done in a small lab.

Why Big Corporations Aren't Innovators

The large corporation is a big headache and this is something that I particularly worry about. Our corporations are getting larger and larger and larger. This apparently is inevitable in our society and a large corporation brings with it some difficult problems. For one thing, when it gets very large it begins to own a lot of smaller companies and it has no

A large corporation brings with it some difficult problems. For one thing, when it gets very large it begins to own a lot of smaller companies and it has no personal interest, no emotional involvement in these small companies Many corporations are no longer managed by their founders. The present day "professional manager" is often motivated by short-term interest only.

personal interest, no emotional involvement in these small companies Large conglomerates own swimming pool companies, lending agencies, they rent cars, they build sophisticated electrical equipment, they have steel mills and, of course, they cannot be interested in all of those things. Many corporations are no longer managed by their founders. The present day "professional manager" is often motivated by short-term interest only. He does not have any emotional involvement in his company's product, nor is he going to leave his business to his children

The result is that modern management really cannot and usually does not give a damn about the products its company manufactures or sells. All corporate management can do is to make sure that the management of the small company that they own makes a profit. This means that the manager of the division plays safe—and he is absolutely right. When I talked to one of the managers of such a small division of a very large company and asked, "Why don't you do something that will sell in five or ten years," he said, "I won't be here in five or ten years if I do that. I've got to show a profit next year and the year after that. The best way to do that is to make the same product with as few changes as possible."

Rabinow's analysis of how big corporations resist change and innovation is based on his own years of experience as an innovator and he documents his conclusions with firsthand accounts of his efforts to sell his ideas to corporation executives. One of these ideas was for a watch regulator to keep watches from gaining or losing time. He invented it in 1945.

So, like every inventor, I immediately rushed to the Patent Office to discover that the idea had been thought of but always with external controls. [Rabinow's idea was to couple

the regulator to the hands.] ... The patent was issued all right and I got a basic patent on a simple regulator ... The thing worked very well. I made a clock model and for the next nine years I couldn't sell it. I talked to every manufacturer of clocks in the United States and abroad. First, I went to Hamilton Watch Company. The president looked at it and said, "That's beautiful; a brilliant idea; we can't use it." I said, "Why not?" He said, "We advertise a perfect watch. How can we advertise anything better?" ...

So I went to other people. Clock and watchmakers, and everybody said, "Our products are good enough. Don't bother us." For nine years this went on ... [Finally he sold

the clock to General Time (West-clocks)] ... And all the other clock people were calling to find out if they could make a deal with me. They apparently heard through whatever grapevine industry has that I had made a deal with General Time. And I said, "You sons of bitches. For nine years I got to know you all by your first names; now you buy it from him." The net result of this was that General Time made more money or the patent than I did ...

The other thing about this particular invention was that it made the clock cheaper and better ... So here's an invention, mind you, that improved the performance, cost less to make including the royalty, and where the company that bought the set of patents made a profit on the patents and sold about a hundred million dollars worth of clocks ... In spite of that it took nine years to sell my invention. A dozen patents, 18 models at a cost to me of some \$3,000 each. Nine years!

... A small company like mine can make one sample of a new product to see how it goes. Ford, Chrysler and General Motors cannot make one sample like that; they have to tool for large production and if they have an Edsel, it hurts. They don't like Edsels. They like cars like last year's cars with a little smaller window, a little lower floor, a little less comfortable—a little less safe, but the same car.

If you think I'm exaggerating, I can tell you of the conversation I had with the chief engineer of one of the "great three" in 1954. He said, "Jack, the next year's cars will be lower, they'll be sexier, they'll be better looking; ... the windows will be curved and also the distortion will be higher. I really can't drive a competitor's car. I have to drive our own product; [ours] will be less safe and less good but [with the new design] we'll double our sales." In the next year, they did almost double their sales—the sales people were correct. This is the tragedy: The marketing people tell the engineers what they want and the engineers have to do it because the management at the top doesn't give a tinker's damn whether the car is safe or not.

So, we have these large corporations which are not owned

by the man who founded them. You can count on one hand the large corporations still run by their founders. One is Polaroid with Mr. Land ... There are almost no such companies left. Most of our companies now are two, three generations from their founding and they are run by Harvard Business School people. I have nothing against Harvard Business School but I resent a man who thinks—and I can tell you there are such men and I've met them—that managing is a separate art and you can manage like a pushcart peddler who really knows the goods he's selling.

How the Patent System Is Weakened

Rabinow is greatly concerned for the future of the U.S. Patent System which he believes is being weakened by a combination of negative and inaccurate notions of what that system should do for the inventor.

"Many large corporations feel that they don't need or want the patent system. For the small, innovative company, however, patents are an absolute necessity; the risks are high and the protection must be available at least for some time so that a company can get a chance to grow ...

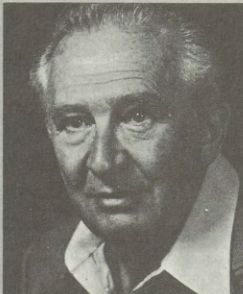
One belief, surprisingly widely held, is that society does not have to reward inventors because they "would do it anyway because they enjoy doing it so much." The act of conception of an invention may, indeed, be fun, but

the hours of sweat and blood required to make it a practical reality and get it into use are very hard work indeed ... When I was working on an idea for a new kind of headlight dimmer, the only reason I spent every night for two years driving around Washington testing my headlight dimmers, making changes with my instrument makers, spending money on my patents, and demonstrating my invention all over the United States is that I had a patent position. If I had no patent position, I would have dropped it.

In my eight volumes of notes, I now have some 2,000 ideas—good, bad and indifferent. The fact is that unless I find an idea as new in the Patent Office, unless I can get protection, I drop it. So, when somebody says to me, as someone in the Department of Justice once did, "Why should we give patents to inventors? They do it for fun; they enjoy it so much, they'll do it anyway." I say, "This is bunk." You invent because you like it, perhaps because you think of it as you drive your car, but you won't spend two years of your life driving around the country, testing it, getting patents, making models just to prove how clever you are ...

As a final element in the undermining of the patent system, Rabinow cites the attitudes of the courts which "have gradually come to look down on the system."

In some courts, like those on the West Coast, not a single patent has been held valid for some 20 years ... These courts



have held that patents are mostly invalid because these courts everything is "obvious." [See footnote explanation of "obviousness doctrine," p. 9] Ten years after I invent something, it is damn obvious and I wonder why it took 10 years or eight years; why wasn't it done before me? For example, the magnetic particle clutch, for which I got a Gold Medal from the Department of Commerce, consists of two metal plates and some iron dust. If you magnetize it, everything sticks together; that makes a good clutch for many things. Why wasn't it invented 200 years before—100 years before? There was nothing that I knew that wasn't known to every high school kid It's a perfectly obvious thing to do—but nobody did it.

How to Encourage the Inventor

So how do we help assure the survival of the independent inventor and the manufacturers who try to market their inventions? Rabinow suggests that we:

- Improve the quality and quantity of the Patent Office staff.
- Clarify the laws so that the courts will have a better basis on which to determine patent validity.
- Have the government encourage innovation by providing support for the small firms, and the universities who are the source of most innovation and by providing incentives to the private sector to support such research and development.

And, he stresses the importance of cultivating a climate which encourages the independent inventor:

It is always difficult to argue general ethical questions but there is a subject that I feel very strongly about: Inventors do create something new for society and it is an absolute injustice for the creator of an object of art not to have some control over what happens to his brainchild I do not think it is the right of industry to freely copy and to take from the inventor the benefit of his creation. This is the right of a thief and of a vandal.

As Jacob Rabinow sees it, if we are serious about encouraging innovation it means "there must be a climate where people who have crazy ideas are not laughed out of court It means that like art, which invention is, you have to support invention as an article of faith. If you want to get some soccer playing in the United States, to develop great players like Pele, you don't do it by hiring a manager to do it. You start by teaching kids to play soccer If you support basketball players, there'll be basketball players. Our climate for basketball is good Whatever talent people must have is only a starting point; you must honor the players The fact is that whatever society supports, that is where talent is developed. There's always talent for everything and the problem is in development. □

to one ordinarily skilled in the art."[†]

The judge also found that Hollywood did not make their funnel design look like FunnelcaP®'s with any intention of passing it off as FunnelcaP®'s product or with "any deliberate design ... to usurp FunnelcaP®'s goodwill Hollywood's motive in copying [FunnelcaP®'s] funnel is obvious," the judge concedes. "It was a hot item and copying offered the promise of profit. On the other hand, it is hard to perceive a motive for one of the larger automobile supply houses, with an established line of products, going further and attempting to pass off its funnel as coming from another source."

Judge Stapleton also declined to rule against Hollywood on the unfair competition charge because, he said, the Wyatts' attorney had not specifically cited the Robinson-Patman Act as the legal ground on which he was charging unfair competition until he filed his final brief. "In the long history of this case," Stapleton writes in his decision, "this was the first suggestion of any kind that the plaintiff intended to rely on this federal statute

The second amended complaint nowhere mentions the Robinson-Patman Act and, indeed, nowhere refers to price discrimination...." Consequently Stapleton refused to entertain the discriminatory pricing claim "in fairness to the defendants who had no reason to mount a defense against it."

As the Wyatts see it, FunnelcaP® was "just about devastated by Judge Stapleton's decision

.... Our losses have been substantial—past profits, future profits, three years of time and our peace of mind." The outcome of the trial also left them skeptical about their prospects for a more favorable decision on appeal. They suggest that the court's decision "is almost as much against the legal and patent process as it is against FunnelcaP® We just don't think the court record contains the guts of the case. Anyway, when we learned what a high percentage of patents are invalidated as a result of these suits and how often the circuit court rules with the lower court, we weren't very hopeful!"

[Results of eight separate studies of patent invalidity decisions in federal appeals courts showed that patents were held invalid in 60 to 70 percent of the cases. One study covered patent decisions from 1966-1968 found patents being declared invalid in 72 percent of the cases. About 68 percent of these patents are invalidated on the basis of "obviousness."]

In his analysis of Judge Stapleton's decision, Sheppard advised the Wyatts that there were grounds for appeal, but that the Court of Appeals would probably be "reluctant to 'second guess' the trial court on the issue of obviousness. It would be an uphill battle to obtain a reversal on this issue."

Their attorney also advised them that they were free to raise the Hollywood-Western Auto price discrimination issue as a new complaint (since the judge decided the Robinson-Patman argument had been raised too late in the trial). Still, what the Wyatts saw as a clear-cut case of unfair competition would not be so simple to redress. As their lawyers explained, it would "require filing a new law suit, followed by various requests for documentary discovery,

[†] According to the "obviousness doctrine" of the Patent Statutes, a patent is held valid if "the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time invention was made to a person having ordinary skill in the art to which subject matter pertains"

depositions and then a trial." Their lawyer also warned that Hollywood would use the same footdragging tactics: "file obstructing motions and otherwise resist full discovery of the facts. In other words, it could be expensive litigation for a private party to take against a big corporation."

In light of their first court experience with Hollywood-Orion-Cal Custom, the Wyatts did not take this advice lightly. They decided not to appeal. "You get worn out," Barbara explained. "You can only fight so much. I just don't think the inventor has much chance."

"Other inventors and small manufacturers should be aware of what kind of protection their patent affords them," Peter Wyatt contends.

"Apparently your patent is only as good as your ability to defend it—and that means you need money."

Even if the Wyatts had had the money to pursue their litigation further, it would still be likely that their patent would have been invalidated. In his analysis of the court's decision, the Wyatt's lawyer wrote, "Before trial, we estimated the chances of having the patent held valid and infringed by Hollywood's revised funnel at only about one in five. On appeal we must say the odds are even worse...."

"If you've got a strong patent, you still need the money to protect it," Peter reasons. "But our case makes you wonder what it takes to have a strong patent. If so many are thrown out on the basis of this 'obviousness' doctrine, maybe somebody should start looking at the process of awarding patents in the first place. Maybe it's got to be stricter. Maybe the Patent Office should be required to defend the validity of any patent it issues. Or maybe the validity should be

decided by some other process instead of litigation."

"Many of the situations that made it so difficult for us are always going to exist," Peter concedes. "Some of them should. Let's face it. You have to look at where you can fit into the market. We don't object to that. It's understandable that mass merchandisers think it's just too much

does it leave the inventor or the small manufacturer?" Barbara repeats. With the outcome of the infringement suit and the prohibitive expense of an appeal, she feels Funnelcap* is permanently frozen out of the mass merchandising market.

Now her one hope and plan is to invest in another mold to make an even better funnel

"It's not fair to the small inventor There seems to be a fault in the system when a big company can copy a patented item and conspire with another company to sell at a cheaper rate."

trouble to buy from a small company when they can add one more item to the line they get from a huge supplier like Orion.

"But these cases should be decided on their merits. People tend to paint this as the little guy against the big guy. Even our lawyer refers to the David and Goliath angle in the opening to his final brief. But that's not really the point. The point is, do small inventors and manufacturers have any protection under the patent system or not? We shouldn't be allowed to stay in business just because we're small. But a company like Hollywood-Orion-Allen-whoever, shouldn't be allowed to put us out of business just because they have more money and can outlast us in court. What we do object to is big corporations using their money power to throw the patent office out of whack—which is what they've done."

Despite the "nasty and messy" complications of their legal fight, the lost legal fees and the lost business, the Wyatts do not seem bitter so much as disillusioned and concerned about the implications of the court's decision. "Where

which she will try to market to oil companies to sell or use as promotional giveaways. "There are also some customers who've stayed with us. We haven't lost them all. Valvoline, L.L. Bean Co. in Maine, Southern Supply down in Texas and other small suppliers throughout the country. Some people still appreciate dealing with small companies. We can give them those little options, like a place to have their name imprinted on the funnel. And they know the service is there. The value is there. And the person is there."

What concerns the Wyatts is how long the independent inventors and small manufacturers will "be there." "This is the sad part," Barbara explains. "Fortunately my husband does have income from another business and we don't depend on the Funnelcap* business for a living. If I were one of the people who depend on their business as their only livelihood, I'd be in trouble." According to the judge who decided the Wyatts' case, anyone "skilled in the art" could have designed Roger Nowak's funnel. "Sure, they could have thought of it.

These big corporations that are established in the field of auto accessories should have thought of it," Barbara contends, "but they didn't. There are things that a small business will do that a big one won't—like develop this funnel cap."

Roger Nowak agrees: "It's not fair to the small inventor. We do all the R and D [research and development] without compensation and then when we've made a commercial success of our invention they take it from us. There seems to be a fault in the system when a big company can copy a patented item and conspire with another company to sell at a cheaper rate. It's not hard to force the smaller company out of business."

Roger Nowak and Barbara and Peter Wyatt are not the first people to question the equity of our patent process. The poor climate for independent inventors is not something that developed overnight. L.H. Baekeland, a Belgian-born chemist who "was to the fledgling chemical industry what Edison had been to the electrical,"¹ raised similar concerns in a 1909 article on the uses and abuses of the patent system. Although he recognized the problems that had developed in the system, Baekeland seemed at a loss about what should be done to reform it: "I could hardly suggest an improvement in the U.S. patent law without curtailing the privileges and interests of the poor inventor. On the other hand, it is very unfortunate that although the laws for filing and registering a patent ... are almost all that can be desired, ... before the courts ... the poor inventor is entirely at the mercy of a legalized system of piracy This game is so successfully played that I know of rich

¹ Daniel F. Noble, *America by Design* (New York: Alfred A. Knopf, 1977), pp. 104.

companies here in the U.S. whose main method or procedure is to frighten, bulldoze, and ruin financially the unfortunate inventor who happens to have a patent which he is not willing to concede to them on their own terms; that is to say, for next to nothing."²

Barbara Wyatt persists in her efforts to make the government aware of the barriers the small inventor must overcome and the need to seek reforms. She has been in contact with the Federal Trade Commission, the Department of Justice, the Department of Commerce, the Office of Advocacy in the Small Business Administration, the Patent Office, the International Trade Commission, President Carter, her own legislators and legislators with an interest in small business. Many of the people in these offices have been sympathetic to her problems. Some have referred her to other agencies or to private research on how patent law might be reformed. Some have completely misunderstood the source of her difficulty—one official suggested she may be the victim of sex discrimination—and have provided no help whatsoever. And few have been able to offer any concrete proposals for improving the climate for inventors. Still, she persists. "The least we can do, as people who've already been through this is to inform potential inventors that they've got to be aware of just what a patent does—and doesn't do. A patent will cost you a lot more than the filing fee if you end up having to protect it."

She hopes the government will find ways to encourage independent inventors like her father and manufacturers like herself. "Maybe I'm being the idealist or the optimist, but I

²L.H. Baedekelund, "The U.S. Patent System, Its Uses and Abuses," *Industrial and Engineering Chemistry*, December, 1939, as quoted by Noble in *Chemistry by Design*.

FEBRUARY/MARCH 1979

really think things are so bad that they've got to do something. It's hard for me to believe that seventy-five thousand dollars in personal legal expense and all of these government agencies and individuals are not able to prevent the bigger manufacturers from squeezing us out. All of these people have a vested interest in improving the business



climate and the climate the inventor and small business must work in. Our system should be encouraging and supporting new and improved developments."

Complacency is what the Wyatts are up against all around. Many big corporations seem content to stick with the same old product lines—unless one of their competitors comes up with something better that he probably pirated from a small innovator. Government officials seem content to define the problems of small manufacturers like the Wyatts as "a private matter beyond our jurisdiction" or "the way the market operates." Merchandisers like Sears, who claim to advocate greater efforts to do business with small and minority-owned businesses say that they are "statistically satisfied" with the number of such businesses they contract with. And consumers seem content—or at least conditioned—to expect

poor quality as the inevitable by-product of an economy geared to mass production and mass marketing. As one of the Sears buyers told Barbara Wyatt during a sales conference, "Who the hell's going to return a thirty-nine cent item?"

Certainly not the guy who's already got his hands full babying the brand new car

that's turned out to be a \$10,000 lemon. After all, nothing works anymore. They just don't make 'em like they used to.

So, we use the big company's oil caps if they're the only ones we can find on the market. So we spill some oil in our trunk because the can wasn't quite sealed and curse a little and forget about it—until the next time it happens. So Barbara Wyatt works without a salary and the 40 people she would have kept employed are out of jobs. Unfortunate. But these are minor flaws in the entire scheme of our economy. And oil in our trunk is a minor annoyance.

Granted, the FunnelcaP* for oil cans is not an invention that is going to revolutionize society. It isn't the light bulb or the telephone or the digital computer. But the FunnelcaP* does have something in common with all of those inventions and many of the others that have changed society in our lifetimes: It was largely a result of the imagina-

tion and persistent work of one man, working not in the research lab of one of the country's huge corporations, but on his own. It was just such an inventor that the patent system was originally intended to encourage and stimulate by giving him the right to exclude others from making, using and selling his invention.

But fewer and fewer independent inventors are being "encouraged and stimulated." In this century, independent inventors' share of the total number of patents issued has steadily declined from 82 percent in 1901 to 40 percent in 1940 to only about 20 percent since 1970. [Statistics from the U.S. Patent and Trademark Office.]

It's naive, contends Jacob Rabinow, to expect that "anything that needs to be invented will be invented when needed" or to think that society does not have to reward inventors because they "would invent anyway, they enjoy it so much." A society will earn the benefits of invention by encouraging and rewarding inventors. It's that simple. When enough independent inventors realize that their only rewards will be an expensive court case, an invalidated patent and an insolvent business, how many will be motivated to take the risks and make the investment on their own? How many would be able to even if they wanted to?

It may be true, as Rabinow says, that the difference between inventors and other people is that the inventor curses and then thinks. But unless we can operate a more encouraging and rewarding climate for the inventor we may succeed in eliminating that difference. Soon, instead of cursing and then thinking, the independent inventor may just be cursing, along with the rest of us. ■

SMALL BUSINESS/11

Inventors Club of America

"A NON-PROFIT ORGANIZATION TO HELP INVENTORS"

NATIONAL HEADQUARTERS

1562 MAIN STREET
BOX 3799—SPRINGFIELD, MASS. 01101
(413) 737-0670

ALEXANDER T. MARINACCIO, President



DEAN ANTHONY, Treasurer

December 31, 1979

Senator Birch Bayh
U.S. Senate
Washington, D.C. 20510

Dear Senator Bayh:

On behalf of the members of the Inventors Club of America, thank you for looking into patent problems affecting America's inventiveness.

Over the past years we have seen thousands of inventors that are having a difficult time getting U.S. Patented products to market.

We are concerned because U.S. patents aren't helping our inventors or America.

Based on the past experiences of so many of our members, the Inventors Club of America has no choice but to declare a moratorium on the U.S. patenting of inventions until we see respect for U.S. Patents.

We certainly feel S.1679 will help. The "obviousness doctrine" should also be reexamined and clarified.

Very truly yours,
Inventors Club of America

Barbara N. Wyatt (M)
Barbara N. Wyatt
Legislation Chairman

BNWcb

Senator BAYH. Mr. Schellin, why don't you proceed, then we'll ask questions of both of you.

TESTIMONY OF ERIC P. SCHELLIN, CHAIRMAN OF THE BOARD OF DIRECTORS, NATIONAL SMALL BUSINESS ASSOCIATION

Mr. SCHELLIN. Thank you, Mr. Chairman. Feel free to interrupt to establish a dialog. First of all, I have a prepared statement that I request to have entered in the record in its entirety. I will refer to certain points that I would like to illustrate as being necessary to my constituency.

I wish to identify by stating that I am the chairman of the Board of Trustees of the National Small Business Association, the executive vice president of the National Patent Council. The first organization represents thousands of small businesses in every SIC category in the United States. The National Patent Council was founded by one of your former citizens, John W. Anderson, of the Anderson Co. in 1945. He felt very much like Ms. Wyatt, that it was necessary to do something with the patent system that was not being done, and the National Patent Council consists of people who pay for the patent system, that is, are not patent attorneys. I also represent today the American Society of Inventors, who have reviewed this testimony and have approved it. We are now at the present time polling the members of the Small Business Legislative Council, which represents 4 million businesses throughout the United States. I cannot yet say affirmatively that they approve of this testimony, but I have no reason to suspect that they won't.

One of the questions raised earlier, and I should address myself to that, was why, if this is the wave of the future, we are at this year, 1979, only addressing ourselves to this issue in this way today. Why wasn't it raised in 1967 when the President's Commission in recommendation 15 did, in fact, recommend this kind of patent reform. I should point out the reason for it perhaps that it was controversial at that time. It is less controversial today for the simple reason, as Mr. Dunner said before, it is now the only way that we can proceed adequately to give to my constituency the kind of right that they are entitled to.

Reexamination, as you all appreciate, is a costly project. But we have no objection to reexamination. My people before objected to the fact that they were having patents issued to them that were invalid. Ms. Wyatt can testify to that, as she just has. It was expected by my constituents that if you paid your fees and you get into the ballgame of obtaining a patent, that a patent ought to have some worth. Ms. Wyatt found out that a patent in her case had no worth. In fact, it cost her a lot more. So even today some of my people are a little bit concerned about reexamination, and they feel we pay our fees up front, why shouldn't we get a valid patent? Why can't the Patent Office do a good job?

The answer is, I don't know. You've talked to Commissioner Diamond, former Commissioner Banner, you've gotten some information on that particular point.

Chief Justice Markey, very recently before the Minnesota Patent and Trademark Association, commented that courts were being clogged

with patent cases; 3,789 cases are in the courts in various stages—and this was an 18-percent increase over the year before. So what is happening, we would submit, is the fact that the examiners of the patent system today are the judges in the district court. In other words, what we are arriving at, unless we take remedial action, very soon is a de facto registration system. In other words, Mr. Dunner before said that a registration system was something that was not an advance. In fact, he castigated the concept of it. In most countries of the world, they are also opposed to that kind of system, and are going more and more to an examination system. But I would submit that unless we do something soon, we are going more and more to a de facto registration system.

I would like to point out also that, and this has been addressed before, but let me be repetitious about this, that we must be very careful that the PTO must continue to obtain adequate funding, and that funding must be increased so it can do a better job with human resources and the documentation resources that it is now lacking. Because what some of my people are concerned about, very simply, is that the reexamination may become the examination.

So if the Patent Office is obligated to give up the struggle to provide an adequate examination because it doesn't get sufficient funding and additional resources, that we may have reexamination as being the examination. So we must be careful with regards to that.

Now, turning to the specifics that I would like to address today, on page 9 of the testimony, and I shall quote directly from this so I'll be accurate.

Ms. Wyatt eluded just a minute ago to the fact that she didn't appreciate section 302 on anonymity. We, too, in the small business community find that not consonant with the American system of fair play. We do not believe that references ought to be thrown over the transom in the Patent Office. We believe that people should stand and be counted. I know that particular sentence in the section was first added in order to protect small business interests. In other words, the rationale behind that was that small business suppliers might be reluctant to attempt to invalidate or have reexamined patents of General Motors if they were suppliers of General Motors. But that is not consonant with the American ideal of fair play and openness. So my constituency feels that we don't want to be protected that way.

Second, to avoid aggressive challenges by competitors who may use reexamination procedure as an economic offensive weapon to preclude a patentee from maintaining patent protection, it should be clarified that only a person having an identifiable interest should be permitted to challenge the patent. The term presently in the statute calls for any person. We feel that that would be cause for harassment. First line of section 302 should be amended accordingly. It should be noted that an opposer to the grant of a patent in England must first demonstrate an interest while in West Germany no such interest need be indicated. As a result, for the period monitored by us, 3 percent of all U.K. patent applications were opposed while 17 percent were opposed in Germany with many patent applications being faced with multiple oppositions. An appropriate interest may be developed in the legislative history of this bill, if in fact, it doesn't become a part of the bill. A

person may be deemed to have an interest who has received a letter offering a license. The interest need not rise to a level that gives one the right to bring an action for declaratory judgment, for instance. The person may be one who is about to embark on a commercial venture, but is hesitant to do so because of the existence of a patent owned by another. What I'm saying is it need not be a kind of identifiable interest that would preclude most of the people from actually bringing a request for reexamination. But somewhere along the line there ought to be a statement that but for this patent we would proceed, and we would like to test it now so that we can proceed.

Third, to further insure that only serious use will be made of the reexamination procedure, there should be an assurance that the fee called for under section 303 is set sufficiently high to discourage the use of reexamination without good cause. We suggest a statutory fee of the order of \$750 to \$1,000. I think we heard in earlier testimony that it would be probably between \$1,000 and \$1,500 if there is going to be full-cost recovery.

Fourth, we are pleased, and this is already in the section and I commend you for having it in there. We are pleased with section 304 which permits the Commissioner to act as the arbiter of the art which is cited and gives the Commissioner a considerable degree of control without immediate involvement of the patentee so is able to thereby inhibit the filing of unmeritorious requests for reexamination. We'd like to reiterate the point that the Commissioner should not feel that he can bundle up the references when they come in by way of reexamination and ship them out to the patentee without first making some kind of determination before involving the patentee. If the patentee is involved, it is going to start costing money, there's no question about that.

Fifth, it is noted that the proposed legislation at section 305 takes cognizance that the proceedings "shall be conducted with special dispatch." Such language may be meaningless to the PTO and may result in difficulties for the small business person under pressure to make a decision to commit funds for a business venture. A statutory provision for a certain time period should be contemplated. Right now we don't know what that should be, but we feel that after we polled more of our people, we can probably have better feedback.

Sixth, under section 306, it should be made clear that the reexamination proceedings should be conducted by senior experienced examiners. We feel that is very useful. It may be expeditious to have three examiners act in concert, perhaps even to be the equivalent of a board of appeals. If reexamination is important, than we ought to have good people, maybe three examiners looking at reexaminations. This is not at the examination level. We're at a place now where if Mrs. Wyatt's father's patent had been reexamined, we could have done something at the point and it wouldn't have cost anywhere near the \$75,000.

Seventh, it should also be contemplated as a result of the immediately preceding suggestion, with the high caliber of reexamination afforded if the suggestion is implemented, court review of an unfavorable decision may be sought directly without first proceeding

to the internal tribunal in the PTO; namely, the Board of Appeals. In this way, the reexamination will be handled with expedition. So suggestions five, six and seven are in correlation.

And finally, eighth, as one more safeguard to frivolous use of the reexamination procedure, section 308 should include appropriate language so that the challenger should be required to pay the costs of the patentee when the challenge has been unsuccessful. This is something our people would like to see. It was also recommended in recommendation 15 by the President's Commission in 1966.

At the present time there is a sort of an informal kind of reexamination procedure anyway. In other words, any time a letter is sent out offering a license to company B by company A who owns the patent, you are going to have people second guessing what the Patent Office has done. In other words, a search will be performed by both parties and then they can sort out as a result of that search effort whether or not it's worthwhile proceeding toward the license, toward suing, or toward dropping the whole matter. So, the concept of reexamination is not new. What the statute would do is to formalize it, which is a very good thing.

Also, a point that has not been addressed as yet with regard to the statute is the fact that it would act as a monitoring system. If we supply the Patent Office with the resources and personnel necessary for them to do a good job, then the patents they will issue will be declared more valid more often than they are now, and if that kind of attitude is prevailing, then reexamination won't be used as much. So the reexamination statute will act as a monitor for the patent system itself. It will be able to tell the Patent Office that they are doing a good job, or they're not doing a good job. So it will be a kind of an oversight thing that we can follow up later on.

Specifically, let me summarize very quickly, reexamination is desperately needed. But harassment must be avoided and reexamination must be virtually mandatory if new art is relied on in litigation. Those are the three points that my constituency definitely want to see.

Thank you very much.

Senator BAYH. Thank you very much. Mr. Schellin. I appreciate your taking the time to be here. I also want to congratulate you on your excellent article which recently appeared in the Wall Street Journal. It's a privilege to have a chance to put it in the record. As I am sure you know, this bill certainly is not sacrosanct. It's the first draft, and we want to take into consideration the recommendations that have been made by you and other witnesses to perfect it. I think it's a vehicle that will ride and we want to make it as smooth a ride and as efficient a vehicle as we possibly can.

Ms. Wyatt mentioned that one-half of the attorney fees of the multinational corporations can be deducted. Is that all?

Ms. WYATT. In legal expenses, and I was making that point. I'm sure, in a way, they can even sustain a loss longer than a small company because it's within a division and another area can cause. . . .

Senator BAYH. Is that accurate, Mr. Dunner? Only half of the legal expenses?

Mr. DUNNER. I believe they can deduct all their legal expenses.

Senator BAYH. That's what I thought.

Ms. WYATT. I'm sorry. I was thinking that they're in a bracket—a tax bracket—actually it's even costing them half of that—even though they're deducting the whole thing. While both large and small companies can fully deduct legal expenses, these legal expenses can only be deducted from profit. A small company in its early stages doesn't always have such profit.

Senator BAYH. You were concerned, Mr. Schellin, about productivity and the vitality of the small business segment of our society which has been one of the most indispensable ingredients of the American economy. This segment seems to be in some difficulty right now. I have been amazed from my involvement with another bill, that I'm sure you're interested in, S. 414, the University and Small Business Patent Procedures Act, about the incredible contributions that small businesses have made in the last 20 years. Approximately one-half of our most important innovations came from small businesses and most of the new jobs that were created. To the extent that the small business segment is harmed or is deterred from creativity, then we're really going to find ourselves in a very serious situation. This will hurt all of us very much. I am very determined to protect against creating any kind of new avenues for harassing small businesses. We're certainly not going to do that with this bill. Quite the contrary, with your excellent suggestions, we're going to make sure this bill does not create any unintended loopholes. If we create a system where for \$1,000, \$1,500, or \$2,000 a small business can get their own patents re-examined or reexamine others, would that be a significant step toward increasing the faith of small businessmen and women in the patent system?

Ms. WYATT. I think it really would help. You know sending the patents back to the Patent Office—you know, when we get a patent, we don't always get a patent immediately either. We have to prove our patent to the Patent Office, of course, and you know with issues in claims and waiting, it doesn't make sense 3 years later to go to Federal court and have attorneys there fight what words did the Patent Office really mean. The senior examiners know what words they meant I hope. You have to trust them so I think it would really help to get it back in the Patent Office.

Senator BAYH. That's one of the things I think is going to happen with the new patent court and with the enactment of S. 1679. The fact that there really is no one standard of patentability in the various district courts. As you point out, California hasn't approved one since the Ice Age. The new patent court which was approved by my colleagues in the Senate in the first part of October ought to help insure that patents are treated the same one place as in another.

You made such a good case, both of you, that I don't think I should lessen the very succinct and dramatic position that you've taken by asking any further questions.

Mr. Schellin, I would like to say, as I'm sure you know, that the small businesses of this country can make a tremendous contribution to our political system by forcefully supporting legislation like S. 1679 that is designed to help them. The small businesses have done a great deal of hard work on the University and Small Business Patent Procedures Act that I introduced with Senator Dole. With your continued

help I am sure we can correct a lot of the problems in the present system.

We have to deal with a basic problem here and that is the tremendous competition for resources among our agencies. I would assume that many of your small business folk are very concerned about the other fiscal problems we have, and I think it is important for them to understand that the Patent Office is an investment that is going to be returned many fold.

And, perhaps you can use your organization to spread that message so that we can alert the Members of Congress to the seriousness of this problem.

Mr. SCHELLIN. If I might say a word to that. A coalition has been established for the Small Business Committee on innovation, which has been given a 2-year life, primarily and almost exclusively, I should say, to put into focus some of the small business innovative initiatives, some of which have been indicated by the President.

Some of which have been indicated by the Small Business Administration and some of which other people in our constituency will have done if we have brought together in this coalition people who are interested in innovation.

These are small business individual's companies. What we are trying to do and to focus along the lines that you indicated, was to obtain four to five members in each Congressional District throughout the United States. So that we can be a potent force to insure that this very area that innovation which is now being highlighted, and there is definitely an attitudinal change by—above people in the Congress as well as people in the White House that we are, and we have to move in this direction, and my people certainly want to commend you, Senator Bayh, for your great efforts on behalf of this 414, which I know is moving very nicely; on behalf of this particular legislation 1679, which is also, by the way, in S. 1860, Senator Nelson's area.

And the other initiatives that you saw are undertaking by the fact that you are holding these hearings. All of my constituency commend you very highly for this effort.

Senator BAYH. Well, thank you very much, I can't speak for my colleagues, but I know my staff and I will be glad to work with you and the other members of your association.

This is the way this whole political process is supposed to work. We have got to have those who are concerned about this problem willing to undertake the hard work of educating the Congress and the country. That is what our democratic system is all about.

Citizens have a responsibility to address their grievances to the Government, and this is a legitimate one. If we can get people to mobilize and join in this effort, we can get this job done. I hope we can count on you to continue to make that political process really work the way it ought to.

This is why I appreciate your taking the time to be here. Ms. Wyatt, I regret that you have been subjected to this kind of problem. Hopefully we can learn from what has been a rather painful lesson for you.

Ms. WYATT. I hope we can help them as soon as we can. They need help.

Senator BAYH. Thank you very much.

[Mr. Schellin's prepared statement with attachment A follows:]

PREPARED STATEMENT OF ERIC P. SCHELLIN ON BEHALF OF NATIONAL SMALL BUSINESS ASSOCIATION AND NATIONAL PATENT COUNCIL

"It is the declared policy of the Congress that the Government should aid, counsel, assist, and protect, insofar as is possible, the interests of small business concerns in order to preserve free competitive enterprise . . .". (P.L. 85-536, as amended, Section 2(a), Small Business Act.)

Mr. Chairman and members of the committee, my name is Eric Schellin. I am Chairman of the Board of Trustees of the National Small Business Association (NSB), a multi-industry trade association representing approximately 50,000 small business firms nationwide. I am also Executive Vice President of the National Patent Council, a trade association representing, generally, smaller business. These businesses comprise the entities that use and pay for the patent system.

We commend the committee for the opportunity to address the issue of diminishing reliability of the patent grant.

Some of the members of this committee have already expressed an awareness that the patent grant is unreliable as a proprietary interest, and that one contemplating a business decision is doing so with great peril if there is undue dependency on the protection that is supposed to be afforded by a patent. It has repeatedly been said that the patent grant is merely a license to sue. And an ever increasing number of suits are being brought. In a speech on September 17, 1979, before the Minnesota Patent and Trademark Association, Howard T. Markey, Chief Judge of the U.S. Court of Customs and Patent Appeals, stated that there was in 1978 a backlog of 3,789 patent cases clogging the courts. He decried that this was an increase of 18.3 percent over the year before. Studies have shown that more than 70 percent of the patents when litigated are ultimately held to be invalid. With that kind of assurance of a finding of invalidity, is it any wonder that more and more patents are litigated? It is almost foolhardy for an infringer to become a licensee requiring the payment of royalties without first testing the patent in a court proceeding.

It seems that the courts of this nation have become the true examiners of the patent grant when the invention involves an economically important matter. This kind of evolution has resulted in a de facto registration patent system as opposed to an alleged examination patent system. In the latter, a patent application is examined for novelty involving a search for prior art through at least the records of the Patent and Trademark Office (PTO). If no prior art is found, a patent may be granted. Under the former system, actually employed by many countries, the patent application is not examined for novelty and no prior art search is performed. The examiner passes the application to issue if formal grounds are satisfied. Under a registration system presumption of validity of the patent grant is not given the patent, as in the U.S. under 35 U.S.C. Sec. 282. The patent under such a system truly gives one only a license to sue. It should be obvious that as confidence in the reliability of the patent grant is eroded in the U.S. we are arriving at a system that approximates a patent registration system, as said, a de facto patent registration system. The public interest is not served in overloading the courts to undertake a task that should have been completed in the PTO.

We are faced with a number of decisions if we are to stop the further erosion of the reliability of the patent grant. The first is to put increased resources into the PTO to insure that a better novelty examination is and can be undertaken. While the small business community favors this approach as being least burdensome to it, we recognize that it may take too much money to achieve 100 percent reliability or anything approaching such a salutary position. Therefore, it may be indeed necessary to provide assistance to the PTO by a modicum of public participation. Public participation can be accomplished by providing for re-examination of patents as is here now being contemplated. Frequently, a competitor of the patentee may have access to better prior art than the PTO, because it is in the competitor's interest. Such a competitor will also be aware as to the degree of commercial significance of the patent being questioned so will control the degree of effort to be expended in challenging the patent grant. The PTO is not in a position to make economic value judgments between patent applications.

Therefore, we find salutary, the re-examination concepts found in S. 1679. The small business community heartily endorses the proposals in S. 1679 and the same proposals found in S. 1860, the "Small Business Innovation Act of 1997".

The present thrust in the direction towards adopting a patent re-examination system appears to be a culmination of steps taken along a tortuous path for a considerable period of time.

One of the most recent efforts can be found in the President's Industrial Innovation Initiatives of October 31, 1979. In the third enumerated initiative under the heading Strengthening the Patent System the President states: "I will also seek legislation to provide the Patent and Trademark Office with greater authority to re-examine patents already issued, thereby reducing the need for expensive, time-consuming litigation over the validity of a patent". It will be recalled that these announced initiatives resulted from an eighteen month long study under the style: Domestic Policy Review of Industrial Innovation.

The small business community was gratified to be asked to participate in this great undertaking. In order to assist in policy formulation we generated a report in order to be better able to present the views of small business. This report has found wide acceptance. As a result a word and picture synopsis was created which has been reproduced in the Wall Street Journal issue of November 29, 1979 and similarly in the December 3, 1979 issue of Newsweek. A photocopy of the latter is attached hereto.

As was stated, others have first found that the reliability of the patent grant is wanting and, as a result of such a conclusion have opted for a re-examination system. Witness the report of the President's Commission on the Patent System in 1966. Within the boundaries defined by the Commission, the Commission identified six objectives:

First: To raise the quality and reliability of the U.S. patent.

Fourth: To reduce the expense of obtaining and litigating a patent.

The the Commission under Recommendation XV stated that there ought to be a procedure for amending and cancelling patents that when implemented would provide "an ex parte administrative procedure in the Patent Office for cancellation of claims, which should be faster and less costly than court proceedings".

The Commission reasoned that "presently, there is no provision for the Patent Office administratively to cancel any claim in an issued patent. Even where a claim appears to be clearly unpatentable in view of newly discovered prior art, only a court can declare the claim invalid. As a result, the patent owner can continue to assert such a claim because no one is willing or able to expend the resources necessary to obtain a court decision".

RECOMMENDATION XV

The Patent Office, upon receipt of a relatively high fee, shall consider prior art of which it is apprised by a third party, when such prior art is cited and its pertinency explained in writing within a three year period after issuance of the patent. If the Patent Office then determines that a claim should not have been allowed, the patent owner shall be notified and given an opportunity ex parte both to rebut the determination and to narrow the scope of the claim. Failure to seek review, or the affirmation of the Patent Office holding, shall result in cancellation of the claim.

When the validity of a claim is in issue before both the Patent Office and a court, the tribunal where the issue was first presented shall proceed while the other shall suspend consideration, unless the court decides otherwise for good cause.

Anyone unsuccessfully seeking Patent Office cancellation of claims shall be required to pay the patent owner's reasonable cost of defending such claims, including attorney's fees. The Commissioner shall require an appropriate deposit or bond for this purpose at the start of the action.

The Commission forthrightly considered the possibility of misuse of the recommendation so that if it is implemented the Commission suggested, "to discourage harassment . . . a relatively high fee should be required. Further, the patentee's defense costs should be assessed against any party who unsuccessfully sought cancellation. To insure payment, anyone initiating such action would be required immediately to post a deposit or bond. . .".

As a unique feature of Recommendation XV the Commission stated, "In some instances, the cancellation (re-examination) proceeding would benefit even the patent owner, since he still would have an opportunity to narrow any claims found to have been erroneously allowed".

In 1967, the Patent Reform Act, essentially based on the Commission's recommendations, was drafted and submitted to Congress. Section 136 of this Bill provided for a form of re-examination. While the Bill was deemed to be too controversial, Section 136 managed to survive Congressional hearings unscathed. A re-examination section surfaced in each of two Patent Reform Bills introduced in 1969 in the 91st Congress, 1st Session; namely, S. 1569 and S. 1246.

During the occasion of taking testimony on the Patent Reform Act of 1967 before the Subcommittee on Patents, Trademarks and Copyrights of the Committee on the Judiciary, we of the small business community stated:

The quality of examination, as well as the speed of examination needs to be improved by the adoption, as soon as feasible, of whatever legislative, fiscal or administrative remedies are indicated to stop the issuance of patents that will not stand the test of litigation. It is almost more of a disservice to the individual inventor and small businessman to issue to him a worthless patent than it is to deny him a patent on a product of marginal commercial value. Admittedly this is a judgment area with many shades of gray but we believe that the scales need to be tilted towards improving the quality of issued patents.

During subsequent years numerous Patent Reform Bills were introduced, nearly all contained provisions for some form of re-examination. The most recent major proposals for re-examination surfaced in S. 2255, 94th Cong., 1st Sess., and S. 214, 94th Cong., 1st Sess. These two proposed patent reform bills differ widely in the significant respects concerning re-examination proceeding necessary to raise patent quality. They differ in the extent to which interested parties may become involved in the re-examination proceeding. S. 2255 would have permitted considerable involvement in the proceeding.

S. 214 favored less involvement by the parties. It would have allowed parties to notify the PTO of prior art not heretofore considered by the PTO and would require an explanation of the relation of such art to the patentability of the invention. If the PTO determined that a substantially new question of patentability resulted, the patentee would be notified and a re-examination of the patentability of the invention would follow. The re-examination proceeding would be identical to the original examination of the patent application, except that the patent examiner would now possess the newly cited art.

S. 1679 being discussed, finds a lineage going back several years. Therefore, it can be said to be a result of evolution and resembles somewhat the appropriate portion of S. 214. It has become obvious that it is premature to treat the patent system in its entirety and that would seem to be the rationale for taking up re-examination out of the context of complete patent reform.

We would suggest, however, that re-examination not be embraced too tightly and singlemindedly without due regard to the remaining problems. We would be horrified to find that because of a neglect of proper funding of the PTO, re-examination has become "the examination", as the PTO gives up the struggle to maintain even a minimum of prior art resource materials. In other words, achieving that ultimate denigration of the patent system as we know it by being faced with de jure patent registration system.

Having said the above by way of background we would now like to discuss a number of specifics, in our opinion, deserving of special attention:

First of all, small business is very concerned that there are assurances so that the re-examination procedure is not used as an instrument of harassment.

1. One way of preventing a series of frivolous maneuvers that may tend to show a predatory pattern, is to delete the last sentence of Section 302. Anonymity is not consonant with the American concept of openness and fair play.

2. To avoid aggressive challenges by competitors who may use re-examination procedure as an economic offensive weapon to preclude a patentee from maintaining patent protection, it should be clarified that only a person having an identifiable interest should be permitted to challenge the patent. First line of Section 302 should be amended accordingly. It should be noted that an opposer to the grant of a patent in England must have demonstrated an interest while in West Germany no such interest need be

indicated. As a result, for the period monitored, 3 percent of all U.K. patent applications were opposed while 17 percent were opposed in Germany with many patent applications being faced with multiple opposition. An appropriate interest may be developed in the legislative history of this bill. A person may be deemed to have an interest who has received a letter offering a license. The interest need not rise to a level that gives one the right to bring an action for declaratory judgment. The person may be one who is about to embark on a commercial venture but is hesitant to do so because of the existence of a patent owned by another.

3. To further ensure that only serious use will be made of the re-examination procedure, there should be an assurance that the fee called for under Section 303 is set sufficiently high to discourage the use of reexamination without good cause. A statutory fee of the order of between \$750 to \$1000 is not untoward.

4. We are pleased with Section 304 which permits the Commissioner to act as the arbiter of the art which is cited and gives the Commissioner a considerable degree of control without immediate involvement of the patentee so is able to thereby inhibit the filing of unmeritorious requests for re-examination.

5. It is noted that the proposed legislation at Section 305 takes cognizance that the proceedings "shall be conducted with special dispatch". Such language may be meaningless to the PTO and may result in difficulties for the small business person under pressure to make a decision to commit funds for a business venture. A statutory provision of a certain time period should be contemplated.

6. Under Section 306, it should be made clear that the re-examination proceeding should be conducted by senior experienced examiners. It may be expeditious to have three examiners act in concert, perhaps even to be the equivalent of a Board of Appeals.

7. It should also be contemplated that as a result of the immediately preceding suggestion, with the high caliber of a re-examination afforded if the suggestion is implemented, court review of an unfavorable decision may be sought directly without first proceeding to the internal tribunal in the PTO, i.e., the Board of Appeals. In this way, the re-examination will be handled with expedition.

8. Finally, as one more safeguard to frivolous use of the re-examination procedure, Section 308 should include appropriate language so that the challenger should be required to pay the costs of the patentee when the challenge has been unsuccessful. From the foregoing consideration of Recommendation XV, it will be recalled that this concept was recommended by the President's Commission.

Before concluding, it is submitted that frequently the patentee and an interested party engage in what is in fact an informal kind of re-examination. For instance, a patentee may call the attention of a putative infringer to a patent. Either or both of the parties will usually undertake a validity investigation of the patent. Usually, the next step will be to share the results of such a search. Each party will evaluate the results, that is, determine the validity of the patent. The putative infringer, depending on this informal re-examination, may become a licensee, if offered a license; may cease possible infringement; may take the matter into litigation or; if the patentee concludes that the patent is invalid, may drop the whole matter.

Re-examination by statute formalizes the procedure and puts the decision making process back into the PTO.

Statutory re-examination will also monitor the PTO. If the resources of the PTO are increased so that the PTO can and does undertake to do a better job in its examination, fewer patents will issue that can be attacked on the basis of art not found by the PTO, so re-examination will be used only occasionally. If the resources of the PTO are not increased and as a result the PTO grants unreliable patents, re-examinations will be employed extensively as better art is discovered by others.

In conclusion, small business supports the primary thrusts of the philosophic intent of the legislation but believes that if it is to go forward at all the position of small business must be identified in the proposed legislation. We appreciate the opportunity afforded us to present this statement.

(From the SmithKline Forum, Vol. I No. 8 December 1979)

SMALL BUSINESS, SHACKLED GIANT OF INNOVATION: A COMMENTARY: PROSPERITY IS CREATED BY THE INVENTOR AND THE ENTERPRENEUR, ERIC SCHELLIN INSISTS THAT WE TREAT THESE HEROES BETTER

(By Eric P. Schellin)

"Men have been taught that the highest virtue is not to achieve, but to give. Yet one cannot give that which has not been created. Creation comes before distribution—or there will be nothing to distribute. The need of the creator comes before the need of any possible beneficiary. Yet we are taught to admire the second-hander who dispenses gifts he has not produced above the man who made the gifts possible. We praise an act of charity; we shrug at an act of achievement."

—AYN RAND in *The Fountainhead*.

Ask people to define the American Dream. They will answer, "Opportunity." Ours is reputedly the land where a man or woman is free to go from poverty to wealth by applying effort and talent, and by taking risks.

Proprietors of small businesses have long symbolized our shared dream and made it increasingly real. But during the last decade, the dream has paled. Enterprises, especially small ones, have suffered at the hands of government.

Misunderstanding is more to be blamed than malice. Still, we are a poorer people because creativity has been thwarted, and because the contributions and the special needs of small businesses have not been recognized.

INNOVATION—A VITAL U.S. NEED

Inexpensive imports are a boon to consumers. Let's never fear the simple fact that less developed nations can deliver to us certain goods more cheaply than we ourselves can.

Let's fear only that, at the same time, we may fail to deliver to foreigners other goods of equal or greater value. If U.S. industry is unable to innovate sufficiently, to develop and employ new and more productive technologies, that failure will result. The penalties will be growing unemployment and a shrinking economic base for support of health, education, leisure in old age, or any other quality of life.

SMALL BUSINESS—THE GREAT INNOVATOR

Small businesses are powerfully innovative. They react nimbly to changing needs. Often they are headed by independent, creative people whose energy and resourcefulness put their firms at the cutting edge of competition. The facts speak:

A recent National Science Foundation study found that firms with fewer than a thousand employees have produced about 50 percent of the nation's most significant new industrial products and processes" since World War II. Firms employing fewer than a hundred people produced 24 per cent. Further, though much innovation can succeed only in large companies, the cost per innovation in small firms averages about half that in large ones.

Regarding economic growth, the House Small Business Committee stated in 1978 that small firms "accounted for . . . virtually all the new private sector employment in this country" between 1969 and 1976. Studying a number of innovative ventures founded between 1971 and 1975, the American Electronic Association revealed that for each \$100 invested by shareholders, in 1976 alone there were \$70 in foreign sales, \$15 in federal corporate taxes, \$15 in personal income taxes, and \$5 in state and local taxes.

THE POTOMAC STRANGLER

In spite of the crucial economic role of small business, it has been choked by the government. In turn, innovation and its benefits to all of us have been stifled.

Government burdens that merely damage large firms tend to overwhelm small ones. Inappropriate, heavy-handed, duplicative regulation; imprudent tax and securities policies; cumbersome, inequitable purchasing procedures; neglect of the patent system; all have led to a recent major decline of small business—its sales, its assets, its shares of many markets. Not surprisingly, the decline coin-

cides with a sharp drop in the number of U.S. patents issued to American inventors, and with an increase in the number granted to foreign inventors.

The National Small Business Association expects to reverse this situation—not out of nostalgia, but for hardheaded economic reasons.

BEFORE IT'S TOO LATE

Inflation, an unfavorable balance of trade, and the spectre of a recession demand that our government act to restore small business to health. Only by encouraging innovation that produces new products and new jobs can the U.S. restore its industry to unchallenged world leadership.

Regulation

As a first principle, small firms must be treated differently. To treat Joe's Machine Shop the same as General Motors is to treat Joe unfairly. Only big firms can hope to understand and respond to many of big government's demands as they are now expressed. The paperwork alone can be crushing. America as we know it cannot survive with only big firms. Indeed, most big firms as we know them cannot survive without their small suppliers.

Small firms now regard the government as a destructive alien power wielding unpredictable, contradictory regulations. Let's require issuance of long-range statements of regulatory intent. If two or more agencies must deal with one issue, let them coordinate and consolidate their functions.

Let's regulate results, not means. Plant effluents, for example, should be limited, but the methods not dictated. Let's encourage creative solutions.

Government control of prices and barriers to entry into markets should not be allowed. Such control is anti-innovative and anti-competitive.

Let's require study of the impact of any proposed regulation on the ability of U.S. industry to compete in world markets. Japan and West Germany are way ahead of us in this respect.

Antitrust law is meant to ensure competition, to guard against collusion and monopoly. But policies that inhibit innovation are inherently anti-competitive. Let's give small firms latitude to develop and commercialize new products and processes cooperatively.

Taxation and Investment

As a first step, our tax code needs change. It now favors consumption and discourages saving and investment, preventing the formation of capital. Let's lower capital gains tax rates. Let's reduce or eliminate taxes on personal saving. Let's end "double taxation"—taxing a company's earnings a second time when distributed to shareholders' incomes.

Let's build incentives into the tax code so that ventures involving substantial research and development—especially small, new firms—will attract investors. We should allow firms greater tax credits and deductions for expenditures on research and development (R&D). We can encourage long-term investment in new R&D-intensive firms by means of special capital gains tax rates that would decrease to zero over, say, five years.

Small, technically-oriented new firms require exceptionally talented people but often cannot pay cash "up front." Let's permit them to offer key personnel more liberal stock options that could bring patient employees large rewards later.

Let's encourage the trustees of pension and profit-sharing programs to invest some safe share of their funds in higher-risk ventures.

Federal Purchasing

Let functions rather than prescribed items characterize government bid invitations. If procurement processes are altered to allow firms to fill ordinary needs in new ways, small firms will do so.

Considering their record of innovation, it is perverse that small firms receive only 3.5 per cent of federal R&D funds. Let's give small firms a much larger share of all types of government contracts.

Technology Transfer and Patents

The U.S. patent system, intended to spur invention by protecting intellectual property and by spreading new knowledge, is not working. Information in the Patent and Trademark Office (PTO) is grossly incomplete. Thus patents, when issued, are often unreliable. As a result, a new technology may be too risky an investment.

Let's upgrade the PTO and fund it adequately. It should function like the agricultural extension services, bringing new knowledge to those who will use it, invigorating the economy.

The government holds many patents as a result of work contracted to private firms or done in national labs. Ninety per cent of the patent remain commercially undeveloped because firms cannot obtain the protection of exclusive licenses. Let's license the originator firms, or small businesses. Original public funding would be more than recovered through taxes paid by new firms, and new jobs would be created. Let's get our tax dollar's worth.

Individuals, not institutions, create. Let's devise new methods of identifying, teaching and encouraging potential innovators. Let's reward employed inventors better.

FLAMES AND FIDDLE MUSIC?

It is crucial to our present standard of living, let alone economic growth, that our advanced industrial society innovate continuously and remain advanced. Government holds the key.

As this is written, the President has not acted on the painstakingly prepared report of his Domestic Policy Review of Industrial Invention and Innovation. That report, along with recommendations from the National Small Business Association, has been on his desk since spring. It contains most of the recommendations made here and many more sound ideas for fostering a resurgence of economic strength.

If the President has now acted in concurrence with the report's basic propositions, let's all applaud him. If he has not, let's loudly ask why.

Senator BAYH. Our next witnesses are Mr. Arthur Whale, chairman of the National Council of Patent Law Associations, who also happens to be from Indianapolis, Ind., and Mr. Robert B. Benson, Chairman of the President's Domestic Policy Review Subcommittee on Patents, from Milwaukee, Wis.

It is good to have both of you here, please begin your testimony.

TESTIMONY OF ARTHUR R. WHALE, CHAIRMAN, NATIONAL COUNCIL OF PATENT LAW ASSOCIATIONS

Senator BAYH. It is good to have you with us.

Mr. WHALE. I would like to make just a brief comment about my position here. I am a past president of the American Patent Law Association and a past chairman of the patent, trademark and copyright section of the State Bar of Michigan, and currently, as you said, chairman of the National Council of Patent Law Associations.

The national council is a loose federation of local patent associations and State bar patent sections, some 44 of them throughout the country. However, our present rules do not permit representative statements for less than all of the associations. This subject has not been affirmed by all of our associations, and I therefore speak only for myself and on behalf of my company.

I do note, as everyone else has noted, that the President and others have expressed grave concern for the state of innovation in this country. I think it should also be said that it is the constitutional charter of the patent system to deal precisely with invention and innovation. It would seem, therefore, in conventional wisdom, that if the patent system is doing what it should be doing it should be kept in a high state of repair.

In connection with your earlier questions as to why these issues haven't produced the kind of public funds that would have resulted in the improvement of the patent system in the face of some obvious

deficiencies, I don't know the answer either, and I wish I did; but I have given it some thought.

It seems to me that the patent system doesn't have the public appeal of many other issues, national and international; it doesn't engage the attention of many of our legislators possibly because it functions at an early stage in our industrial economy by fostering investment in inventive efforts.

It forms the support, the basis, for the creation of jobs in companies. But, when a new plant goes up and it is based on a patented process or makes a patented product, they don't put the patent numbers on the side of the building. The fact that the patent system was instrumental in its creation is not apparent. I think those may be some of the reasons. Also, there is lack of public understanding of patents and in the fact that the patent system has a unique leverage in the economic affairs of our country that applies both to small companies and large companies, and to individual inventors.

We are all after the same thing, which is a good patent system that will enable large companies to put large amounts of money into their research and development efforts, particularly in areas of high risk technology, and that will allow the Lands and the Davises to develop and protect the Polaroid camera and the Xerox copy machines and will permit companies like Ms. Wyatt's to enter the market and prosper against competitors.

Now, I have no understanding of the problems that existed in Ms. Wyatt's situation, but I think if there was ever a panacea for some of the problems facing innovation in this country, the patent system is it. It is almost dangerous to say that, but the patent system has so many things for so many people, including the general public, that I think it is vital that its deficiencies be addressed. I think they are being addressed in this bill, S. 1679, and I support it wholeheartedly.

I think, Mr. Chairman, that you will find a large amount of support in the country for this bill in the industrial and the patent communities. I might say, in addition, that you may hear that the Patent Bar is not the one to ask as to how to remedy the deficiencies of the system—that it's like putting the fox in charge of the henhouse. But let me say that the Patent Bar is made up, in every lawsuit in which it is involved, of patent lawyers contending both for and against the patent.

So we have a unique opportunity, I think, in our particular profession, to present a balanced view to you, to the Congress, as to how the system can be improved, because we are all committed to a better system, but we are not committed to any particular side in any philosophy that would make all patents valid or all patents invalid.

I think really we are the victims of our own technology. The rate of technological progress has outrun the rate of adaptive progress in the mechanics of the patent system. We are also victims of perennial tensions between the Commerce Department and the Patent and Trademark Office. I think the Patent and Trademark Office—and all of us—are victims of undernourishment by the Congress, as the chairman has found out in earlier efforts with the PTO budget.

I think, however, that S. 1679 puts the right emphasis in the right place at the right time to redress the most significant deficiencies of

the patent system, the cost and the delays to which you referred in your introductory statement to the bill and the lack of reasonable access to the art, the prior art to which we have heard reference in connection with the Patent Office examiner's determination of patentability.

I think the cost and delays are attributable in part to matters beyond our control. For example, the Congress has said that Federal district court judges must hear criminal cases before they can hear civil cases. This puts patent cases far back on the calendars of many of our busy courts.

I think the cost and the delays which can be equated to cost fall heaviest on the small companies, like Ms. Wyatt's. Companies like mine can sustain lengthy and costly trials. We don't relish it any more than she does, and the costs, inevitably, become the cost of doing business and have to be passed along.

So, we are all after the same thing. We heard here today reference to the prior art problem, and Senator Bayh referred to it in his statement introducing the bill. I think it is significant for me to note, from my own experience in the chemical field, that while the examiner issues his action based on his search that he makes of the art available to him, and most of that art is patent art, the chemical literature, just the chemical literature, is increasing in volume more than two times every 10 years.

Now this means that when an examiner examines an application, there is an awful lot of art he does not have at his disposal. Reexamination is the only reasonable way that this art is going to be brought to the attention of the Office. It seems to me that the function of reexamination, there, is simply to put the patent to the same test it was put to when the patent was originally granted—only now against art the examiner didn't have before him initially. This will bring the presumption of validity to the same level with respect to newly cited art.

This is what S. 1679 would do. Now, Mr. Chairman, you questioned several people as to what can be done about the prior art problem. I have wondered about this for years, and I have tested the water on occasion with my personal views, but without success. I think the proliferation of technology as represented in the published literature, not only patents, creates such a problem of retrieval and, at the same time, is such a resource that there ought to be a national effort, not just for the benefit of the Patent Office, but a national effort to get hold of all of that technology out there, to make it available to industries, small and large, and to assure that we make the best utilization possible of the best technology that we have developed.

This is something we can't address in depth now, and I am out of my depth in doing more than bringing it up, but it seems that this is a national need that transcends the parochial interests of any particular agency. Of course, it would also contribute substantially to finding the art that would enable the Patent Office to issue better patents.

The information would be an invaluable contribution to, say, the work of the National Technology Information Service and other efforts which make, I think, less than effective efforts in the proliferation and utilization of technology in American industry.

Let me just make three points. Most of the profound things I was going to say have been drained away by preceding speakers, perhaps all of them, but let me make three comments.

First: I believe that there is a problem that would threaten the implementation of S. 1679. I question whether the Patent Office is able dependably to handle the added burdens that S. 1679 would place on it.

The answer is not to tinker with S. 1679, but to put the Patent Office in a position to do the job. It is essentially a funding and a staffing problem.

Mr. Chairman, I understand the examiners in the Patent Office spend between 15 and 20 hours per application, reading the case, which may go 100 pages or more, understanding it, going to the books to bring their education in the technology up to date, making their search, making the comments in the Office action to the applicants, reading the responses, preparing additional actions, and finally, determining the disposition of the case—an average of less than 20 hours. The examiner's substantive comments, I might add, are hand written, because our U.S. Patent and Trademark Office can't afford to type them.

Now, 15 years ago, they were spending 20 to 30 percent more time when the inventions were much less technical, much less time consuming in their understanding, and certainly when the art was much smaller in volume for the examiners to search.

I think, in general, the Patent Office does a remarkably good job. Once the art is before the Office, they can handle it. The Koenig survey that was referred to by one of the earlier speakers, in a selected series of patents, showed that art not cited in the Patent Office during the period of examination was involved in the decisions of invalidity in about 83 percent of the decided cases.

Once the Office gets the art, they know what to do with it. The best way of getting it to them is through the reexamination procedure outlined in this bill.

But I think much of the increased effectiveness of the Office under this bill's reexamination would depend on separating it from the Department of Commerce. I strongly support what I hope will soon be the forthcoming bill which was announced recently by the chairman to separate the Patent Office from the Department of Commerce, to free it from the administrative burdens, and to let it make its own representations for its budgets.

The second—

Senator BAYH. If I could?

Mr. WHALE. Yes.

Senator BAYH. I think a brief word of explanation might be called for on the delay for introducing my Independent Patent Office bill. We have been snared on a parliamentary precedent in the Senate where we were told the proper committee under the rules of the Senate to consider this bill would be the Governmental Affairs Committee.

We have, only yesterday, received permission from Governmental Affairs to give the Judiciary Committee a sequential referral of the bill, which is important to me, as a member of the Judiciary Committee, who wants to move this bill quickly along.

So, we are now ready to go, and I appreciate your raising that point.

Mr. WHALE. Well, I am glad to hear that. Perhaps by sequential referral you will be able to tie these bills together, at least conceptually, because I do think there is a connection in the effectiveness of the implementation of S. 1679 and the separation of the Office.

My second point is this. You may hear yet today, or certainly from other quarters on another day, that what we need is more inter partes participation in the examination procedure; that is, having more of the neighbors come in and argue with the applicant before the examiner in enlarged proceedings as to the patentability of the case.

Well, in a perfect world, the examiner would have all the art before him. In fact, the examiner is charged with having it all before him, just as the inventor is charged with knowing about all of the art from all of the places for all times.

But these are fictions, these are myths. In my statement, I refer to these myths in somewhat greater detail, but the extent of inter partes participation represented in S. 1679 is about as far as we should go, lest we get counterproductive in terms of cost and delays.

The presentation of art, the opportunities to do so by third parties and to comment on the applicant's comments, do represent inputs from interested parties and, if limited to that, would be helpful to the examiner. Beyond that, we get, in effect, a situation of paralysis by analysis if we let everybody comment repeatedly on everything the applicant says, stack their briefs alongside the applicant's, participate in appeals, et cetera.

Finally, it is important that we preserve the right to injunctive relief. There is a presumption of validity arising out of the present patent statute that says specifically that a patent shall be presumed valid.

Now, the courts say the presumption applies only with respect to art that was considered by the Patent Office. What S. 1679 would do is simply enable the same presumption to apply to newly found art. That the art was not cited earlier is not an indictment of anybody. It is just a result of the proliferation of the art and the better opportunities for people later on, who are interested in the subject matter, to find the art. This bill would enable anyone to bring it to the Patent Office and have the patent washed through the same cycle as it was with respect to the art originally considered by the Office.

I don't agree in the least that there will be a tendency on the part of examiners to whitewash the patent once they have allowed it. In reexamination, they are looking at different art, and it is not embarrassing to find that what you said when you issued the patent is right, but you didn't have all of the facts before you and now that you do, you reach a different conclusion. I see no problem there whatsoever. Also, as an administrative detail, the patent would probably be returned to a different examiner.

I think the rest of my comments are covered in my written statement. I would request permission to supplement that statement in a small detail.

I promise you that I will do what I can to see that this bill, which deserves, and, I think, enjoys wide support in the Patent Bar, is brought to the attention of others in the Congress who can help you in doing what you are trying.

Thank you very much.

Senator BAYH. Thank you very much, Mr. Whale. I appreciate your statement and welcome the opportunity to work with you, and also appreciate receiving the suggestions that you have made to improve this legislation.

I should say before we hear from Mr. Benson that he was instrumental in helping to get this legislation drafted and I am sure that he also appreciates your suggestions and the suggestions of our other witnesses designed to make S. 1679 an even better piece of legislation than it is now.

Mr. WHALE. Mr. Chairman, I might say that in my statement I have taken a few liberties to offer suggested language changes, mostly of an adjustive nature, to make sure the opportunity for preliminary injunction is preserved and to provide clarification and greater consistency.

Senator BAYH. Thank you very much.

[Mr. Whale's prepared statement follows:]

PREPARED STATEMENT OF ARTHUR R. WHALE

Mr. Chairman, I am Arthur R. Whale, Assistant Secretary and General Patent Counsel for Eli Lilly and Company of Indianapolis, Indiana. My experience and interest in patent matters has evolved through my association with Lilly and other companies over nearly twenty-five years. But my convictions about the patent system have also been broadened and in some respects tempered by work with professional associations in the practical, philosophical and legislative aspects of our patent system and how to improve it.

I am a past president of the American Patent Law Association, past chairman of the State Bar of Michigan's Patent, Trademark and Copyright Section, and I currently serve as Chairman of the National Council of Patent Law Associations. The latter is a loose federation of over forty local patent associations and patent sections of state bars throughout the country. The National Council does not permit representatives statements for fewer than all of its members and, in fact, encourages individual member expressions. I therefore present this statement as my own and only on behalf of Eli Lilly and Company.

With clarifying and adjustive amendments, I strongly support S. 1679. It addresses, in timely and thoughtful fashion, major symptomatic ills of the patent system and the concerns expressed by the President concerning the state of innovation in our country. Through S. 1679 we can make significant improvements that will reflect favorably on the functioning of the patent system, advance innovation and serve the underlying public interests.

In this statement I will present (1) a brief overall perspective of patenting, (2) three central premises I believe should be observed in considering this legislation and its implementation, and (3) a few suggested changes I believe would improve the understanding of the bill and its operation as a part of Title 35.

PERSPECTIVE OF PATENTING

With the President's recently announced concerns for the state of industrial innovation in the United States has come the recognition that the unhappy state of the patent system is a component of the problem. Innovation is the other shoe to invention, and it is the support both of invention and innovation that is the constitutional charter of the patent system. The genius of the concept of patenting is that it literally benefits everyone:

The public, through new products and alternatives.

Large business, in the protection of major investments in the riskier breakthrough-type of research.

Small companies, by encouraging investment in inventive and innovative efforts with the supposed confidence that, where its inventions are patentable, they will be protected temporarily against the larger marketing capabilities of large competitors.

Individual inventors who, without patent protection for their new ideas, would stand virtually no chance for achieving real success with a popular product in the marketplace already inhabited by corporate competitors of all sizes and capabilities.

But if the patent system is to work as it is supposed to work, it needs repair. S. 1679 addresses the two most important deficiencies that limit the practical utilization and proper functioning of the patent system: (1) the inadequacy of the examination of prior patents and publications in the U.S. Patent and Trademark Office ("PTO"), and (2) the inordinate delay and cost of resolving patent disputes.

CENTRAL PREMISE—PURPOSE OF REEXAMINATION

Below I will develop and urge as a central premise underlying S. 1679 the notion that the purpose of reexamination is simply and solely to place before the PTO patents or publications ("art") that someone believes might invalidate a patent and that were not considered by the PTO in granting the patent. The obverse of this premise is that the purpose of reexamination should not be to permit third parties to argue unpatentability in the PTO. My conclusion is that S. 1679 strikes the right balance in allowing limited participation to a degree helpful to the PTO but not counter-productive to the overall betterment of the system.

Section 282 of the patent law (Title 35) says: "A patent shall be presumed valid." But to be patentable an invention must, in addition to being useful, be new and not obvious over what has been done before in the field of the invention.

And what has been done before is contained in the world's patent and technical literature. In the chemical field alone, the technical literature more than doubles every ten years, and the proliferation in other fields is not far behind. So, the Patent and Trademark Office should have had access to and considered a monumental volume of art relevant to any given invention before it can issue a patent that is entitled to a broad statutory presumption of validity.

The patent law, in approaching the ideal and foolproof system for awarding patents, deals in myths. One myth is its reliance on what "any person skilled in the art to which the invention pertains" would consider an adequate description of how to carry out the invention. Another myth is the requirement that the PTO determine whether the invention "would have been obvious at the time the invention was made to a person having ordinary skill in the art." You can see that this is really a myth and a submyth, for it introduces the parameter of time, requiring the hindsight determination of what was ordinarily skill at some point in time past.

But the most difficult myth of all is the legal presumption that every inventor knows all the art, for all time past, from all places. This is, of course, manifestly impossible for the individual inventor, or even the inventor in the most sophisticated laboratory with the biggest library that the inventor's university or corporation can assemble. It is equally impossible for the PTO examiners to have at their disposal the art they need for a definitive assessment of patentability. So in all cases we are talking about degrees of approaching an ideal we know we can never achieve.

Once the art is by some means brought to the examiners' attention, however, he does a most commendable job in assessing its effect on patentability. Hard statistics leading to meaningful generalizations are difficult to assemble because of the differences between courts and particularly between technologies where there is great disparity in the numbers and growth rate of non-patent publications. The chemical area, for example, greatly outdistances the mechanical field in the proliferation of non-patent literature. Nevertheless, some conclusions have been reached. In a 1974 study by Koenig (*Patent Invalidity: A Statistical and Substantive Analysis*, Clark Boardman Company, page 5-51), the author found in a sample of litigated patents, in which the inventions were nearly all mechanical in nature, that "uncited patents are the most important source of new information used by the courts, being used in nineteen out of the twenty-three [83 percent] district court decisions and fifteen of the eighteen [83 percent] court of appeals decisions." This does not include scientific publications, which were not significant in Koenig's study

because of the nature of the inventions but which would be highly significant in the case of chemical patents.

The purpose of reexamination is therefore to place before the PTO art that was not before it in the original examination. Its purpose, in other words, is to test patentability against the newly cited art in the same way that patentability was assessed with respect to art originally before the PTO. Only in this way can it be logically argued that the same presumption of validity should apply to the new art. Third parties played no role in the original examination, and there is no defensible reason, in my view, why third parties should play a much different role in reexamination.

In fact, S. 1679 does provide for comments to accompany the citation of new art by a challenging third party to the patentee's statement to the examiner if the patentee still believes his invention is patentable and so argues. To this extent the bill provides inter partes participation. But this is enough. I will develop this point with some emphasis, because there have been cries in the past that inter partes examination, whether through pre-issuance or post-issuance opposition procedures, was the shibboleth that would cure all the ills of the system.

I submit that greater participation by third parties would be counterproductive. It would be counterproductive for the reason that, as noted by Senator Bayh in his introductory remarks, patent litigation is forbiddingly expensive. On the one hand, a system of reexamination as proposed here would reduce the cost of some litigation by persuading the patent owner his patent was invalid and thus end the litigation before it reached the expensive stage for both parties. On the other hand, it would add to the quality of judicial review and to its predictability, thus making it more clear whether continuation of the litigation was justified. But inordinate delays in the process of reexamination would create delays in resolution of the problem in the court; and delays equals money, lost opportunity and perpetuated uncertainty. The bill acknowledges the importance of avoiding delay. As I will discuss in the next section, a separate question is whether the PTO can handle the time schedule the bill would impose.

You may hear the argument argued that S. 1679 should be expanded to call for reexamination of issues other than art that are relevant to patentability. These might include, most prominently, the effects of prior use or sale under section 102(b) and compliance with the disclosure requirements of section 112 of Title 35. I would strongly disagree that these issues should be included in reexamination.

S. 1679 does it right, and for these reasons:

1. Allegations of prior use and sale are relatively few, as compared with questions involving the art. They are not the types of issues that benefit particularly from the expertise of the PTO examiners, for there is seldom involved the application of the "myths" referred to above and seldom a matter of technology to be considered.

2. The disclosure requirements of section 112 go to the content of the application: the adequacy of the disclosure to support what the applicant claims as his invention; the adequacy of the disclosure to teach one skilled in the art how to make and use the invention, and the inclusion of the "best mode" contemplated by the inventor for carrying out the invention. These are all matters best handled by the examiner, and, indeed, they are handled by him, because they are questions he must always resolve in his regular examination of the application as originally filed. Contributions from third parties on these issues are best heard in court, for the examiner has already addressed them.

While the statute does not specifically require disclosure to the PTO of art known to the applicant as an aid to the examiner's search and consideration, PTO rules clearly place this burden on the applicant under severe penalties for non-compliance. This is a logical response to the likelihood that the applicant is acquainted with art in his field that might bear on patentability and the desperate need of the examiner for help in finding the art. It is in alleged violation of this duty to disclose that the charge of "fraud on the Patent Office" is heard in many attacks on the validity of patents. The courts are thoroughly acquainted with the elements of fraud—much more so, in fact, than the examiner. This, too, should be left to be litigated.

From the foregoing, I suggest that there is no sound reason for the PTO to reexamine for anything other than newly-cited art, as provided in S. 1679.

CENTRAL PREMISES—ADEQUACY OF PATENT AND TRADEMARK OFFICE FUNDING AND STAFFING

Despite the well-reasoned approach of S. 1679, its benefits will not be realized if the PTO is not adequately funded and staffed to meet expeditiously the new demands of reexamination. In fact, the delays in processing referrals from the courts could add intolerably to the woes of the patent system and to the costs of litigation. I suggest that a financial impact study should be requested of the PTO in order to assess the magnitude of the new burdens realistically.

Section 251 of the patent statute provides for the reissue of "defective" patents at the sole instance of the patentee. Until recently, this section had not been construed, however, to permit consideration of patentability over newly-cited art. Now PTO rules give an opportunity to clear the air for patentees (not third parties, as in S. 1679) belatedly encountering art that should have been considered; but experience has shown that the practice under the new rules is ponderously slow. Where a court permits or requires a patentee to return to the PTO for a reissued patent the delays are running as long as two years.

If there is now imposed on the PTO such responsibilities as are contemplated by S. 1679, without more, the problems can only increase. It is possible that the present reissue practice, as extended by the PTO rules to the consideration of new art, can be abandoned in favor of reexamination under the S. 1679. But I do not believe this would give the PTO adequate relief to handle the new burdens.

The problems of PTO funding for staff and services are not for discussion here, but reflection on the capability of the PTO to assume new responsibilities leads inevitably to questions of support for the PTO within the Department of Commerce that have plagued a succession of competent commissioners. In July of this year Commissioner Banner, in office only a year, resigned and spoke vigorously of his experiences in trying to bolster deteriorating services within the PTO. I attach a copy of an address by Commissioner Banner on this subject.

I see the implementation of S. 1679 and the need for adequate PTO funding as another occasion to hope for the success of legislation announced by Senator Bayh on November 7, 1979. He referred to the introduction of a bill that would establish the PTO as a separate agency. This bill, he said, would "insure that the Patent and Trademark Office is allowed to function as efficiently as possible by extricating it from the bureaucratic red tape at the Commerce Department." I truly believe that such a move would maximize the benefits from S. 1679 and other changes essential to a properly functioning PTO.

CENTRAL PREMISE—THE NEED TO PRESERVE PRELIMINARY RELIEF UNDER S. 1679

While a patent is by statute accorded a presumption of validity, it is clear that the presumption, at least as to art not considered by the PTO is rather thin. In fact, it is common for courts to declare that there is no presumption of validity except as to art that was so considered. But to the extent the presumption does exist, or the court might be persuaded that the new art is no closer to the patented invention than art over which the patent was granted, the patent owner should be entitled to have his motion for a temporary restraining order or a preliminary injunction heard by the court.

For a research-intensive company like Lilly, the prospects of obtaining injunctive relief can be vitally important. It would, for example, make little sense for Lilly to plunge 10, 30 or 50 million dollars into a research program if, as soon as it received FDA approval to a market product that might emerge from the program, a copying competitor could conduct a dozen blood level studies to show bioavailability and appear on the market free of any research costs to recover.

About half—often more—of the life of a pharmaceutical patent on a new chemical entity is consumed in the various stages of research, development, clinical testing and the regulatory process before the product is marketed. So the existence of the patent alone is not enough. The patent must be enforceable and, to the extent the presumption of validity applies, it should be enforceable by way of preliminary relief until a court can make final disposition at trial. The dockets of many courts are so crowded with criminal cases, which must be heard ahead of civil cases under current law, that patent trials are not infrequently delayed two years and more.

To be foreclosed by statute from preliminary relief in a case of patent infringement would subtract substantially from the vitality of the patent system and would be inequitable in the extreme. It would, for example, completely vitiate the presumption of validity where it would otherwise properly apply and would.

in fact, be in direct conflict with section 282 of Title 35, where the presumption is established as part of the patent law. I am sure, however, that this was not intended in S. 1679. However, a conflict between section 309(b) and section 301(a) raises the prospect that it could happen.

Section 301(a) says the party charged with infringement "shall have the right * * * to secure a stay of all proceedings in the action * * * and to request reexamination" (emphasis added) and to have the stay "extended by further order of the court until at least 20 days after the final determination of the request for reexamination." This would seem, automatically, to eliminate the right of a patent owner to have a motion for preliminary relief considered.

But section 309(b) would confer discretion on the court to deny a request for reexamination "to be unnecessary for its adjudication of the issue of validity or infringement." A counterpart of section 309(b) and did not appear in the earlier bills (S. 4259 and S. 214 of the 93rd Congress and 95th Congress, respectively) from which the language of S. 1679 is generally drawn. It therefore appears that it was the intent in S. 1679 to afford the opportunity for temporary relief. But to effectuate this intent I suggest that section 310(b) be amended to provide that a request for reexamination would not preclude the determination of a motion for injunctive relief. This would bring sections 309 and 310 into consonance.

SUGGESTED CHANGES

For reasons of clarity and for other reasons apparent in the associated comments, I offer the following suggestions for change in the language of S. 1679:

1. Section 301: There first appears reference to "prior art patents or publications" in this section. Thereafter, what is intended to refer to the same thing appears in several different versions (e.g., "such prior art," "prior patents or publications," "patents and publications"). An expression such as "prior art," defined initially as referring to patents and publications, would forestall a purist's attempt to make something out of the differences. (I do not think it necessary to refer to the prior art of 35 U.S.C. 102, because this could get needlessly complicated.) Conformance is needed also in sections 302, 303, 304, 305, 306, 309, and 310(b).

2. Section 302: This section provides for citing references to the file of the patent in the PTO and secures the anonymity of the party making the citation. I believe it important that the patent owner know of the references cited. If, for example, the references appear to cast a cloud on the patent's validity, the patent owner should be aware of this fact, lest he unwittingly take steps to enforce or license the patent and so he can undertake repairs by himself calling for reexamination. While companies whose attorneys frequent the PTO in the course of business would have an opportunity to make periodic checks of the file, many patent owners would have no occasion to do this. They would unfairly be put to the expense of instituting this check from time to time or face the risk of not knowing that art had been found which might place their patents in jeopardy. I suggest language such as the following be added at the end of section 302: "The record owner of the patent shall be promptly notified of the prior art so cited."

3. Section 303: Here and elsewhere there is confusion in use of the terms "patentee" and "patent owner." The "patentee" is the party to whom the patent is issued, but he may or may not be the owner of the patent. In the corporate setting, for example, patents issue in the name of the inventors, who are the patentees, but ownership is usually in the corporation by operation of an assignment. Similarly, after the patent has issued the corporate owner may sell the patent to another corporation or to an individual. While the patentee may be an indispensable party for executing documents or oaths in some PTO procedures, it is the patent owner who is the real party in interest and holds the right of disposition of the patent as his property. Accordingly, in this section "patentee" on page 3, line 4, should, I suggest, read "owner of the patent appearing from the records of the Office." This language now appears in line 6, and the reference in line 6 could then be shortened to "record patent owner." For consistency, then, section 304(b), line 22, should read "record patent owner" and section 305, line 18, should read "patent owner."

4. Section 305: Lines 13-14 refer to an examination "as though the claim or claims involved were present in a pending application." The reexamination is not procedurally the same as a regular examination, for third parties may respond (i.e., lines 18-22). The ambiguity undoubtedly arises because the concept of such response was added to this bill and was not present in S. 4259 and S. 214.

in which the reexamination was the same as in a pending application. I suggest amending line 13 to read: "proceed to resolve it in accordance with this section."

5. Section 306: This section is parallel to section 252 of Title 35, which describes the effect of a reissued patent. Section 252 protects the party who has done certain things in reliance on the patent as issued by giving him "intervening rights". Its premise is that such party should not be injured by a belated change in the claims of the patent that suddenly makes him an infringer, although he didn't infringe a valid claim of the original patent. This section comes primarily into play when the scope of the patent claim is enlarged by reissue, as is appropriate under some circumstances. Section 306, of course, does not permit enlarging the scope of a claim. But even narrowed claims (on reexamination) can raise a question of intervening rights. For example, in chemical practice a generic claim might cover a large number of individual compounds, including compound *x*. There is, let us say, no specific claim directed to compound *x* alone in the original patent.

Through reexamination is determined that the generic claim is too broad. It is cancelled, but a specific claim to compound *x* is introduced (it having been adequately disclosed in the patent's specification, thereby avoiding the objection that compound *x* represents "new matter"). The reexamined patent then contains a claim not appearing in the original patent. May one making and selling compound *x* prior to reexamination continue doing so? In reissue practice he would, on a literal reading, be entitled to continue (i.e., he would have intervening rights arising from his prior activities). However, section 252 permits the courts latitude in deciding the question as the equities might dictate. To resolve any doubt, section 305 at its end could be amended to read, in language tracking section 252: "The right of any person or his successors in business who made, purchased or used prior to the certification of a reexamined patent anything patented by the reexamined patent to continue such activities shall be determined under the provisions of section 252."

6. Section 309(b): Consistent with the discussion on page 12 et seq. concerning injunctive relief, I suggest adding at the end of this section: " , or its disposition of a motion for injunctive relief."

7. Section 310(a): To conform this section to section 309(b), as amended above, and to accommodate this important point without conflict or ambiguity, I suggest adding the following at the end of the section 310(a): " , provided, however, that a request for reexamination shall not preclude determination of a motion for injunctive relief under section 309."

8. Section 310: The opening sentence of section 310(a) would permit any party charged with infringement to have "not less than four months" to search the art and request reexamination. The indefiniteness of the time period could admit of undue delay in bringing the patent to reexamination. I suggest line 7 be amended by substituting "more" for "less," thereby requiring that the searching and the request for reexamination be accomplished in not "more" than four months. This should be ample time and would not introduce possible inequities for one party or the other.

9. Section 310(a): The opening sentence would permit any party charged with infringement to avail himself of the four-month period alluded to above. This would properly apply where the party charged is a defendant in a suit for infringement brought by the patent owner and the defendant wished to challenge validity of the patent. But what if the party charged is a *plaintiff* bringing a suit for a declaratory judgment that the patent is invalid? The patent owner, then, is the defendant. It seems to me the patent owner should not have to wait four months (or more) for reexamination when the declaratory judgment plaintiff, as indicated by his suit, has already done his searching and concluded the patent was invalid. The period for searching would not be needed by the plaintiff and could be inequitable to the defendant patent owner. I suggest, in line 1, changing "party" to "defendant," and striking in lines 3-4 the words "or for adjudication of the validity of a patent." Section 310(a) would then, in its first four lines, read as follows: "(a) Any defendant to a civil action against whom a pleading presents a claim for infringement shall have the right, by motion brought . . ."

In summary, I support this bill as a clear forward step in meeting the needs you have highlighted in your introductory remarks. I have suggested amendments which I believe are entirely consistent with the bill's objectives and which I intend as constructive. One of the most important features of the bill is its bal-

anced approach between getting newly-found art before the PTO, providing for examination of entitlement to the patent in its present or amended form by the same standards and agency examining the original claims, and as nearly as possible achieving the same presumption of validity with respect to the new art as applies to the art originally cited—all without introducing ponderous procedures by which third parties can create added delays and costs.

We seek improvement, realizing that we cannot achieve perfection and cannot push one desirable goal at the expense of others. If the time and cost factors were not important, reexamination or other forms of pre- or post-issuance procedures could be designed to give greater assurance of validity; but time and cost are vital parts of the equation.

Patents obtained by fraudulent means through misrepresentation, concealment or other misdeeds should be struck down without question, and the courts are competent to deal with such matters. In the vast majority of cases the invalidity of a patent arises from honest mistakes or the simple discovery of art not earlier found. These patents, too, should be arrested or narrowed to proper scope. But invalid patents are too often equated with an ill-gained advantage conferred on the patent owner at the expense of the public. I suggest, somewhat at the risk of being misunderstood, that this is not necessarily true.

It can't be denied that a plant built, people employed and products marketed on the basis of a patent that might, by the most rigorous, costly and time-consuming procedures, be found invalid has probably contributed more to the public good than would have the public's knowledge that the patent was invalid and that everyone was free to use it. The likely consequence would be a lack of interest by anyone—as in the case of the 27,000 Government-owned patents that amount to a veritable cemetery of patents. My point is in reply to those who would place counterproductive emphasis on procedures to give the highest possible assurance of detecting invalid patents. Though we want valid patents, the pursuit should not obscure the purpose. And the purpose of patents is to provide incentives to invest in the making of inventions and innovations—or, as the Constitution says, "to promote progress in the useful arts."

ARTHUR R. WHALE.

NOVEMBER 30, 1979.

Senator BAYH. Mr. Benson, you have had a very important role as the chairman of President Carter's Domestic Policy Review on Industrial Innovation's Subcommittee on Patent and Information Policy. We are glad to have you here with us.

TESTIMONY OF ROBERT B. BENSON, CHAIRMAN, PRESIDENT CARTER'S DOMESTIC POLICY REVIEW'S SUBCOMMITTEE ON PATENTS

Mr. BENSON. I thank you, Senator. I too, would like to have my written statement entered into the record. You would find it very repetitious of what you have already heard.

I will focus on just two areas. One is the Domestic Policy Review, and the other is the origin of the legislation.

As to the Domestic Policy Review, I would just like to read one thing out of our report:

The Patent Subcommittee of this group concluded that the one overriding concern of the users of the patent system was the lack of quality and reliability of the patent grant. And that this lack of confidence in the patent system is having a negative impact not only on investments in research and development, but on investments needed to bring promising patented products to the market.

Let me give you some examples of things that came up during our study. People would say that the issuance of a patent under today's condition is a cruel hoax. You really are not getting what the Government says that they are giving to you. You are not getting an exclusive right.

Another quote :

Getting a patent today is an invitation to participate in a one-quarter million dollar law suit and nothing more.

I was with a banker in Milwaukee and I told him what I was doing, and he said, "You know, Bob, things have changed in the last 20 years. Twenty years ago an inventor would come in here with a patent asking for a loan and we would give it to him, and we don't do it any more." This is a sad commentary on the stature of the U.S. patent system.

As a result of our investigation, our No. 1 recommendation was the overall upgrading of the Patent and Trademark Office. Our No. 2 recommendation was reexamination of patents.

And I would like to just mention something in that connection with corporate spending decisions. Corporations are run by professional managers in most instances and their performance is measured just like everybody else, by a board of directors or some other corporate officer. What the corporate managers put in a profit column is a very significant factor in the evaluation of their performance. Since they only have so much money to spend, and they are going to spend it where they get the greatest return.

And the climate for investing the research and development and new product development is not as attractive today as it was years ago because of this perceived unreliability of the patent grant.

We think, and it came out very clearly in our committee, that there is a correlation between the decline in our country's technological leadership position in the world and this lack of confidence in the patent grant in the United States.

We now see that the technological leadership in certain areas has transferred from the United States to foreign countries within the last few years. In certain areas of technology, something like 90 percent of the U.S. patents are being issued to foreigners.

We see this as a result of the decline in innovation and feel very strongly that something should be done. Reexamination of patents is one of the ways to reestablish confidence in the patent system which will help to turn this situation around.

As to the origin of the bill. You asked why this legislation hadn't been proposed earlier. There are a number of reasons. In 1973, when this problem was presented to a committee of the American Bar Association, there was a great deal of patent reform legislation being proposed. But most of it was focused on a fix of the present system. In other words, how do we do it better within the context of the present system?

The other was, how do we get better access to the prior art? Opposition type proceedings were suggested. We looked at this and the reason that it was difficult to propose that kind of legislation, is that anyone who has any experience with opposition proceedings or third party proceedings in foreign countries, knew that they can be used to harass the inventor ad infinitum.

There are many cases in foreign countries where opposition proceedings are held and they go over and over the same issues to the point where the patent doesn't actually issue until the term has expired.

We were concerned about that kind of harassment in the United States. It would not be acceptable here. So we concluded two things.

Number one is that no examination system, no matter how elaborate was really going to find all of the prior art during the examination phase. We need help from the general public, and the general public was in a position to give us that help, because when a patent is asserted there are very extensive private investigations of the prior art. Thousands of hours may be spent on such searches.

We had to find a way to take advantage of the information which was being generated. And we figured the way to do that was to insist that the party challenging a patent had to bring this new prior art back to the Patent Office and give the Patent Office a chance to review it before they could use it in court to challenge the patent.

Now, if Ms. Wyatt had this kind of a procedure available to her, she would not have had to go through court proceedings which required a year or so of time before she finally got down to the issue of whether or not her patent really was valid.

The other thing that happens in this procedure is that it gives the Patent Office the opportunity to more accurately define the invention. The whole purpose of the patent grant is to define accurately the scope of protection that the inventor is legitimately entitled to have.

If you miss the art the first go-around under present conditions, there is not really much you can do about it except go back in for a reissue. Under the proposed system you go back to the Patent Office and define the invention more accurately. The proposed system will upgrade the quality and reliability of all commercially important patents, and in our opinion will have the net effect of improving the reliability of the entire patent system.

The beauty of the system is that it takes the strong points of the two institutes that review patents—the Patent Office and the courts—and makes the most efficient use of both.

The examiners in the Patent Office are excellent at reviewing printed publications and prior art and in defining inventions. The district court judges' expertise lies in the evaluation of evidence.

So by going back and using the Patent Office to get a more accurate definition of the invention and then going to the courts avoids duplications of effort and you come out with a maximum utilization of these skills.

I just would like to mention in summary the advantages that we see of the proposed reexamination system. No. 1, few patents, if any, would ever come up for adjudication without a very strong presumption of validity.

This is because the patent claims would more accurately define the proper scope of the invention. Patents that should not have been issued in the first place will not require adjudication in the courts, because the invalid claims will be canceled during the reexamination procedure.

In patent cases, the judges will no longer have to function as a patent examiner in the first instance. They will not have to review patents without the benefit of a highly qualified opinion from the technically trained personnel in the Patent Office.

Another feature, litigation will be eliminated in many cases by going back to the Patent Office and either having claims canceled or by

more accurately defining the claims, people will be more inclined to resolve their disputes short of litigation. Furthermore, it will focus the court's attention, when patents do get into litigation, on a very clear, accurate definition of the invention.

We think that reexamination will be selective by nature, because the only people who are likely to seek reexamination are people who are involved in commercially valuable patents. People who want to use the patented invention.

We worked into the system what I consider to be adequate safeguards to avoid harassment, although we certainly would listen to what Eric and some of the other speakers have recommended. One of the safeguards is that reexamination can only be requested on the basis of patents and publications that weren't previously considered by the Patent Office. Another is that the Commissioner has to be convinced that the new patents or publications create a new issue of patentability so that he isn't just automatically going to order reexamination and let the patentee be harassed.

And, third, the party requesting the reexamination should be charged an appropriate fee that not only recoups the cost for the Patent Office, but is set high enough to prevent frivolous use of the system.

In summary, the patent reexamination proposal of this bill is a simple, inexpensive procedure that could significantly improve the quality of commercially important patents.

The procedure can be conducted expeditiously and funded entirely by the parties requesting the examination. In addition, the implementation of this system would have a major impact in reducing and controlling the amount and cost of patent litigation, and should provide a significant impetus for additional investment in industrial innovation in the United States.

Thank you.

Senator BAYH. Thank you very much.

When did you finish the work on the Domestic Policy Review?

Mr. BENSON. Our particular advisory committee submitted its final report in February of this year. We were informed that it would be an ongoing function and that when the President finally got around to making his recommendations that we would be called back in for some kind of a critique and perhaps some further work at that time.

It is interesting to note that the—our committee did pretty well in this Domestic Policy Review. Of our basic recommendations, the President agreed with upgrading of the Patent Office.

On reexamination, he specifically agreed with us. On a single court of appeals for patent cases he specifically agreed with us. On getting the rights to the 27,000 Government patents which aren't being used into the hands of somebody in the private sector who would use them, he went along with us a little bit, not to the extent that we would have liked.

But, in general, we did all right.

Senator BAYH. Then, apparently somebody is listening?

Mr. BENSON. In the 25 years that I have been practicing patent law, I have never seen a more receptive climate in Government for listening to the problems of the patent system.

I think that the decline in industrial innovation, the decline in productivity, the fact that the balance of payments in manufactured goods, which are the things that we do best, went from a positive \$6 or \$8 billion a couple of years ago to a negative \$6 or \$8 billion in a space of a few years, has focused attention on the problem of innovations and—we have got to do something in this country to reignite the spirit of innovation in an industry.

Senator BAYH. Well, I hope so. There is certainly good reason for acting forcefully now. It doesn't do us much good to say why didn't we do it sooner. We can only start now. That is what we are all trying to do with this bill, and I appreciate your helping us.

We have fallen behind Japan and Germany in increased productivity and we are now falling behind almost every other industrialized Western nation. We simply cannot afford to sit by and watch this sort of trend develop and worsen.

You mentioned the clogged court dockets; the increase in number of patent suits that have been filed, I think someone mentioned an 18-percent increase in 1 year.

Mr. BENSON. I think that was Mr. Schellin.

Senator BAYH. Yes, I think he referred to the load on the court. What do you think the attitude of the courts will be to this kind of reexamination? Will the judge welcome it and use it to lessen their case loads? Will this, indeed, help to expedite the case load and remove some of the backlogs?

Mr. BENSON. In my opinion, it would be a rare judge who will not utilize the opportunity to have a complicated technical matter reviewed by the Patent Office.

Most judges, as you know, are not technically trained, and I personally think it is unfortunate that judges ever have to deal with a patent case without having the benefit of the opinion and the analysis that has taken place in the Patent Office by people who are technically trained and particularly skilled in that area.

So, I personally think that, yes, it would be widely used and the Government would welcome it. The few judges I have talked to and written to about it back in 1974, when we were originally formulating this proposal, indicated a very favorable reaction to seeing to it that all of the prior art was considered by the Patent Office before they got it. This is not to say that they would automatically agree with the evaluation of the Patent Office.

Today there are still patents that are declared invalid over art considered by the Patent Office, but it is a much smaller percentage.

Senator BAYH. Most of the judges I have had a chance to talk to do not look forward to sitting on cases like this because I think they feel a sense of insecurity ruling on these very technical questions. They simply do not enjoy being in a position that they are not trained to fulfill. I would be glad to have your observations on this.

Mr. Whale, I wish you would comment on this. I just look at this from a shirttail lawyer's perspective here, as one who has not had very much experience in the practice of law, let alone the sophisticated kind of law that patents and trademarks involves.

If you look at the cost of this litigation, from the bar's standpoint, this represents millions of dollars in income, and I guess in the back

of my mind that having the patent bar go on record supporting something that is going to reduce this income is almost a declaration against interest.

Why is it that the Patent bar is out here saying "OK, let's simplify the system, let's cut out all this litigation, let's, in essence, take away some pretty good cases from some pretty good clients."

That is certainly inconsistent to the casual peruser of the question. What is the thought behind it?

Mr. WHALE. Well, I think the answer is that there is always some uncertainty in a patent's worth. In my statement I refer to another point, that the invention has to be described in terms that one skilled in the art can understand. It has to be not obvious to one skilled in the art at the same time the invention was made—unobvious in view of what has gone on before. This involves highly subjective determinations by the courts.

In my experience the element of uncertainty is so great that it is a rare, good, honest litigating lawyer who doesn't see a substantial chance, partly depending on the particular court he is in, that he is going to get beat.

The litigating lawyers I have been associated with are genuinely interested in getting these matters resolved with a minimum involvement in the litigating process, and we corporate lawyers who pay the bills are interested in the same thing.

It may be almost too good to be true, but these guys are supporters of the patent system, and they know that when they go to court and they strike down a patent, that means they have exposed a vulnerability or a weakness in the patent system, and it is the patent system out of which they make their living contending both for and against patents.

I find it a pleasing acronymism, too, that this should be the case, but I am proud that is. Also—

Senator BAYH. That is like a plaintiff's attorney supporting no-fault insurance.

Mr. WHALE. Yes, except—

Senator BAYH. I mean you don't expect this sort of support.

Mr. WHALE. That is right. You don't find in the patent business the division between plaintiff's and defendant's patent lawyers that you do with, say, no-fault insurance cases.

An attorney may be one time for the patent and another time against the patent. But I think it does take restraint and understanding and commitment to take the supporting positions they do with respect to this legislation. Mr. Dunner, for example, is in private practice and president of the American Patent Law Association. It is also a function, I think, of the high technology involved and, perhaps, the relatively few people who can handle it. And this reflects again on what Mr. Benson was saying—courts, many of them, are reluctant to undertake these determinations with their limited background in technology, and many of them have said so in no uncertain terms.

I find no distinction in the support of the patent system and the effort to make it understandable and workable for small businesses and individual inventors between large companies and their corporate lawyers, on the one hand, and private practitioners, who represent all sizes of clients, on the other.

Whether that same holds true with reference to this particular issue of reexamination, I don't know. A litigating lawyer hates to be foreclosed from raising issues before the court, where he might make a better case or a better showing than he could make in the Patent Office, where he doesn't have an opportunity to participate fully. But, ultimately, he is going to have that opportunity under your bill and I think he will generally support it for the larger good. I wish I had a better explanation for it, but I think it is a fortuitous situation.

Mr. BENSON. I'll try a different explanation. Whether they are litigators or no, the clients of patent attorneys are the users of the patent system. If the system goes to pot, there isn't going to be any patent litigation. So we have to listen to the people who use the system and the patent lawyers are listening to the people who use the system.

They are well aware that today there are many, many litigable issues sitting around in corporate patent departments that are not being pursued because of the cost of litigation. As times goes on and this gets worse, then the system is likely to dry up.

The other thing is that almost everybody in the patent profession works both sides of the street. We are defendants one day, we are plaintiffs the next day, and so we are not looking for a system that favors one side or the other. When you get right down to it, all of us as lawyers or officers of the court are looking for a better judicial system. I don't think, even the fellows that are using discovery as it is used today, really are doing it because they think that is a good thing to do. The rules permit it and they play by the rules. But we are all looking for a better way so that we can concentrate our efforts on legitimate, litigable issues and not peripheral items. Reexamination is going to help to do that, and I think the responsible members of the bar are in favor of that.

Senator BAYH. Well, it is very encouraging, I must say, from one who still looks to the legal profession as a vehicle for social change and social consciousness, to see this kind of responsible attention to the patent system and to a problem that I think goes beyond the pecuniary interest involved. I salute all of you.

You are in a corporate practice representing a major company that is active in a particular area. Now, when you have to go through one of these torturous cases costing \$200,000, \$250,000, or \$300,000 in litigating expenses, how is that expense borne by a corporation like Eli Lilly?

Mr. WHALE. First we get the tax consequences that were mentioned earlier. But, inevitably, as a cost of business it tends to be passed along to the consumer. There is no other way to keep the house going.

Senator BAYH. It increases the cost of the product?

Mr. WHALE. Yes; and in a competitive environment we are not interested in doing that.

Senator BAYH. Gentlemen, I appreciate your being here. I hope we can continue to work with you. I thank you very much.

[Mr. Benson's prepared statement follows:]

PREPARED STATEMENT OF ROBERT B. BENSON

My name is Robert B. Benson of Milwaukee, Wisconsin. I have been practicing Patent Law for over 25 years. I am the Immediate Past President of the Patent,

Trademark & Copyright Law Section of the American Bar Association and during the last year I served as Chairman of the Advisory Subcommittee on Patents of the President's Domestic Policy Review on Industrial Innovation. I have also been active in other Bar associations as set forth in the attached biographical sketch.

Beginning in the mid 1960's, the United States patent system has been severely criticized because of the high percentage of litigated patents held invalid by the courts and the high cost of patent litigation. As a result of these conditions there has developed lack of confidence in United States patents and a corresponding reduction in research and development and capital investments to bring promising patented products to the market. Because of this climate, the United States began to lose its worldwide technological leadership. This trend has continued and now we find that the technological leadership in many high technology areas has been transferred from the United States to foreign countries. Last year over 36 percent of the United States patents were issued to foreigners and in some high technology classifications in the Patent and Trademark Office over 90 percent of the patents belong to foreigners.

In 1966, President Johnson commissioned a comprehensive study of our patent system to bring forth recommendations to improve our patent system. Among the recommendations of that commission were proposals for improving the quality and reliability of U.S. patents permitting members of the public to cite pertinent prior art to the Patent and Trademark Office during the examination of patent applications.

President Carter in 1979 expressing concern about the decline in industrial innovation in the United States ordered a high level Domestic Policy Review of Industrial Innovation. Other 100 lawyers, research directors, inventors and other people from the private sector participated in and other people from the private sector participated in this study as an advisory committee. The patent subcommittee of that group (which I chaired) concluded that one overriding concern of the users of the patent system was the lack of quality and reliability of the patent grant and that this lack of confidence in the patent system was having a negative impact not only on investment in research and development but on investments needed to bring promising patented products to the market. Our committee also noted that the decline in industrial innovation contributed to the declining rate of productivity in the United States and our balance of payments for manufactured goods. During the last few years the United States has seen a drastic shift from a substantial positive balance of payments to a significant negative balance of payments in manufactured goods.

The reexamination procedure set forth in S. 1679 is intended to substantially improve the quality and reliability of U.S. patents and reduce the amount and scope of patent litigation so that industry and the public in general will regain confidence in the patent system and thereby encourage greater investment in innovation. However, it is not intended to be a substitution for the present examination system which performs an extremely important function of initially defining the rights of inventors to their patentable invention.

At the time that a patent application is being initially examined, the primary interest in the scope of the resultant patent claims resides with the inventor (or his assignee) and the Patent and Trademark Office. Generally, the mutual efforts of these parties are quite effective in locating the pertinent prior art and applying it to determine the scope of patent protection appropriate to the invention. A very high percentage of the granted patents, as issued, afford an excellent basis for a preliminary business decision, as for example, a decision to expend money on production and sales facilities. In general, the majority of patents granted under the present system afford a good statement of the rights of the inventor based on the prior art found and considered during the prosecution of the application.

Only a small percentage of patents are actually litigated and of those that are litigated, very few are found to be invalid over patents considered by the Patent and Trademark Office during the prosecution of the patent application. The Patent Office does an excellent job in examining a patent application when it has all of the most relevant prior art before it for review. Unfortunately, the Patent and Trademark Office does not always have all of the pertinent prior art before it when examining patent applications. This has resulted in patents being challenged in court on the basis of patents and publications that were not considered by the Patent and Trademark Office during the prosecution of the

patent application. A relatively high percent of the patents thus challenged have been declared invalid by the courts. These results have encouraged further challenges of patents on this basis leading to a great deal of expensive and protracted patent litigation. Reports of these cases have precipitated charges questioning the reliability of all patents being granted which in turn has resulted in a decrease in confidence in the patent system itself.

In 1974 this problem together with a number of proposals for revision of the Patent Law was presented to a committee of the Patent, Trademark & Commission Law Section of the American Bar Association that I chaired. Our committee concluded that the most significant problem with our patent system was the failure of the Patent Office to have before it all of the pertinent prior art at the time of examining patent applications. We further concluded that no patent examination system, no matter how elaborate, would be able to find all of the prior art for all of the applications filed during the examination stage. This is because all of the technical publications in the world (and there are literally millions of them) constitute prior art and there are hundreds of thousands of documents being added to this library every year. The problem cannot be overcome by the Patent Office alone even with the advances in technology such as computerized searching. We then concluded that some form of assistance from the public was needed to assist the Patent & Trademark Office to gain access to the pertinent prior art so that they can do a better job of examining patents.

After a patent has issued, it may be investigated by a potential user or asserted against an infringer. When either of these events occur, extensive searches are conducted worldwide by interested parties. If new prior art patents and publications are found during the search, they may be used as evidence against the patent in court. In such cases the court is asked to act as a patent examiner and invalidate the patent without the benefit of an opinion of the Patent Office on the new prior art being assessed. One solution to this problem, we thought, was to adopt a procedure designed to assure that all prior art publications and patents relevant to commercially important patents are considered by the Patent Office before that patent is litigated. In developing such a solution we looked at what was being done in all of the other patent offices in the world and found that the only economically sound system to achieve our goal is to provide a means for the public to participate to some degree in the examination process. To avoid the pitfalls that have occurred in other patent examining systems that permit the public to participate, we carefully drafted protective provisions to assure that the procedures adopted would not allow harassment of inventors or escalate costs to the point where the independent inventors and small corporations would be driven away from use of the patent system.

Our specific proposal to solve this problem was to retain the present examination system but (a) permit anyone to request reexamination of a patent at any time while it is still enforceable, based on newly discovered publications and patents not previously considered by the Patent Office and (b) prohibit the use of newly discovered patents or publications in court to invalidate a patent unless the newly discovered patent or publication has been considered by the Patent Office. This latter is a key provision, because it would require a defendant to use the reexamination procedure for an initial appraisal of newly discovered prior art he plans to later assert in court to be more pertinent than the art previously considered by the Patent Office. This proposal would upgrade the Patent Office examination to the level where we would all like to see it; that is, the examiner would have the opportunity to evaluate all the pertinent prior art patents and publications.

The essence of the proposed system is to enable anyone to cite new prior art patents and publications to the Patent Office that are pertinent to any patent at any time during the lifetime of the patent. The Patent Office may then order reexamination of the patent which could result in the revision of the claim to more accurately define the invention. It could also result in the cancellation of claims which were improperly issued in the first instance. The procedures used in reexamination will be almost identical to the procedures presently in effect in the Patent Office for the initial examination of patent applications. Therefore, very little substantive change in the patent law will be required to implement the proposed reexamination procedure.

In general, the party requesting the reexamination would have the burden of convincing the Commissioner of Patents that a new question of patentability has been raised by applying the newly found patents and publications to the claims

of the patent he wants reexamined. The Commissioner will review the newly discovered patents and publications cited and the statements set forth by the party requesting reexamination, and must find that a "new question of patentability" has been created by the newly cited prior art before ordering a reexamination.

The reexamination, once ordered, will be conducted like an original examination in the Patent Office, and the patentee will be permitted to amend his patent by narrowing or canceling claims to avoid the newly cited prior art. If any claim of the patent is finally rejected during reexamination, the patent owner can appeal, just as he could have appealed a final rejection when his application was originally examined. Upon completion of the proceeding, the patent will be confirmed or corrected in accordance with established Patent Office Rules. In effect, the proposed system utilizes existing procedures in the Patent Office for examining patent applications except that the party requesting reexamination has the right to submit written comments on the action of the examiner in applying the newly cited patents and publications to the patent claims.

To assure that a defendant would have ample opportunity to present newly discovered prior art to the Patent Office so it could be used later in the district court proceedings, S. 1679 provides that the court shall issue a short stay of the proceedings to enable either party to request that the Patent Office initiate a reexamination proceeding. There is also an exception to the requirement that the prior art be initially considered by the Patent and Trademark Office where the court concludes that such initial consideration by the Patent and Trademark Office is unnecessary for its adjudication of the issue of validity or infringement. In addition, provisions are made for the use of newly discovered evidence which by due diligence could not have been considered and cited to by the Patent Office. These provisions have been provided to avoid inequity being imposed on either party to a patent dispute.

The reexamination procedure of S. 1679 has many advantages:

1. Few patents, if any, will come to the courts for adjudication without a strong presumption of validity, and the claims in reexamined patents will more accurately reflect the protection to which the invention is truly entitled. This will greatly improve the quality and the reliability of commercially important patents.

2. The patents which would not have been issued if the examiner had known of prior art found later, will not require adjudication by the courts because the invalid claims will be canceled as a result of the reexamination.

3. In all patent cases the district court judges will have the benefit of having all prior art patents and publications reviewed by the technically trained Patent Office personnel before these patents and publications are asserted in court to invalidate the patent. This should help the judges make better decisions in patent litigation.

4. Litigation involving reexamined patents will be avoided in many instances, because the claims in important patents reexamined by the Patent Office will be canceled, confirmed or amended to more accurately define the scope of protection to which the patent is entitled, thereby enabling issues to be resolved in many cases without need of litigation.

5. It is expected that reexamination will only be requested for commercially important patents. Hence, the reexamination procedure is inherently selective and will have a minimal financial and manpower impact on the Patent Office when compared to the additional, complex examining procedures called for in past patent reform bills.

We are aware that opposition and other third party proceedings in foreign countries are frequently used to harass patent owners and competitors. However, because of the following safeguards in the proposed reexamination procedure, it is unlikely that there will be any substantial amount of harassment:

1. Reexamination can only be requested on the basis of publications and patents not previously considered by the Patent Office.

2. The Commissioner must find that a "new question of patentability" has been created by the newly cited patents and publications before ordering a reexamination.

3. The party requesting the reexamination will be charged an appropriate fee which can be designed to recover all of the Patent Office expense and can be set high enough to deter frivolous requests for reexamination.

In summary, I believe that the proposed reexamination procedure will result in more accurately defining the legitimate scope of protection to which any

potentially controversial patents are entitled, thereby increasing the credibility of the entire patent system. The reexamination procedure will eliminate the present practice of having district court judges function as patent examiners, and will return them to their traditional role of determining validity and infringement of patents after having the benefit of a skilled, independent, technical appraisal of the pertinency of all published prior art relative to the claimed invention by the Patent Office.

The opposition raised by some people relative to "the large number of invalid patents being issued" is blunted because everyone has an uncomplicated, inexpensive, easily accessible procedure to attempt to challenge the validity and scope of such patents at any time during the period that the patent is enforceable.

The patent reexamination proposal of S. 1679 is a simple inexpensive procedure that could significantly improve the quality of commercially important patents. The procedure can be conducted expeditiously and funded entirely by the parties requesting such an examination. In addition, the implementation of this system could have a major impact in reducing and controlling the amount and cost of patent litigation and should provide a significant impetus for additional investment in industrial innovation in the United States.

Senator BAYH. The next witness is Mr. Edward S. Irons. He is an attorney here with Irons and Sears in Washington.

Mr. Irons, I appreciate your taking the time to be here with us and share your expertise.

**TESTIMONY OF EDWARD S. IRONS, ATTORNEY, IRONS & SEARS
WASHINGTON, D.C.**

Mr. IRONS. Mr. Chairman, I appreciate the opportunity to be here and if my statement may be filed, I will assure you that I will finish in the 10 minutes you have allotted.

Senator BAYH. You may take what time is necessary to do the job. Thank you.

Mr. IRONS. Thank you.

The problem which there is a consensus on is that the patents which come out of the Patent Office are largely invalidated by the courts, 50 to 60 or 75 percent thereof, depending on what statistics you read.

The reason, which is addressed in the bill, is that the inadequate search by the Patent Office in the first place is responsible. That is half of the problem. The other half of the problem is the Patent Office doesn't apply the art that it does to find properly. It therefore issues patents which it should never issue in the first place because they do not represent a sufficient technical contribution to warrant the monopoly which is asked for.

Now, I want to discuss exceedingly briefly both of these issues. The discussion which was had with respect to the FunnelcaP Co., I believe, affords an excellent basis for this. I want to address first this business of inadequate search. What you have been told, I think, repeatedly by almost everyone who has been here this morning is essentially two things. Yes, the root problem is to get a good original search. We must do it. It is essential.

But then what you were also told is that effective, I am quoting now from Mr. Dunner's statement—"effective initial examination by the Patent and Trademark Office was absolutely essential to the proper functioning of the patent system." I couldn't agree more. But he goes

on. "However, there is no financially feasible method to make absolutely certain that the initial examination," unquote, will be thorough.

Now, I suggest to you that this is an erroneous premise, that there is a totally financially feasible method to do it. Not surprisingly. Mr. Dunner's statement, like most of the others, is phrased in this context in absolutes. He speaks about "absolutely certain." Few things in this life are absolutely certain. The proposed reexamination procedure, of course, is not.

I have just said there are some ways to do this, and I want to tell you what I had in mind when I said that. Who is a patent applicant? A patent applicant is a person with an idea, a concept, let's call it an invention. What does he want? He wants to go to the Patent Office and be granted a monopoly for 17 years. You asked Mr. Whale who paid for litigation. I will suggest that the public pays for the monopoly the patentee gets. So one way or another the public is going to pay.

What does the applicant have to do to get this patent? First, what the law says now, he must disclose it and explain it in his patent application. That is fine. Does he have to make a search of the prior art? Does he have to prove to the Patent Office that he is entitled to this monopoly that he wants? No, he doesn't. He has to do nothing of that kind. If he knows of an item of prior art he has to tell the Patent Office about it, but there is no obligation whatever on him to make a search in the first place. He can throw his patent application in the Patent Office and say, All right, fellows, good luck. You go back to these 22 million or however many. Mr. Banner said, documents and look.

Now, I have a suggestion. Why don't we put into the law in the context of the original examination that as a part of what you file with your patent application you also warrant and represent that you have caused a reasonable search to be made and that the results of that search are hereby made of record? This is the way to get the prior art before the Patent Office in the first place.

Now, what you are going to be told by the people who rebut my position is, "Oh, well, that costs too much. We shouldn't ask applicants to do that." Again, we are going to be dealing in extremes, like individual inventors, et cetera. I suggest to you, Mr. Chairman, that the \$1,500 that they want to pay for re-examination farther down the line is probably all a pre-filing search is going to cost. But let's suppose it costs \$3,000 or \$5,000, it is an awfully good insurance policy against what you have been told is a \$250,000 lawsuit down the line. If it could be done this way the Patent Office would not need 25 to 100 new examiners. It would not have to take over, if you will, what is now the function of the courts.

I would like to address what really happened in the context of FunnelcaP. What happened in the context of FunnelcaP was that the applicant went into the Patent Office and filed an application for this funnel that fits on the top of an oilcan. The claims were rather broad. The examiner rejected them several times. Patent finally issued, as No. 3,750,722—copy attached, exhibit A—and this is a drawing of it. What finally resulted in getting it allowed was not just the whole assembly of the funnel and oilcan. It was the recitation in the claimer of two plastic flanges at the bottom of the funnel that clamped onto

the rim of the oilcan in the first place, with a little bump to make it a bit more secure.

The claim of the patent is very long and very involved and the Patent Office finally capitulated and issued a patent on that narrow claim.¹ May I hand this drawing up?

Senator BAYH. Yes, you may.

Mr. IRONS. Very good.

Senator BAYH. Please proceed.

Mr. IRONS. I appreciate the opportunity to be here. I want to continue substantively from where I was. The drawing has been sent down to the second floor to be copied. I want to continue to discuss the ways in which I would suggest that this initial examination be made effective so that the basic need, which has been espoused for re-examination, should disappear or largely disappear.

Senator BAYH. Can you pull that microphone a little closer? Some of the folks in the back are having trouble hearing you.

Mr. IRONS. Mr. Chairman, in your comments when S. 1679 was introduced, you said, quote, "countries such as Japan and West Germany are renowned for the strength of their patent systems," end of quote. I think it is interesting to look at why. One of the reasons why is they have a very rigorous ex parte examination and the second, and I think quite important reason why, is that in both of those countries before the Patent Office issues the claims of the potential patent are published and the public is permitted to oppose the grant of the patent.

The result is that the prior art is brought to the attention of the Patent Office during that phase and before the patent issues so defective patents don't get out in the first place. Again I would like to suggest, particularly since Germany and Japan are quite properly used as examples, and we want the strength in our patents that they have in theirs, why don't we emulate them. And once again, because it has already been said here, you are going to be told it costs too much.

Again, it seems to me that a person who wants a monopoly to enforce against the public ought to be able to pay the price to be sure that what he gets is something that he is entitled to.

A final point on this particular aspect of the matter. I am sympathetic with the Commissioner's problems, with the way the system now operates. I might say that I have been 30 years at the patent bar, primarily as what one of the gentlemen referred to as a litigator, and I have a great deal of understanding of the problems which the Patent Office faces. But one of the problems which it faces is that its examiners work on quota systems and they are restricted on how much time they can spend on any particular application and their advancement and promotions, if you will, pay raises, depend on how many actions they get out within a defined time.

If these constraints were removed, we would have better examinations to begin with. All of this brings me back to FunnelcaP, because,

¹ A copy of the record of the prosecution before the Patent Office of the application for patent 3,750,722 is attached, exhibit B.

As the prosecution record shows, patent 3,750,722 was not granted until a single claim reciting six elements (a) through (f) was presented for examination. The device found noninfringing eliminated one of those elements. Hence, FunnelcaP is in the awkward position of contending that it has somehow been abused because the court correctly found that the alleged infringer eliminated a feature essential to patentability in the first place.

quite frankly, I think, Mr. Chairman, your committee is faced with a lot of glittering generalities and very few hard facts.

One of the hard facts that has been established here this morning has been, in part, in the context at FunnelcaP, and I want to come back to that, and I want to look at what happened to FunnelcaP in the courts. What happened to FunnelCaP in the court was two things. First, the case was tried in Delaware, not California, and it was tried before one of the better judges that hears patent cases, Judge Stapleton. He is a very good judge.

After the trial was over, he held the patent invalid on two grounds. One ground was anticipation, and if that technical word is not meaningful to you, it means there is a patent in the prior art which disclosed exactly what that patent claimed. There was nothing new. What was that patent? Its number is not important but what is important is it didn't come from some abstruse place. It wouldn't have been infeasible, economically, to locate it by a reasonable search. You would find it at the beginning if the search had been made. It was just laying around in the proper subclass in the Patent Office.

The rest of what Judge Stapleton found was even if it were not anticipated, it is obvious over two or three other readily available patents.¹

I quite agree and I very much sympathize with FunnelcaP.

What was said is true. The patent system failed. It failed on two grounds. It failed because it didn't do a proper search in the first place and it failed because, with the art it did have, it didn't reject that application and thereby subjected these people to the horror story of believing they had something when any—I would like to suggest—responsible lawyer looking at it would be convinced that they did not.

I have only two concluding comments which I want to make. One of them is that I have talked about invention standards which may be a little bit unclear, patentability standards. In this country, as in everyplace else in the world that has a patent system, the first thing you have to have to get a patent is something new. But newness is not enough. There has to be a level of scientific contribution which is beyond the ordinary. The word in the statute is "unobvious".

There has been a war between the Patent Office and the courts for 30 years. I know from personal experience. It was about the magnitude of this quantum of difference between what is old and what is new requisite to justify a patent monopoly. The Patent Office has always said virtually nothing more than mere novelty is required. Just let it have something that is different from what is old and another invalid patent will be granted.

That is one thing that happened to FunnelcaP because when they finally put a claim in that recited a little plastic bump on the clamp they got their patent.

The Supreme Court in 1966 said there is a dichotomy between the judicial standard and the Patent Office standard and that is why these patents get invalidated when they go to court. They are judged by the wrong standard in the first place, and there is nothing in the bill, with respect, to correct that.

¹ See *FunnelcaP, Inc. v. Orton Industries, Inc.*, 192 U.S.P.Q. 517 (D.C. Del. 1976), copy attached, exhibit C.

Now, there is one other point that I would like to make. There has been a great deal of talk about speedy justice for a modest fee. I want to address briefly why the fee is modest. The fee is "modest" because the type of proceeding which is contemplated does not permit a full development of a record by depositions and by evidence of the level of skill in the art, to afford the proper determination of whether what is claimed really is a meritorious invention or whether it is not.

That concludes my statement.

Senator BAYH. Mr. Irons, I appreciate your taking time to be here with us. Basically what you are suggesting, I guess, is that there be a rather thorough examination before the patent is issued, and that the cost of that search be borne by the individual that wants the patent. In other words, the sole responsibility is on the person who applies for the patent?

Mr. IRONS. With one qualification I wouldn't say so. He has the duty to make the search and report the search to the Office. I think the Patent Office may have a duty to go ahead and continue and make another search if it wants to or finds it necessary.

I am only qualifying what you said by eliminating "sole".

Senator BAYH. Why?

Mr. IRONS. Well, the Patent Office still is supposed to be the guardian of the public interest and stand behind the person who wants the patent and the public and it may feel dissatisfied with the search which the patent applicant made and wants to make its own. I think it should be free to do it.

Senator BAYH. I see little to be gained for the public if the Patent Office has to go ahead and make the search anyway. Why then put the burden on the inventor, the applicant, to make the cursory search?

Mr. IRONS. If we could back it up to square one, the problem that the bill addresses is an inadequate original search, resulting in a patent of poor quality. It is said that the search files are incomplete, that the examiner can't find the references, et cetera. I am saying, well, any patent applicant, because he wants a monopoly to enforce against the public, could be asked to make his own search, to do a good job of it, and to report the full result of it to the Patent Office and that way, I suggest, the problem of inadequate search is largely eliminated. I think, frankly, that such a search would also serve to eliminate the filing of a lot of rather trivial patent applications in the first place and reduce the burden on the Patent Office. Having gone this far, I don't think the examiner, and I am talking about options now, I don't think the examiner should be forced to say, OK, I just accept this at face value. I accept that you made a good search and so I therefore disclaim any prerogative to make any further search. I think he should have the right to make a further search if he wants to make it.

Senator BAYH. How do we get around this, the question of obviousness? I don't look at it quite as easily as you do. When you have somebody like Thomas Edison who was one of the greatest geniuses we have ever had in this country or any country, who said it never ceased to amaze him after he started to make money from an idea that took him years of hard work to discover, that inevitably someone said the idea was obvious, although no one else had even thought of it until Edison.

Mr. IRONS. I think the Congress has already done what it can do, a

good job, by saying in the statute, which is 103, that the question of obviousness is supposed to be judged in light of the state of the art, quote, "when the invention was made".

Now, I cannot, because all of us are human, suggest to you that you can write all hindsight out of the minds of the judiciary or the patent examiners who may consciously or subconsciously be influenced by something that happened post-filing, but nothing, I think, can be done to insure against hindsight because of the absolute fact that you just mentioned. You are going to have to adjudicate validity after the invention, not before. You can't produce somebody whose mind is totally foreclosed from everything that happened in the last 5 years. Such people don't exist. So you have to trust our judges and our patent examiners to do the best they can to be objective in that sense.

Senator BAYH. How many patents are there now?

Mr. IRONS. Well, it is over 4 million. Of course, that is a little unfair. One-half of them or a little more, two-thirds of them, are already expired.

Senator BAYH. So put it at 2 million. Suppose we apply your standard now, putting the small burden on the applicant. What do we do about the validity of all those patents that are already granted? Isn't that a pretty good reason to have a reexamination?

Mr. IRONS. Well, it might be a pretty good argument. *Prima facie*, it might be a pretty good reason to have a reexamination of all patents already issued.¹ But one of the other people testified that we have to start fixing it now if we are going to start at all. If we start now with what we are doing and put the burden on the applicant, who gets the benefit of the monopoly, and I might say that 90 percent of these applicants are corporations who can well afford it, we won't have this problem in the future.

I agree with you because there is no point in arguing it. What I have suggested is not going to do anything for patents that are already issued.

Senator BAYH. Well, I appreciate very much, Mr. Irons, your taking the time to be with us. We will explore carefully what you have said and take it into consideration.

Mr. IRONS. Thank you. My underlying suggestion is to examine very carefully your premises that this legislation is based on. I think you will find them a little hard to justify on careful analysis.

Senator BAYH. Are there others who share your assessment?

Mr. IRONS. There are. But I quite concede that at least this morning I am in a minority of about 10 or 11.

Senator BAYH. Well, you are the only one that has expressed that opinion, which doesn't mean it isn't right and doesn't mean there aren't others out there who share it, but if there are, I wish they would let us hear from them so we can explore their thinking as well as your own.

Mr. IRONS. May I say that you would be willing to hear from people who feel as I do?

¹The "2,000,000" issued patents premise is inapposite. Many of the patents have expired. More to the point, only 0.11 percent of patents are litigated; as to the remaining 99.89 percent of issued patents, "re-examination" is irrelevant. See the "Patent and Trademark Office Study of Court Determinations of Patent Validity/Invalidity, 1973-1977" published Nov. 1, 1979.

Senator BAYH. Yes, indeed.

Mr. IRONS. I would be glad to do it.

Senator BAYH. Thank you very much.

[Mr. Irons' prepared statement and exhibits A, B, and C follow:]

PREPARED STATEMENT OF EDWARD S. IRONS

INTRODUCTION

This statement examines the premises which underpin S. 1679. It suggests that these premises are dubious in light of all of the relevant considerations and hence that S. 1679 should not be enacted.

THE CASE FOR REEXAMINATION

The central premise of the case for reexamination is that "uncertainty over the validity of issued U.S. patents" is evidenced by an inordinately high rate of invalidation by the Federal Courts. This allegedly high patent mortality rate is attributed solely to incomplete Patent and Trademark Office (PTO) "search files," said to be consequent from "underfunding".

The postulated evils of "uncertainty" are many. It is said to be a "direct contributor to our lagging rates of innovation and productivity" and to pose the "threat of long court challenges . . . especially serious to small business which simply does not have the resources to defend their patents".

The promise of S. 1679 is to correct these postulated evils by providing reexamination as "an inexpensive alternative to costly legal actions".

The reexamination alternative to court litigation is said to afford "speedy justice" at a "modest fee" because the PTO "has the expertise to evaluate the complex materials used in patent cases"—indeed, that its "examiners are the best trained people to decide these questions".

DUBOIS PREMISES

The "uncertainty" premise said to justify S. 1679 is demonstratively invalid. "Uncertainty", *vel non*, is a synthetic issue. The most recent validity statistics published by the PTO as a result of a "study," which the agency says is "far more comprehensive and accurate than studies heretofore undertaken," report a "rate of patent invalidity of approximately 55 percent,"¹ *i.e.*, "virtually the same outcome as in other fields of litigation such as wills, land titles and contracts. . . ."² The proponents of reexamination advance no reason why patent owners should have any greater "certainty" of success in validity cases than the plaintiffs in other types of litigation. Nevertheless, the objective of the sponsors of S. 1679 is "75 percent of issued patents sustainable in the Courts".³

In fact, S. 1679 does not even represent a logical straightforward approach to the problem of "uncertainty" due to incomplete PTO "search files" it purports to address. Surely, the most straightforward and effective way to deal with that problem is to insure that the PTO "search files" are complete and that the initial examination of all patent applications is thorough, thus providing the high quality, original patent product to which the public and the patentees alike are entitled.

Because "reexamination" is not a rational solution to the problem it purports to address, the ultimate objective of S. 1679—*i.e.*, Patent Office reexamination in lieu of validity litigation in the Federal Courts—must have a far different and, as yet unacknowledged, objective.

¹ 455 P.T.C.J., page D-2 (Nov. 22, 1979).

² Draft report, Advisory Subcommittee on Patent and Information Policy of the Advisory Committee on Industrial Innovation, p. 3.

³ The American Patent Law Association's "Performance Specifications for the Patent System" specify "75 percent of issued patents sustainable in the courts." Statement of Tom Arnold, president, American Patent Law Association before the Subcommittee on Commerce, Science and Transportation, U.S. Senate, July 27, 1979, reprinted Am.Pat.L.A.Bull. 494 (September 1979).

THE PTO/FEDERAL COURT PATENTABILITY STANDARD DICHOTOMY

The root cause for the high mortality rate of litigated patents is not an inadequate search before the patent issues, but instead the sharp dichotomy between the low standard (degree of technical contribution) accepted by the PTO as adequate to warrant the grant of a patent monopoly and the much higher standard enforced by the courts in validity cases.

In 1966, the Supreme Court emphasized, again, that "[i]t is the duty of the Commissioner of Patents and the Courts in the administration of the patent system to give effect to the Constitutional standard by proper application in each case of the statutory scheme of the Congress". The Court thereafter "observed a notorious difference between the standards applied by the Patent Office and the courts" and admonished that "there is compelling reason for the Commissioner to adhere to the 1952 act as interpreted here. This would, we believe, . . . bring about a closer concurrence between administrative and judicial precedents."⁴

The patent commissioners, however, have abjured that admonition. Indeed, "[s]ympathy for inventors, the ex parte nature of the examination process and a heavy workload have caused the Patent Office to apply a standard of invention approaching mere novelty."⁵

The unsurprising and unacceptable result, of course, is that most of the shabby patents now mass produced by the PTO must be invalidated when judicially scrutinized.

The unacknowledged, true objective of reexamination thus stands exposed—i.e., to renounce the "duty of the Commissioner . . . to give effect to the Constitutional standard" and invert the Supreme Court's admonition in *Graham*, supra, by effectively reducing the judicial patentability standard to the low PTO level which the Court rejected.⁶

"UNDERFUNDING" AND "SPEEDY JUSTICE" FOR A "MODEST FEE"

According to the proponents of S. 1679, the incomplete "search files" are a consequence of "underfunding" the PTO.

In 1977, the Patent Office arrogated unto itself, by the pretext of regulations insecurely posited on the reissue statute (35 U.S.C. § 251), the "reexamination" of issued patents in much the same way as now contemplated by S. 1679. The resulting flood of "reissue" applications now numbers in the hundreds. Assistant Commissioner Tegtmeier has reported that, in the two and one-half years that the reexamination rule has been in effect, the number of reissue applications has nearly doubled,⁷ further reducing the resources available for processing original applications.⁸

The commitment of a greater share of avowedly scarce examining resources to tardy quasi-judicial reexaminations seems destined to deteriorate even further the quality of initial Patent Office examinations. At a time when "the Patent and Trademark Office is limping along with a budget that is sharply decreasing its productivity and frustrating its attempts to innovate,"⁹ it is regrettable that so much of its current effort should be expended on a reexamination scheme of dubious legality.

One certain result, if S. 1679 is enacted, is an emotional plea for additional funds necessary to discharge the reexamination function. Thus, the cost of the validity determination will be shifted via reexamination from the patent owner,

⁴ *Graham v. John Deere*, 383 U.S. 1, 6, 19 (1966).

⁵ Marquis, "Improving the Quality Control for Patents," 59 Minn.L.Rev. 67, 104 (1974).

⁶ In consequence, inter alia, of the enhanced presumption of administrative correctness (validity—see 35 U.S.C. § 282) consequent from a second consideration by the PTO.

⁷ Tegtmeier, "Current and Proposed Patent Examining Practices," Address to the Conference on the Patent and Trademark Office, June 12, 1979, reported in 434 P.T.C.J., p. A-5 (June 21, 1979). The number of reissues filed annually has risen from approximately 400 before 1977 to about 750 today. Though representing less than 1 percent of total patent applications, reissues require a disproportionate amount of the examiner's time because of their more inter partes nature.

⁸ With no apparent reference to this consequence of its questionable reexamination procedures, the PTO has importuned Congress to appropriate funds requisite to prevent an alleged "PTO budget catastrophe" which, it is said, will render the "PTO impotent to carry out its congressionally mandated functions" by "increasingly underfunding the time and quality of original patent application examination." Am.Pat.L.A.Bull. 196-97 (May-June 1979).

⁹ 434 P.T.C.J., p. A-2 (June 21, 1979).

who alone benefits by it, to the taxpaying public. In blunt terms, the postulated "modest fee" is an illusion.

Nor is reexamination "speedy". The long delays which attend the present PTO reexamination procedures are well known and will continue regardless of the degree to which the agency subordinates its duty properly to examine original patent applications to an arrogation of the function of the Federal Courts.

"THREAT . . . TO SMALL BUSINESS"

The potential "threat . . . to small business" is addressed solely in the context of patent owners who attempt to exploit their private monopolies. The other half of "small business"—the half that must pay tribute to or, in the alternative, contest patents asserted against it—is ignored.

At the outset, the plea of "uncertainty" as to validity consequent from failure of the PTO to consider relevant prior art rings particularly hollow when advanced by or on behalf of any patent owner. After all, the means to avoid any such uncertainty is readily available to all small business which procures its own patents.

More than a decade ago in *Graham*, supra, the Supreme Court adverted to the "simple expedient of conducting a patent search—a prudent and nowadays common preliminary to well organized research."¹⁰ In February of 1977, "to improve the quality and reliability of issued patents by strengthening the patent examining procedures," the Commissioner promulgated two important changes in the Patent Office Rules of Practice. Amended 37 C.F.R. § 1.56 "defines the duty to disclose information to the Office and the criteria for striking an application when that duty is violated". "Where there is a substantial likelihood that a reasonable examiner would consider it important in deciding whether or not to allow the application to issue as a patent," the duty of disclosure requires that information, including prior art, known to the inventor or his counsel must be submitted to the patent examiner.

Amended 37 C.F.R. §§ 1.97, 1.98 and 1.99 "deal with prior art statements and provide a mechanism by which patent applicants may discharge the duty of disclosure". These rules provide that the "statement will be construed as a representation that the prior art listed includes what the submitter considers to be the closest prior art of which he is aware".

Hence, if the patent research, which prudence demands, is conducted by the patent owner and the duty of disclosure honored by the filing of a candid prior art statement in accordance with the existing rules of the Patent Office, there is no validity to the "incomplete search" pretext for imposing "reexamination" on an already overburdened administrative agency.

Surely the cost of an adequate initial search by the patent applicant is a modest price to pay for insurance against any "threat of long court challenges" alleged to cost "more than \$250,000.00" which, it is said, "hangs like a sword over important small business patents".

And, in this context, the reason for the "strength of [the] patent system" of "countries such as Japan and West Germany" is significant. Both countries subject patent applications to an extremely rigorous initial ex parte examination. Both countries follow up with an opportunity for inter partes opposition by any member of the public before granting the contemplated patent. These procedures find no counterpart in the secret, ex parte process by which patents are procured in this country—and which the proponents of reexamination insist upon perpetuating.

In practical fact, small business will be seriously prejudiced if S. 1679 becomes law.

The competent lawyer now knows that in most cases, he can give a confident opinion as to the validity of most patents.

Since 1835 the statutes have required that patents include claims which precisely define the monopoly.¹¹ Such claims are "a statutory requirement prescribed for the very purpose of making the patentee define precisely what his invention is . . ." ¹² so that members of the public may know what they are

¹⁰*Graham v. John Deere Co.*, 383 U.S. 1, 36 (1966).

¹¹The presently effective statute, 35 U.S.C. § 112 (1952), provides, in part: The specification shall conclude with one or more claims particularly pointing out and distinctly claiming the subject matter which the applicant regards as his invention. . . .

¹²*White v. Dunbar*, 119 U.S. 47, 51-52 (1886).

prohibited from doing during the existence of the monopoly,¹³ and what they have acquired for free use when the patent expires.

The statute seeks to guard against unreasonable advantages to the patentee and disadvantages to others arising from uncertainty as to their rights. . . .¹⁴

A zone of uncertainty which enterprise and experimentation may enter only at the risk of infringement claims would discourage invention only a little less than unequivocal foreclosure of the field.¹⁵

Heretofore, the precision in claims required by the statute afforded a fixed definition of the monopolized subject matter against which the prior art could be measured. That certainty as to the monopolized subject matter, coupled with the Constitutional patentability standard as applied by the courts, now provides a solid foundation for principled opinions concerning the scope and validity of issued patents.

Both of these essential parameters will, if S. 1679 is enacted, be vitiated. The claim of an issued patent would no longer be fixed, but instead, ephemeral, always subject to changes in ways which could not be predicted—and the controlling validity standard, at best, will be indeterminate.¹⁶

No reasonably well-informed lawyer would, therefore, be able to advise his client that any patent was invalid. In short, "uncertainty" will be exacerbated—not reduced—by reexamination. It is important for small businessmen even more than businessmen to be able to obtain expeditious and confident legal advice on the validity and scope of issued patents. Many important decisions of small businessmen as to whether or not to invest in product lines new to them, but ostensibly blocked by patents that seem to define little in the way of technical advance, rest almost exclusively on the abilities of legal advisers to advise definitely as to whether the apparently blocking patent or patents are invalid.

Removal of that certainty—and it has recently been attenuated to an alarming degree by the nonstatutory "reissue" practice under 37 C.F.R. § 1.175—will greatly reduce the investment options of small businessmen.

By contrast, very few business decisions—especially of small business—really turn on whether a contemplated new product is patented to that business or, if it is, on whether the patent is valid. The concern in small business is that a competitor, large or small, and particularly an aggressive, unreasonable litigious competitor, not be awarded a patent that will interfere with the operation of the business. This concern will not and cannot be served by a "reexamination" procedure which will predictably result in pronouncing most patents, however trivial, valid, or that will allow competitors to rewrite patent claims in unforeseeable ways or otherwise adversely affect the ability of the small businessman to obtain authoritative and reliable legal advice as a basis for investment decisions.

"LAGGING RATES OF PRODUCTIVITY AND INNOVATION"

No scintilla of hard evidence is available to show that the "uncertainty" as to the validity of issued patents has any significant relationship to the "lagging rates of productivity and innovation" in this country.

The evidence which is available is sharply to the contrary. It shows that the primary problem is excessive government regulation of industry, and that patents, at best, are a poor eighth in significance.¹⁷

Weidenbaum, in the treatise entitled "The Future of Business Regulation,"¹⁸ states that:

"The rapid expansion of government regulation of business is also slowing down the rate of innovation and scientific progress in the United States. . . .

"One harmful but overlooked effect of government regulation is a reduced rate of introduction of new products and improved production processes. The

¹³ *Brooks v. Fiske*, 36 U.S. 212, 215 (1853).

¹⁴ *General Electric Co. v. Wabash Appliance Corp.*, 304 U.S. 364, 368-369 (1938).

¹⁵ *United Carbon Co. v. Benney Smith & Co.*, 317 U.S. 228, 236 (1942).

¹⁶ Because of the reexamination procedure now proceeding under the guise of "reissue" pursuant to 37 C.F.R. § 1.175, the "unreasonable advantage to the patentee and disadvantage to others arising from uncertainty of their rights" which it is the very purpose of § 112 to "guard against" is already rampant.

¹⁷ See exhibit 1 which is taken from the National Science Board's annual report for 1976 entitled "Science at the Bicentennial—A Report from the Research Community" which lists the responses of 45 presidents and 75 vice presidents or directors of R. & D. to a letter inquiry.

¹⁸ AMACOM, 135 West 50th St., New York, N.Y. (1979).

longer it takes for an innovation to be approved by a government agency—or the more costly the approval procedures—the less likely it is that the new product or process will be introduced. In any event, innovation will be delayed. As William Carey of the American Association for the Advancement of Science has stated, "Government may imagine that it is neutral toward the rate and quality of technological risk-taking, but it is not . . . Regulatory policies aimed at the public interest rarely consider impacts on innovation." (pages 25-26; footnote omitted)

Respectfully submitted,

EDWARD S. IRONS,
Irons and Sears.

WASHINGTON, D.C.

EXHIBIT 1

TABLE VI.—LEADING ISSUES AS REPORTED BY INDUSTRY RESPONDENTS

	Order of frequency of mention by—		
	All respondents	Presidents	Vice presidents and directors of P. & D.
Government regulations and controls (unreasonable, not thought out, no cost/benefit/risk analysis).....	1	1	1
Absence of national science and technology policy, priorities or goals.....	2	2	4
Near-term relevance is, only research objective (due to government regulations or decentralization of research to profit centers).....	3	-----	2
General economic conditions, particularly inflation in salaries and laboratory costs, lead to decreases in fundamental research in industry.....	4	3	5
Low public confidence in and/or poor image of science, technology, research or scientists.....	4	6	3
Lack of availability of money, low profitability or obstacles to capital formation lead to decreases in fundamental research in industry.....	6	4	8
Concern over general decrease in fundamental and other research in industry.....	6	5	7
Deteriorating patent protection or patent policy is a disincentive to industrial research and innovation.....	8	-----	5
Too few/too many scientific and technical personnel—no match with need—lack of national policy on scientific and technical personnel.....	9	-----	8
Competing P. & D. functions (e.g., applied research or development in response to Government regulations) decrease fundamental research in industry.....	10	-----	10
Concern about quality of new people—best are not entering science and engineering or, if they do, are kept for university.....	10	-----	10
Concern whether other sectors will compensate for decrease in industrial fundamental research.....	-----	-----	10
Fundamental research in industry has become too risky and has reduced future payoff.....	-----	-----	10
Concern over low public confidence in and poor image of industrial corporations.....	-----	6	-----

Source: National Science Foundation.

222-570.

SR

8-7-73

XR.

3,750,722

EXHIBIT A**United States Patent** [19][11] **3,750,722**

Nowak

[45] **Aug. 7, 1973**

[54] FÜNNEL	3,490,501	1/1970	Manem et al.	141/331
[76] Inventor: Roger L. Nowak, 262 W. Boylston St., West Boylston, Mass.	1,337,558	4/1920	King	141/332
	3,201,015	8/1965	Wagaman	141/332

[22] Filed: May 7, 1971

[21] Appl. No.: 141,135

Primary Examiner—Houston S. Bell, Jr.
 Attorney—Norman S. Blodgett

[52] U.S. Cl. 141/332, 141/327, 141/333, 222/570

[51] Int. Cl. B65b 39/06

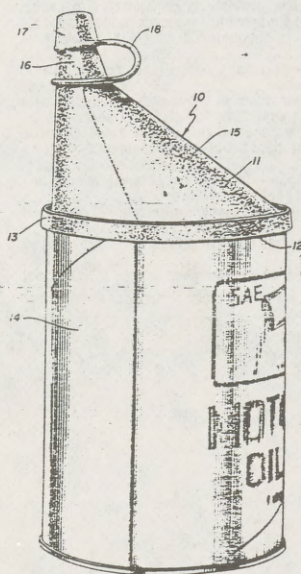
[58] Field of Search 141/331-335, 392, 327; 285/178, 331, 423, 238, 260; 29/453; 4/206; 222/570

[57] **ABSTRACT**

A funnel having a flange adapted to fit around the periphery of a can and having its small end offset from the large end to assist in pouring.

[56] **References Cited****UNITED STATES PATENTS**

3,289,218 12/1966 Mehilos 4/206

1 Claim, 2 Drawing Figures

PATENTED AUG 7 1973

3,750,722

FIG. 1

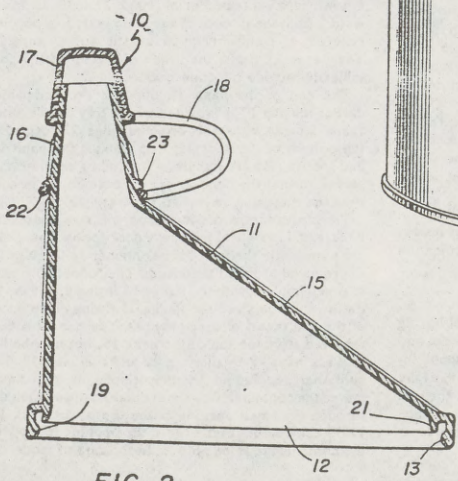
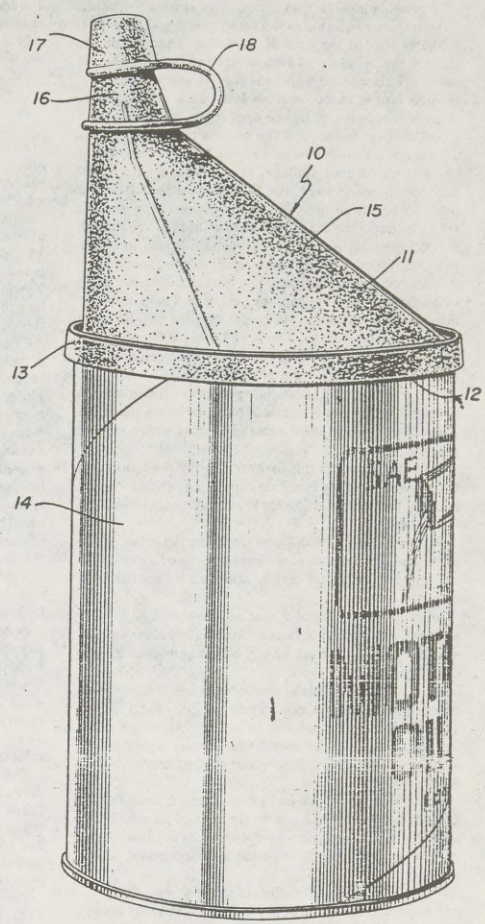


FIG. 2

ROGER L. NOWAK
INVENTOR.

BY
Roger S. Blodgett
ATTORNEY

3,750,722

1

FUNNEL

BACKGROUND OF THE INVENTION

In pouring liquids from a can, it is extremely difficult to introduce the liquid into a small opening. This is particularly true in the case of the introduction of motor oil into the oil sump of an internal combustion engine. Although it is common practice to use a conically-shaped funnel to accomplish this, there are many instances where the entrance opening is located in such a way that the funnel and the can containing the motor oil cannot be maneuvered to introduce motor oil into the engine without spillage. In addition, where a viscous motor oil is used, the funnel must be left in the opening to which the oil is to be poured long enough for all of the oil to drain from the surfaces of the funnel; this is necessary not only to save oil, but also to insure that the funnel does not deposit oil in the place where it is stored. In many cases, the funnel sits in the body of oil during this last drainage period and, when it is removed, there is still a substantial amount of oil to drip in the place of storage. These and other difficulties experienced with the prior art devices have been obviated in a novel manner by the present invention.

It is, therefore, an outstanding object of the invention to provide a funnel which is capable of being placed in a liquid-tight manner on a can of a liquid which is to be poured.

Another object of this invention is the provision of a funnel which serves in a dual capacity as an assistant to pouring and a protection for the top of the oil can from dust and dirt.

A further object of the present invention is the provision of a funnel which snaps onto the top of a can of liquid and which can be readily removed without the use of tools.

It is another object of the instant invention to provide a funnel which may be stored immediately after use and which permits run-back of any oil that clings to its surface into the can.

A still further object of the invention is the provision of a funnel formed to extend into hard-to-reach places.

It is a further object of the invention to provide a funnel which may also be used under certain conditions as a dipper for assisting in the removal of old motor oil from an engine.

It is a still further object of the present invention to provide a funnel which can be simply and inexpensively manufactured from non-corrosive material and which is capable of a long life of useful service without deterioration.

With these and other objects in view, as will be apparent to those skilled in the art, the invention resides in the combination of parts set forth in the specification and covered by the claims appended hereto.

SUMMARY OF THE INVENTION

In general, the invention consists of a funnel having a hollow main body formed of an elastomer plastic and having an opening at one end. A flange extends inwardly from the main body around the periphery of the opening, the flange being adapted to envelope the end of a container. The main body has an inclined surface that can be pressed to lift a portion of the flange from the container.

2

BRIEF DESCRIPTION OF THE DRAWINGS

The character of the invention, however, may be best understood by reference to one of its structural forms, as illustrated by the accompanying drawings, in which: FIG. 1 is a perspective view of a funnel embodying the principles of the present invention, and FIG. 2 is a vertical sectional view of the funnel.

DESCRIPTION OF THE PREFERRED EMBODIMENT

Referring first to FIG. 1, which best shows the general features of the invention, the funnel, indicated generally by the reference numeral 10, is shown as having a hollow main body 11 formed of an elastomer plastic, such as linear polyethylene, and having an opening 12 at one end. The flange 13 extends from the main body 11 around the periphery of the opening 12, the flange being adapted to envelope the end of a container 14. The main body 11 has an inclined surface 15 that can be pressed to lift a portion of the flange from the container.

The main body 11 has a neck 16 located a substantial distance away from the said opening 12 and having a secondary opening of smaller size than the said opening 12. A cap 17 is provided to fit on the neck 16 and is connected to the main body by a flexible band 18. The main body 11 has the general shape of a surface connecting a large circle to a small circle parallel to and spaced from the large circle with its center displaced laterally a substantial distance from the center of the large circle. More specifically, the periphery of the small circle is substantially tangential to the projection of the large circle onto the plane of the small circle and the small circle lies entirely within the said projection.

Referring to FIG. 2, it can be seen that the flange 13 is provided with an internal radial lip 19 to engage and lock with the conventional lip on the container 14. As is evident in this view, the upper neck 16 is of a generally conical configuration, while the surface 15 extends from the base of that cone to the flange 13. In addition, a downwardly-directed axial flange 21 extends downwardly from the interior of the main body in a position generally spaced from and concentric with a flange 13. The flange 21 fits in the inside of the lip of the container to provide for drain-back.

The end of the band 18 opposite the end which carries the cap 17 is provided with a ring 22. This ring snaps over an outwardly-directed ridge 23 formed at the bottom of the neck 16. The cap 17, the band 18, and the ring 22 are integrally formed of an elastomer plastic so that the band 22 is resilient enough to snap over the ridge and be locked in place.

The operation of the invention will now be readily understood in view of the above description. Two holes are punched in the top of the container 14 to allow for the removal of liquid therefrom. The funnel 10 is then snapped in place with the flange 13 fitting under the lip on the container and the flange 21 fitting down inside of the end recess of the container. The cap 17 is then removed from the top of the neck 16, but may be left in place hanging by the ring 22 and the band 18. The container and funnel are then tipped, so that liquid leaves the container, flows into the funnel, and then out through the small opening at the top of the neck 16. This neck can be inserted into the opening into which the contents are to be poured. In the case of motor oil,

3,750,722

3

this would be the entrance into the oil sump of an internal combustion engine. Once a sufficient quantity of liquid has been poured, it is only necessary to return the cap 17 to the top of the neck and the can and its contents will be protected from dust and dirt. When the container is placed in its vertical position, any liquid which remains on the inner surface of the funnel will run back down the surface and into the can again. It will be prevented from leaking out around the edge of the funnel by the flange 21 which will insure that this liquid returns to the recessed end of the container.

The present invention is particularly useful in the case of a marine engine where the entrance to the oil sump of the internal combustion engine is located in a recess under the bulk of the engine and access is very difficult even with a conventional funnel. With the present invention, the container and funnel can be introduced into the recess in a somewhat horizontal condition without danger of spillage. In addition, on a boat, the danger of the oil can being tipped over and the oil running into the bilge water is a common problem. Furthermore, there is no convenient place to store a funnel in a boat and the present invention allows the funnel to be stored with the oil can. It serves to keep the oil clean, free of water and dirt, and there is no danger of the funnel dripping after it has been used, since the excess oil on the surface of the funnel drains back into the can.

In addition, the present invention lends itself particularly to being manufactured inexpensively by the injection molding process. When it is desired to remove the funnel from the container, it is only necessary to press against the inclined surface 15 and this causes the flange 13 to be pulled upwardly from the lip of the container, so that the funnel is free to be removed. This can be done without the use of any tools, nor does the hand of the user touch the inside of the funnel. If the funnel is being used for potable liquids, then his hand does not contaminate this surface and, if the funnel is being used for material, such as motor oil, his hand does not get

4

covered with any residue of motor oil that may be on the inner surface.

It is obvious that minor changes may be made in the form and construction of the invention without departing from the material spirit thereof. It is not, however, desired to confine the invention to the exact form herein shown and described, but it is desired to include all such as properly come within the scope claimed.

The invention having been thus described, what is claimed as new and desired to secure by Letters Patent is:

1. A funnel, for use on a container, said container having a circular upper surface, a container flange upwardly directed from the periphery of the upper surface, and a container lip extending radially from the upper edge of the container flange, comprising:

- a. a first circular aperture, defining a plane, and having an axis and a circumference,
- b. a second aperture of smaller area than said first aperture, and having a periphery and a geometric center, said second aperture being spaced from the plane of the first aperture and located so that its center is spaced from the axis of the first aperture,
- c. an elastomer plastic web connecting every point on the periphery of the second aperture to every point on the circumference of the first aperture,
- d. a first flange, concentric with the first aperture and extending longitudinally from the plane, and positioned to engage the inner surface of the container flange,
- e. a second flange, of large diameter than and concentric to the first flange, and extend longitudinally from the plane,
- f. a peripheral, inwardly-directed lip extending radially from the second flange, and positioned to engage the lower portion of the container lip thereby cooperating with the first flange to form a seal with the periphery of the container.

45

50

55

60

65

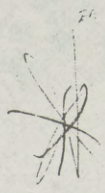
SERIES 4

EXHIBIT B

<p>141135 SERIAL NO. (Series of 1970)</p>		<p>P. R. Group</p>		<p>PATENT NUMBER</p>		<p>3750722</p>			
<p>CLASSIFICATION</p>	<p>FILED DATE</p>	<p>CLASS</p>	<p>CLASS</p>	<p>GROUP ART UNIT</p>	<p>ASSISTANT EXAMINER</p>				
<p>1-13</p>	<p>05/07/71</p>	<p>141</p>	<p>141</p>	<p>349</p>	<p>202</p>				
<p>INVENTOR</p>									
<p>ROGER L. NOWAK, WEST HOYLISTON, MASS.</p>									
<p>AGENT</p>									
<p>FUNNEL</p>									
<p>ADDRESSEE</p>									
<p>NORMAN S. BLODGETT, 39 HIGHLAND ST., WORCESTER, MASS. 01608</p>									
<p>APPLICANT</p>									
<p>NORMAN S. BLODGETT</p>									
<p>AGENT</p>									
<p>NONE</p>									
<p>CLASS</p>	<p>DATE OF INTR.</p>	<p>SHEETS DRAWINGS</p>	<p>TOTAL PAGES</p>	<p>NUMBER CLAIMS</p>	<p>PRIMARY PTE. REF. SEC.</p>	<p>ATTORNEY'S NUMBER</p>	<p>CLAIMS ALLOWED</p>	<p>CLASS</p>	<p>SUBCLASS</p>
<p>1-13</p>	<p>25</p>	<p>1</p>	<p>8</p>	<p>1</p>	<p>265</p>	<p>GD-419</p>	<p>1</p>	<p>141</p>	<p>332</p>
<p>REMARKS</p>									
<p>None HS</p>									
<p>IS THIS FOREIGN APPLICATION?</p>					<p>ASSIGNEE</p>				
<p>NONE</p>					<p>YES <input type="checkbox"/> NO <input checked="" type="checkbox"/></p>				
<p>IS THIS APPLICATION SPECIFIED IN 35 USC 319?</p>					<p>YES <input type="checkbox"/> NO <input checked="" type="checkbox"/></p>				
<p>PARTS OF APPLICATION FILED SEPARATELY</p>					<p>PREPARED FOR ISSUE</p>				
<p>[THIS SPACE RESERVED FOR RETENTION LABEL]</p>					<p>(Assistant Examiner) Pescante (Docket Clerk)</p>				
					<p>EXAMINED AND PASSED FOR ISSUE</p>				
					<p>HS HOUSTON S. BELL, JR. (Primary Examiner) 24 (Art unit)</p>				
<p>Summary of printed pages</p>					<p>Issue fee due</p>				
<p>Drawing(s) 2</p>					<p>Spec (s) 24</p>				
<p>Notice of allowance and issue fee due (cont.)</p>					<p>Date mailed 5-07-71</p>				
<p>Date paid 5-27-71</p>					<p></p>				

CONTENTS

- 1. Application _____ papers
- 2. _____
- 3. *Review granted June 20, 1971*
- 4. REJECTION (3) *May 18 1972*
- 5. _____
- 6. *FINAL REJECTION* *9-29-72* *3 mos* *828*
- 7. _____
- 8. *Pat. 3572* *11/87* *OK to E.A.S.*
- 9. Notice of Suit *Oct. 24, 1974*
- 10. Notice of Suit *Dec. 5, 1974*
- 11. Notice of Suit *(decided) Dec. 20, 1976*
- 12. Notice of Suit *(decided) Dec. 20, 1976*
- 13. _____
- 14. _____
- 15. _____
- 16. _____
- 17. _____
- 18. _____
- 19. _____
- 20. _____
- 21. _____
- 22. _____
- 23. _____
- 24. _____
- 25. _____
- 26. _____
- 27. _____
- 28. _____
- 29. _____
- 30. _____
- 31. _____
- 32. _____
- 33. _____
- 34. _____
- 35. _____
- 36. _____



SERIES 4
141135
 SERIAL NO. Series of 1970
 SPRING 8, 1967

SEARCHED

Class	Sub	Date	Ex'r
111	331-335		
	342		
285	178		
	331		
	423		
	238		
	260		
29	453	7/17/72	
4	206	8/23/72	
	1224		
	RCU	TO	
5	570	1/12/73	
	477		

Inquired class.
 29
 264
 285
 4
 85
 215
 222

INDEX OF CLAIMS

Claim	Date		Claim	Date	
	Final	Original		Final	Original
1		3/8			
2		17/2			
3		7/2			
4					
5					
6					
7					
8					
9					
10					
11					
12					
13					
14					
15					
16					
17					
18					
19					
20					
21					
22					
23					
24					
25					

INTERFERENCE SEARCHED

Class	Sub	Date	Ex'r
1	331-335		
	342		
285	178		
	331		
29	453		
29	570		
	206		
28	178		
	238		
	260		
	331		
	423		

SYMBOLS STATUS
 V..... Rejected
 =..... Allowed
 = (through numeral)..... Canceled
 +..... Satisfaction requirement
 N..... Nonselected invention or species
 I..... Interference
 A..... Appeal
 O..... Objected

2014-1123 (Rev. Oct. 1952)

COLLATOR
In Re Patents

United States District Court
for the

DEC 2 1976 #10

CENTRAL DISTRICT OF CALIFORNIA

U.S. District Court District Office

COMMISSIONER OF PATENTS,
Washington 25, D. C.

CA 75-174
Consol. w/ 74-217

SIR:

In compliance with the Act of July 19, 1952 (56 Stat. 834; 35 USC 299), you are advised that there was filed on the 5th day of December, 1974, in this court an action, NoCV 74-3571 WPG, entitled: consol. w/ C.A. 74-217

Name CAL CUSTOM ACCESSORIES, INC., Plaintiff,

Address Compton, California

versus

Name FUNNELCAP, INC., Defendant,

Address West Boylston, Massachusetts

brought upon the following patents:

PATENT NO.	DATE OF PATENT	PATENTEE
1. 3,750,722	July 7, 1973	Defendant
2.		
3.		
4.		
5.		

In the above-entitled case, on the _____ day of _____, 19____, the following patents have been included by _____ (insert amendment, answer, cross bill, or other pleading):

PATENT NO.	DATE OF PATENT	PATENTEE
1.		
2.		
3.		
4.		
5.		

In the above-entitled case the following decision has been rendered or judgment issued:
12/20/76 - JUDGMENT Stapleton J.
see C.A. 74-217 attached.

EVAN L. BARNEY

Clerk.

Date 12/22/76, 19____

By

Louis H. Bred

Deputy Clerk.

United States District Court
for the

SOLICITOR # 11

DISTRICT OF DELAWARE

SOLICITOR # 11
DEC 22 1976

COMMISSIONER OF PATENTS,
Washington 25, D. C. 20231

DEC 25 1976 U.S. PATENT AND TRADEMARK OFFICE

SIR:

In compliance with the Act of July 19, 1952 (66 Stat. 814; 35 USC 250), you are advised that there was filed on the twenty-first day of October, 1974, in this

court an action, No. 74-217, entitled:

Name Funnelcap Inc. 75-174 consol. Plaintiff,

Address 132 Sterling Street
West Boylston, Massachusetts 01483
versus

Name Orion Industries, Inc. Defendant,

Address 19914 South Via Baron Corporation Trust Company
Compton, California 90220 100 West Tenth Street
Wilmington, Delaware 19801

brought upon the following patents:

PATENT NO.	DATE OF PATENT	PATENTEE
1. 3,750,722	August 7, 1973	Roger L. Nowak
2.		
3.		
4.		
5.		

In the above-entitled case, on the _____ day of _____, 19____, the following patents have been included by _____ (insert amendment, answer, cross bill, or other pleading):

PATENT NO.	DATE OF PATENT	PATENTEE
1.		
2.		
3.		
4.		
5.		

In the above-entitled case the following decision has been rendered or judgment issued:
12/20/76 - JUDGMENT Stapleton J.
copy attached.

EVAN L. BARNEY

Clerk.

December 22, 1976

Date ~~December 21~~, 1976

By L. D. Beck
Deputy Clerk.

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF DELAWARE

FunnelcaP, Inc.,)	
)	
Plaintiff,)	
)	
v.)	Civil Action No. 74-217
)	
Orion Industries, Inc. and)	
Cal Custom Accessories, Inc.,)	
)	
Defendants,)	
)	
and)	
)	
Cal Custom Accessories, Inc.)	
and Orion Industries, Inc.,)	
)	
Plaintiffs,)	
)	
v.)	Civil Action No. 75-174
)	
FunnelcaP, Inc.,)	
)	
Defendant.)	(Consolidated Actions)

J U D G M E N T

In accordance with the Opinion on file herein,
it is ordered, adjudged and decreed:

1. That the claim in United States Letters Patent No. 3,750,722 is invalid under 35 U.S.C. 102 as being anticipated and, even if not anticipated, is invalid under 35 U.S.C. 103 as being obvious in view of the prior art.
2. The defendants' first construction incorporating first and second flanges corresponding with claim elements d and e would infringe said patent if valid.

3. Defendants' second funnel construction eliminating the interior first flange, claim element d, would not infringe said patent if valid.

4. Defendants are not guilty of unfair competition.

5. The parties shall bear their own attorneys' fees.

6. Plaintiff shall pay defendants their costs.

Date:

December 20, 1976

Walter K. Stapleton

Walter K. Stapleton
United States District Court Judge

APPROVED AS TO FORM December 10, 1976:

THEISEN, LANK & MULFORD

By

Aubrey B. Lank

Aubrey B. Lank
Attorneys for Plaintiff,
FunnelcaP, Inc.

APPROVED AS TO FORM December 7, 1976:

By

Paul E. Crawford

Paul E. Crawford
Attorneys for Defendants
Orion Industries, Inc. and
Cal Custom Accessories, Inc.

OF COUNSEL:

FULWIDER, PATTON, RIEBER, LEE & UTECHT
Vern Schooley
Suite 910 Fidelity Federal Plaza
555 East Ocean Boulevard
Long Beach, California 90802
(213) 432-0453
Attorneys for Defendants

LEYDIG, VOIT, OSANN, MAYER & HOLT, LTD.
Berton Scott Sheppard
One IBM Plaza
Suite 4600
Chicago, Illinois 60611
Attorneys for Plaintiff

141135



NORMAN S. BLODGETT, ATTORNEY AT LAW
 GILBERT L. WELLS, B.S. CHIEF CLERK, U.S. PATENT OFFICE

NORMAN S. BLODGETT
 ATTORNEY AT LAW
 39 HIGHLAND STREET
 WORCESTER, MASS. 01608
 TEL. (617) 753-5533

PATENTS, TRADEMARKS, COPYRIGHTS
 1000 CRYSTAL PLAZA ONE
 ARLINGTON, VIRGINIA 22203
 TEL. (703) 521-2728

April 23, 1971

The Commissioner of Patents
 Washington
 D. C.

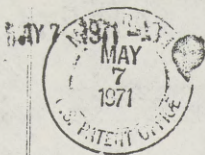
Sir:

Enclosed are the following papers having to do with a patent application of Roger L. Nowak for "FUNNEL" (GD-419):

1. Original copy of specification and claims,
2. A Declaration and Power of Attorney,
3. One sheet of drawing,
4. A check for \$65 covering the Filing Fee.

Respectfully submitted,

Norman S. Blodgett
 Attorney of Record



GD-419

141135

R. K. Higgins
10/12/71

FUNNELABSTRACT OF THE DISCLOSURE

A funnel having a flange adapted to fit around the periphery of a can and having its small end offset from the large end to assist in pouring.

BACKGROUND OF THE INVENTION

In pouring liquids from a can, it is extremely difficult to introduce the liquid into a small opening. This is particularly true in the case of the introduction of motor oil into the oil sump of an internal combustion engine. Although it is common practice to use a conically-shaped funnel to accomplish this, there are many instances where the entrance opening is located in such a way that the funnel and the can containing the motor oil cannot be maneuvered to introduce motor oil into the engine without spillage. In addition, where a viscous motor oil is used, the funnel must be left in the opening to which the oil is to be poured long enough for all of the oil to drain from the surfaces of the funnel; this is necessary not only to save oil, but also to insure that the funnel does not deposit oil in the place where it is stored. In many cases, the funnel sits in the body of oil during this last drainage period and, when it is removed, there is still a substantial amount of oil to drip in the place of storage. These and other difficulties experienced with the prior art devices have been obviated in a novel manner by the present invention.

It is, therefore, an outstanding object of the invention to provide a funnel which is capable of being placed in a liquid-tight manner on a can of a liquid which is to be poured.

Another object of this invention is the provision of a funnel which serves in a dual capacity as an assistant to pouring and a protection for the top of the oil can from dust and dirt.

A further object of the present invention is the provision of a funnel which snaps onto the top of a can of liquid and which can be readily removed without the use of tools.

It is another object of the instant invention to provide a funnel which may be stored immediately after use and which permits run-back of any oil that clings to its surface into the can.

A still further object of the invention is the provision of a funnel formed to extend into hard-to-reach places.

It is a further object of the invention to provide a funnel which may also be used under certain conditions as a dipper for assisting in the removal of old motor oil from an engine.

It is a still further object of the present invention to provide a funnel which can be simply and inexpensively manufactured from non-corrosive material and which is capable of a long life of useful service without deterioration.

With these and other objects in view, as will be apparent to those skilled in the art, the invention resides in the combination of parts set forth in the specification and covered by the claims appended hereto.

SUMMARY OF THE INVENTION

In general, the invention consists of a funnel having a hollow main body formed of an elastomer plastic and having an opening at one end. A flange extends inwardly from the main body around the periphery of the opening, the flange being adapted to envelope the end of a container. The main body has an inclined surface that can be pressed to lift a portion of the flange from the container.

BRIEF DESCRIPTION OF THE DRAWINGS

The character of the invention, however, may be best understood by reference to one of its structural forms, as illustrated by the accompanying drawings, in which:

FIG. 1 is a perspective view of a funnel embodying the principles of the present invention, and

FIG. 2 is a vertical sectional view of the funnel.

DESCRIPTION OF THE PREFERRED EMBODIMENT

Referring first to FIG. 1, which best shows the general features of the invention, the funnel, indicated generally by the reference numeral 10, is shown as having a hollow main body 11 formed of an elastomer plastic, such as linear polyethylene, and having an opening 12 at one end. The flange 13 extends from the main body 11 around the periphery of the opening 12, the flange being adapted to envelope the end of a container 14. The main body 11 has an inclined surface 15 that can be pressed to lift a portion of the flange from the container.

The main body 11 has a neck 16 located a substantial distance away from the said opening 12 and having a secondary opening of smaller size than the said opening 12. A cap 17 is provided to fit on the neck 16 and is connected to the main body by a flexible band 18. The main body 11 has the general shape of a surface connecting a large circle to a small circle parallel to and spaced from the large circle with its center displaced laterally a substantial distance from the center of the large circle. More specifically, the periphery of the small circle is substantially tangential to the projection of the large circle onto the plane of the small circle and the small circle lies entirely within the said projection.

Referring to FIG. 2, it can be seen that the flange 13 is provided with an internal radial lip 19 to engage and lock with the conventional lip on the container 14. As is evident in this view, the upper neck 16 is of a generally conical configuration, while the surface 15 extends from the base of that cone to the flange 13. In addition, a downwardly-directed axial flange 21 extends downwardly from the interior of the main body in a position generally spaced from and concentric with a flange 13. The flange 21 fits in the inside of the lip of the container to provide for drain-back.

The end of the band 18 opposite the end which carries the cap 17 is provided with a ring 22. This ring snaps over an outwardly-directed ridge 23 formed at the bottom of the neck 16. The cap 17, the band 18, and the ring 22 are integrally formed of an elastomer plastic so that the band 22 is resilient enough to snap over the ridge and be locked in place.

The operation of the invention will now be readily

understood in view of the above description. Two holes are punched in the top of the container 14 to allow for the removal of liquid therefrom. The funnel 10 is then snapped in place with the flange 13 fitting under the lip on the container and the flange 21 fitting down inside of the end recess of the container. The cap 17 is then removed from the top of the neck 16, but may be left in place hanging by the ring 22 and the band 18. The container and funnel are then tipped, so that liquid leaves the container, flows into the funnel, and then out through the small opening at the top of the neck 16. This neck can be inserted into the opening into which the contents are to be poured. In the case of motor oil, this would be the entrance into the oil sump of an internal combustion engine. Once a sufficient quantity of liquid has been poured, it is only necessary to return the cap 17 to the top of the neck and the can and its contents will be protected from dust and dirt. When the container is placed in its vertical position, any liquid which remains on the inner surface of the funnel will run back down the surface and into the can again. It will be prevented from leaking out around the edge of the funnel by the flange 21 which will insure that this liquid returns to the recessed end of the container.

The present invention is particularly useful in the case of a marine engine where the entrance to the oil sump of the internal combustion engine is located in a recess under the bulk of the engine and access is very difficult even with a conventional funnel. With the present invention, the container and funnel can be introduced into the recess in a somewhat horizontal condition without danger of spillage. In addition,

on a boat, the danger of the oil can being tipped over and the oil running into the bilge water is a common problem. Furthermore, there is no convenient place to store a funnel in a boat and the present invention allows the funnel to be stored with the oil can. It serves to keep the oil clean, free of water and dirt, and there is no danger of the funnel dripping after it has been used, since the excess oil on the surface of the funnel drains back into the can.

In addition, the present invention lends itself particularly to being manufactured inexpensively by the injection molding process. When it is desired to remove the funnel from the container, it is only necessary to press against the inclined surface 15 and this causes the flange 13 to be pulled upwardly from the lip of the container, so that the funnel is free to be removed. This can be done without the use of any tools, nor does the hand of the user touch the inside of the funnel. If the funnel is being used for potable liquids, then his hand does not contaminate this surface and, if the funnel is being used for material, such as motor oil, his hand does not get covered with any residue of motor oil that may be on the inner surface.

It is obvious that minor changes may be made in the form and construction of the invention without departing from the material spirit thereof. It is not, however, desired to confine the invention to the exact form herein shown and described, but it is desired to include all such as properly come within the scope claimed.

The invention having been thus described, what is claimed as new and desired to secure by Letters Patent is:

1. A funnel,
 - (a) a hollow main body formed of an elastomer plastic and having an opening at one end,
 - (b) a flange extending from the main body around the periphery of the opening, the flange being adapted to envelope the end of a container, the main body having an inclined surface that can be depressed to lift a portion of the flange from the container.
2. A funnel as recited in Claim 1, wherein the flange is provided with a lip to engage and lock with a corresponding lip on the container.
3. A funnel as recited in Claim 1, wherein the main body has a neck located a substantial distance away from the said opening and having a secondary opening of smaller size than the said opening.
4. A funnel as recited in Claim 3, wherein a cap is provided to fit on the said neck and is connected to the main body by a flexible band.
5. A funnel as recited in Claim 4, wherein the end of the band opposite the cap is provided with a ring adapted to snap over the neck, the cap, band, and ring being integrally formed of an elastomer plastic.
6. A funnel as recited in Claim 5, wherein the lower part of the neck is provided with an outwardly-extending ridge for locking the ring in place.

7. A funnel as recited in Claim 1, wherein the main body has the general shape of a surface connecting a large circle to a small circle parallel to and spaced from the large circle and with its center displaced laterally a substantial distance from the center of the large circle.

8. A funnel as recited in Claim 7, wherein the neck has a conical shape whose base constitutes the said small circle, wherein the periphery of the small circle is tangential to and lying entirely inside the projection of the large circle onto the plane of the small circle.

DECLARATION, POWER OF ATTORNEY, AND PETITION

ROGER L. NOWAK

the above-named petitioner(s) declare(s) that he is a citizen (they are citizens) of the United States of America

and resident(s) of West Boylston, Massachusetts

that he (they) verily believe(s) himself (themselves) to be the original, first, and sole (sole) inventor(s) of the improvement in FUNNEL

described and claimed in the annexed specification; that he (they) do(es) not know and do(es) not believe that the same was ever known or used before his (their) invention thereof, or more than one year prior to this application, or in public use or on sale in the United States more than one year prior to this application; that said invention has not been patented in any country foreign to the United States or an application filed by him (them) or his (their) legal representatives or assigns more than twelve months prior to this application; and that no application for patent on said invention has been filed by him (them) or his (their) representatives or assigns in any country foreign to the United States, except as follows:

In on No. the right of priority of which is claimed, and in other countries on subsequent dates.

The undersigned petitioner(s) declare(s) further that all statements made herein of his (their) own knowledge are true and that all statements made on information and belief are believed to be true; and further that these statements were made with the knowledge that willful false statements and the like so made are punishable by fine or imprisonment, or both, under section 1001 of Title 18 of the United States Code and that such willful false statements may jeopardize the validity of the application or any patent issuing thereon.

And I (we) hereby appoint

NORMAN S. BLODGETT, Register No. 16,477
39 Highland Street, Worcester Massachusetts 01608

my (our) attorney with full power of substitution and revocation, to prosecute this application and to transact all business in the U.S. Patent Office connected therewith.

Wherefore, I (we) pray that Letters Patent be granted to me (us) for the invention or discovery described and claimed in the foregoing specification and claims and I (we) hereby subscribe my (our) name(s) to the foregoing specification and claims, declaration, power of attorney, and this petition, this day of 19 71

Inventor FIRST NAME MIDDLE INITIAL LAST NAME
Post Office Address 262 West Boylston Street, West Boylston, Massachusetts

Inventor FIRST NAME MIDDLE INITIAL LAST NAME
Post Office Address

Inventor FIRST NAME MIDDLE INITIAL LAST NAME
Post Office Address

441135

PRINT OF DRAWING AS
ORIGINALLY FILED

FIG. 1

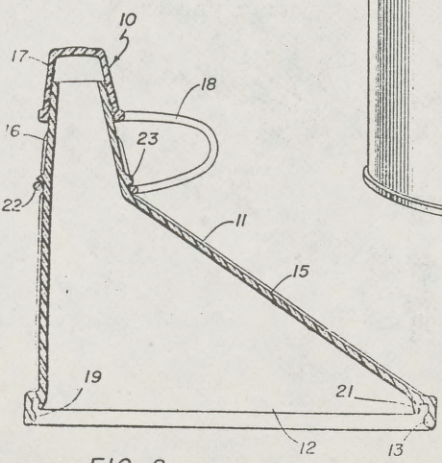
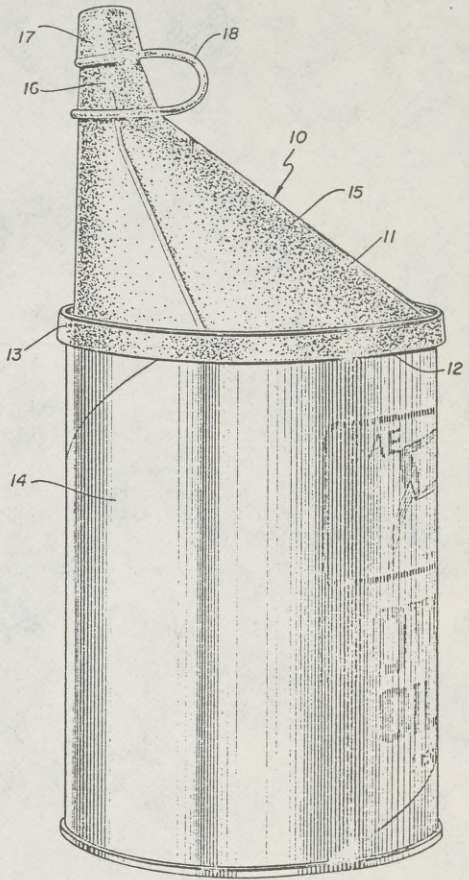


FIG. 2

ROGER L. NOWAK
INVENTOR.

BY

Edward S. Blodgett
ATTORNEY



142135 *11220*

SCHMIDT, JOHNSON, HOVEY & WILLIAMS
ATTORNEYS AT LAW
1600 FEDERAL RESERVE BANK BUILDING
107 1/2 GRAND AVENUE
KANSAS CITY, MISSOURI 64106

PATENT, TRADEMARK & COPYRIGHT
CAUSES EXCLUSIVELY

May 7, 1971

AREA CODE 816
TELEPHONES VICTOR 2-2459
VICTOR 2-2177

SCHMIDT
JOHNSON
HOVEY
WILLIAMS

343

U. S. PATENT OFFICE
RECEIVED

JUN 16 1971

SECURITY GROUP-
LICENSING & REVIEW

Commissioner of Patents
Washington, D.C. 20231

Atten. Licensing Division

Re. License for Foreign Filings -
ERROL C. BELL ET AL.
"Transmission Having Direction Control"
(Our Dkt. #13964)

Sir:

Please issue a license to permit the filing
of applications in countries foreign to the United States
re subject application.

A xerox copy of the U.S. application, which
is being concurrently filed herewith, is attached hereto for
your convenience.

Your early attention to this matter will be
appreciated.

Respectfully requested,

SCHMIDT, JOHNSON, HOVEY & WILLIAMS

DM
encl.

By

Quinn J. Quinn

APPROVED

SAB

JUN 18 1971

GROUP 220

(13964)



141185

U.S. DEPARTMENT OF COMMERCE
Patent Office

Address Only: COMMISSIONER OF PATENTS
Washington, D.C. 20231

[141,185 5-7-71]
[141,185 5-7-71]

Paper No. _____

Mailed 5-18-72

Norman J. ...
9 ...
...

This is a communication from the Examiner in charge of your application.
Commissioner of Patents

- This application has been examined.
- Responsive to communication filed _____
- This action is made final.

A SHORTENED STATUTORY PERIOD FOR RESPONSE TO THIS ACTION IS SET TO EXPIRE
Three (3) MONTH(S) ~~XXXX~~ FROM THE DATE OF THIS LETTER.

PART I

The following attachment(s) are part of this action:

- a. Notice of References Cited, Form PO-892.
- b. Notice of Informal Patent Drawing, PO-948.
- c. Notice of Informal Patent Application, Form PO-152.
- d.

PART II

Summary of Action

- 1. Claims 1-8 are presented for examination.
- 2. Claims NONE are allowed.
- 3. Claims _____ would be allowable if amended as indicated.
- 4. Claims 1-8 are rejected.
- 5. Claims _____ are objected to.
- 6. Claims _____ are subject to restriction or election requirement.
- 7. Claims _____ are withdrawn from consideration.
- 8. Since this application appears to be in condition for allowance except for formal matters, prosecution as to the merits is closed in accordance with the practice under Ex parte Quayle, 1935 C.D. 11; 453 OG. 213.
- 9. Since it appears that a discussion with applicant's representative may result in agreements whereby the application may be placed in condition for allowance, the examiner will telephone the representative within about 2 weeks from the date of this letter.
- 10. Receipt is acknowledged of papers under 35 USC 119, which papers have been placed of record in the file.
- 11. Applicant's claim for priority based on an application filed in _____ on _____ is acknowledged. It is noted, however, that a certified copy as required by 35 USC 119 has not been received.
- 12. Other

PART III

FILE NO. 141135-344

NOTIFICATION OF REJECTION(S) AND/OR OBJECTION(S) (35 USC 132)

(1)	REASONS FOR REJECTION (2)	REFERENCE(S) (3)	— INFORMATION — IDENTIFICATION AND COMMENTS (4)
1	35 USC 103	A, B & C	A DISCLOSES BASIC CLAIMED ORGANIZATION - B DISCLOSES SPECIFIC FUNNEL SHAPE. C DISCLOSES FUNNEL TO CONTAINER FIT. (SEE G. BELOW)
2			
3			
4			
5			

(FROM 1 ABOVE)
 OBVIOUS TO INCORPORATE THE FEATURES OF B AND C IN THE DEVICE OF A.

Capital letters representing references are identified on accompanying Form PO-892.
 The symbol "v" between letters represents - in view of -.
 The symbol "&" between letters represents - and -.
 A slash "/" between letters represents the alternative - or -.

NOTE: Sections 100, 101, 102, 103 and 112 of the Patent Statute (Title 35 of the United States Code) are reproduced on the back of this sheet.

EXAMINER HOUSTON S. BELL, JR. TEL. NO. (703) 557-3407

Houston S. Bell, Jr.
 HOUSTON S. BELL, JR.
 EXAMINER 344
 GROUP ART UNIT 344

FORM P.O.-8 REV. 4-71	U. S. DEPARTMENT OF COMMERCE PATENT OFFICE	SERIAL NO. 141135	GROUP ART UNIT 344	ATTACHMENT TO PAPER NUMBER 1
--------------------------	---	-----------------------------	------------------------------	---

NOTICE OF REFERENCES CITED

Check here if this is a Supplemental Citation.
(Do not prepare an additional folder.)

APPLICANT(S):
ROGER L. NOWAK

U. S. PATENTS

	PATENT NO.	DATE	PATENTEE	CLASS	SUB-CLASS	FILING DATE IF APPROPRIATE
A	3119050	1/70	MANNEN ET AL	141	331	
B	1337558	4/20	KING	141	332	
C	3201015	8/65	WAGAMAN	141	332	
D						
E						
F						
G						
H						
I						
J						
K						

FOREIGN PATENTS OR PUBLISHED APPLICATIONS

	PATENT NO.	DATE	COUNTRY	NAME	CLASS	SUB-CLASS	PATENT INTL PP. APP. SPEC.
L							
M							
N							
O							
P							
Q							

OTHER REFERENCES (Inventor's Name, Title, Date, Publication No(s), Etc.)

R							
S							
T							
U							

MINUTE	DATE	CHECK HERE IF FOREIGN EXCHANGE
HOUSTON BEL	3/17/72	

* ATTENTION R. O. P.: Do not put stamps in this box or on it.



RECEIVED

AUG 3 1972

GROUP 344

IN THE UNITED STATES PATENT OFFICE

Application of: Roger L. Nowak .
 Serial Number: 141,135
 Filed: May 7, 1971
 For: FUNNEL

Group 344

Mr. Bell

The Commissioner of Patents
 Washington, D.C. 20231

Sir:

In response to the Office Action of 5.16.72, please amend the above-identified patent application as follows:

Cancel Claims 1-8 without prejudice.

Add new claims as follows:

9. A funnel, comprising

- (a) a hollow main body formed of an elastomer plastic and having an opening at one end, the main body having the general shape of a surface connecting a large circle to a small circle parallel to and spaced from the large circle and with its center displaced laterally a substantial distance from the center of the large circle, and
- (b) a flange extending from the main body around the periphery of the opening, the flange being adapted to envelope the end of a container, the main body having an inclined surface that can be depressed to lift a portion of the flange from the container.

10. A funnel as recited in Claim 9, wherein the flange is provided with a lip to engage and lock with a corresponding lip on the container.

11. A funnel as recited in Claim 9, wherein the main body has a neck located a substantial distance away from the said opening and having a secondary opening of smaller size than the said opening.

12. A funnel as recited in Claim 11, wherein the neck has a conical shape whose base constitutes the said small circle, wherein the periphery of the small circle is tangential to and lying entirely inside the projection of the large circle onto the plane of the small circle.

13. A funnel as recited in Claim 11, wherein a cap is provided to fit on the said neck and is connected to the main body by a flexible band.

14. A funnel as recited in Claim 13, wherein the end of the band opposite the cap is provided with a ring adapted to snap over the neck, the cap, band, and ring being integrally formed of an elastomer plastic.

15. A funnel as recited in Claim 14, wherein the lower part of the neck is provided with an outwardly-extending ridge for locking the ring in place.

REMARKS

Claims 1-8 have been canceled.

Claims 9-15 remain in the case.

Claims 9-15 have been written to clearly distinguish the present invention over the prior art. The Examiner has pointed out that there is no single reference which anticipates this invention. Thus, the question of combining references becomes the pivot point of the rejection. The Examiner suggests that it would be obvious to take the general construction of the Manem et al invention, offset the neck as shown in the King invention, and then modify the Wagaman invention to fit over the end of a oil can instead of a soda bottle as disclosed in the cited patent. The applicant maintains that such an arduous series of modifications and adaptations would not be obvious to one of normal skill in the funnel designing art. Furthermore, the present invention offers benefits not obvious or available in any of the references. One important benefit of the sealed and offset arrangement is that the liquid can be poured either along the long or the short side of the funnel. This allows variation in the degree of tipping of the can, necessary before the pouring actually begins. This is important in confined working spaces, especially if the can is either full or nearly empty. This function cannot be accomplished by the King invention (due to the lack of a peripheral seal), the Wagaman invention (because of the centrally located neck), or the Manem et al invention (due to the lack of a seal at all). Thus, neither the present construction or its benefits could be obviously derived from the prior art. The applicant maintains that the prior art cited does not represent anticipation of the present invention and that Claims 9-15 should be deemed allowable.

The applicant would like to make reference to U.S. Patent 3,537,623 of James M. Fisher, which is of interest in this case, but clearly does not anticipate the claimed invention.

In view of the substantial amendments to the claims and of the above discussion, it is felt that this application is now in condition for a Notice of Allowance. Such further and favorable action is requested.

Respectfully submitted,

Alvan S. Dodge

Attorney of Record

Tel. (617) 753-5533



U.S. DEPARTMENT OF COMMERCE
Patent Office

Address Only COMMISSIONER OF PATENTS
Washington, D.C. 20231

H. Bell Art Unit 242
Filed: 5/7/71 141,135
Applicant: R. L. Nowak

FUNNEL

Norman S. Blodgett
39 Highland St.,
Worcester, Mass. 01608

Paper No. 6

02972

Mailed

This is a communication from the Examiner in charge of your application.

Commissioner of Patents

This application has been examined.

- Responsive to communication filed July 24, 1972
- this action is **made final**.

A SHORTENED STATUTORY PERIOD FOR RESPONSE TO THIS ACTION IS SET TO EXPIRE

THREE (3) MONTHS ~~XXX~~ FROM THE DATE OF THIS LETTER.

The following attachment(s) are part of this action:

- a. Notice of References cited, PO-892.
- b. Notice of Informal Patent Drawing, PO-948.
- c. Notice of Informal Patent Application, PO-152.
- d.

Summary of Action

- 1. Claims 9-15 are presented for examination.
- 2. Claims NONE are allowed.
- 3. Claims would be allowed if amended as indicated.
- 4. Claims 9-15 are rejected.
- 5. Claims are objected to.
- 6. Claims are subject to a restriction or election requirement.
- 7. Claims are withdrawn from consideration.
- 8. Since this application appears to be in condition for allowance except for formal matters, prosecution as to the merits is closed in accordance with the practice under Executive Order, 1945 C.D. 11,453 (O.G. 213).
- 9. Since it appears that a discussion with applicant's representative may result in agreements whereby the application may be placed in condition for allowance, the examiner will telephone the representative within about 2 weeks from the date of this letter.
- 10. Other CLAIMS 9-15 ARE CANCELLED.

Serial No. 141,135
Group 242

-2-

1. Claims 9-15 are rejected as being vague and indefinite and incomplete, under 35 USC 112. Claim 9 omits essential elements or necessary structural cooperative relationship of elements, such omission amounting to a gap between the elements or necessary structural connections, and such matters are considered essential to novelty in this case. For example, claim 9, line 2, states that the funnel is only open at one end. Is such the case? The Main body of the funnel, as set forth in claim 9 (lines 2-6) is merely set forth in terms of "general shape" rather than structure. How can the Examiner reasonably determine the scope of these claims? The flange, as set forth in these claims, should particularly point out and distinctly claim the subject matter by way of structural detail and not by way of inference or mere statements of desired results. Surely, applicant can set forth the flange structure with respect to the axis of the funnel structure, can he not? Claim 10 fails to set forth the location of the lip on the flange with respect to anything. Claim 11 is not understood in its entirety. What do claims 12-15 purport to recite?

2. Claims 9-15, as understood, are further rejected as being obvious over Wagaman (C) in view of Manem et al (A) and King(B), all of record, under 35 USC 103. To incorporate in the Wagamen (C) device the funnel shape, as disclosed by King (B), and the closure

Serial No. 141,135
Group 242

-3-

9.29.72

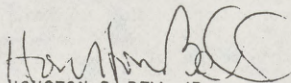
cap feature, as disclosed by Manem et al (A), obviously would require ordinary skill in the art.

3. The Mehilos patent is cited to show a funnel shape similar to applicant's.

4. Summary:

- a) Claims 9-15 are rejected.
- b) Claims 1-8 are cancelled.
- c) No claims are allowed.

5. This is a FINAL rejection.


HOUSTON S. BELL, JR.
EXAMINER
GROUP ART UNIT 242

HSBell, Jr.,:bjr
9/1/72

U. S. DEPARTMENT OF COMMERCE PATENT OFFICE	SERIAL NO. 167100	GROUP AND UNIT	ATTACHMENT TO PAPER NUMBER
NOTICE OF REFERENCES CITED		APPLICANT(S) ROGER L. NOWAK	

U. S. PATENTS

ROW	PATENT NO.	DATE	PATENTEED	CLASS	SUB-CLASS	FILING DATE IF APPROPRIATE
A	3289218	12/1966	MEHILOS	4	206	
B						
C						
D						
E						
F						
G						
H						
I						
J						
K						

FOREIGN PATENTS OR PUBLISHED APPLICATIONS

ROW	PATENT NO.	DATE	COUNTRY	NAME	CLASS	SUB-CLASS	PERTINENT ARTS, PPL, AND SPEC
L							
M							
N							
O							
P							
Q							

OTHER REFERENCES (including Author, Title, Date, Pertinent Pages, Etc.)

DATE 8/25/72	FOREIGN EXCHANGE
------------------------	------------------

ATTENTION R. O. B.: Drawings should be submitted in color.

DECLASSIFIED

NC

17
1/2



IN THE UNITED STATES PATENT OFFICE

Application of: Roger L. Nowak
Serial Number: 141,135
Filed: May 7, 1971
For: FUNNEL

240
Group ~~344~~
Mr. Bell

Commissioner of Patents
Washington, D.C. 20231

Sir:

In response to the Office Action of 29 September 1972,
please amend the above-identified patent application as follows:
Cancel Claims 9-15 without prejudice.

Add new Claim as follows:

Approved
11/2/73

16. A funnel, for use on a container, said container
having a circular upper surface, a container flange upwardly
directed from the periphery of the upper surface, and a container
lip extending radially from the upper edge of the container
flange, comprising:

- (a) a first circular aperture, defining a plane, and having an axis and a circumference,
- (b) a second aperture of smaller area than said first aperture, and having a periphery and a geometric center, said second aperture being spaced from the plane of the first aperture and located so that its center is spaced from the axis of the first aperture,
- (c) a elastomer plastic web connecting every point on the periphery of the second aperture to every point on the circumference of the first aperture,

- (d) a first flange, concentric with the first aperture and extending longitudinally from the plane, and positioned to engage the inner surface of the container flange,
- (e) a second flange, of large diameter than and concentric to the first flange, and extend longitudinally from the plane,
- (f) a peripheral, inwardly-directed lip extending radially from the second flange, and positioned to engage the lower portion of the container lip thereby cooperating with the first flange to form a seal with the periphery of the container.

REMARKS

-

Claims 1-15 have been cancelled.

Claim 16 remains in the case.

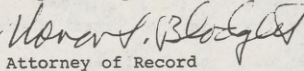
Claim 16 has been written to eliminate any question of clarity. Simply stated, the structure involves an off-set funnel that has provision for forming a peripheral seal with the object container. Such a configuration allows the funnel to be used in extremely confined places. The usefulness has not been questioned, nor is there a single reference that anticipates the idea. Instead, the Examiner maintains that it would have been obvious to combine three separate patents to obtain the structure set forth in the present claims. Since there is no showing of an off-set funnel with sealing means, it is necessary in rejecting the claims, to show some suggestion from the art of this combination or show some suggestion that the combination

would allow better pouring control in confined space. Concerning the first point, in the initial Office Action, the Examiner maintained that the Manem et al. patent (3,490,501) showed the general combination. In the latest Office Action the Examiner changed the basis for the rejection and relied on the Wagaman patent (3,201,015) as showing the combination. The applicant cannot see where either patent suggests the combination of off-set funnel and container seal. Additionally, the Examiner has not even suggested that the benefits of the combination are taught by the prior art or have been obvious. Yet, he continues to question the patentability of the structure. Thus, since the Examiner has not specifically shown how the present invention or its benefits can be clearly and logically extracted from the cited prior art without invention, and has refused to comment on the applicant's remarks in the previous response, it seems that the present claim should be deemed allowable.

In view of present Office practice, this response should extend until January 29, 1973 the deadline for filing an Appeal.

In view of the amendments to the claims and of the above discussion, it is felt that this application is now in condition for a Notice of Allowance. Such further and favorable action is requested.

Respectfully submitted,


Attorney of Record

Tel. (617) 753-5533



141135
U.S. DEPARTMENT OF COMMERCE
Patent Office

Address Only, COMMISSIONER OF PATENTS
Washington, D.C. 20231

Paper No. 8

H. S. Bell Art Unit 242
Filed: 5/7/71 141,135
Applicant: Roger L. Nowak

HSBell:bjr
1/15/73

Houston S. Bell
HOUSTON S. BELL, JR.
EXAMINER

GROUP ART UNIT 242
This is a communication from the Examiner in
charge of your application.

Commissioner of Patents

FUNNEL

Norman S. Blodgett
39 Highland St.,
Worcester, Mass. 01608

The communication filed _____ is informal non-responsive for the reason(s) checked below and should be corrected. APPLICANT IS GIVEN ONE MONTH FROM THE DATE OF THIS LETTER OR UNTIL THE EXPIRATION OF THE PERIOD FOR RESPONSE SET IN THE LAST OFFICE ACTION (WHICHEVER IS LONGER) WITHIN WHICH TO CORRECT THE INFORMALITY.

- a. The amendment to claim(s) _____, filed _____, fails to comply with the provisions of rule 121 and is accordingly held to be non-responsive. A supplemental paper correcting the informal portions and complying with the rule is required.
- b. The paper is unsigned. A duplicate paper or ratification, properly signed, is required.
- c. The paper is signed by _____ who is not of record. A ratification or a new power of attorney with a ratification, or a duplicate paper signed by a person of record, is required.
- d. The communication is presented on paper which will not provide a permanent copy. A permanent copy, or a request that a permanent copy be made by the Office at applicant's expense, is required. See M.P.E.P. 714.07.
- e. Other

In accordance with applicant's request, THE PERIOD FOR RESPONSE FROM THE OFFICE ACTION DATED _____ IS EXTENDED TO RUN _____ MONTH(S).

No further extension will be granted unless approved by the Commissioner. Rule 136(b).

This application is being forwarded to Abandoned Files Unit in view of:

- a. The letter of express abandonment which is in compliance with rule 138.
- b. Applicant's failure to file the response received _____ within the period set.

All of the claims being allowable, prosecution on the merits is closed in this application and the Notice of Allowance or other appropriate communication will be sent in due course, in view of:

- a. Applicant's communication filed DEC. 12, 1972.
- b. Telephone interview with _____ on _____.
- c. Personal interview with _____ on _____.
- d. An Examiner's Amendment will follow.

Receipt is acknowledged of papers submitted under 35 U.S.C. 119 which papers have been made of record in the file.

Other


**U.S. DEPARTMENT OF COMMERCE
Patent Office**

 Address Only: COMMISSIONER OF PATENTS
Washington, D.C. 20231

All communications regarding this application should give the serial number, date of filing, and name of the applicant.

**NOTICE OF ALLOWANCE
AND BASE ISSUE FEE DUE**

The application identified below has been examined and found allowable for issuance of Letters Patent.

	FILING DATE 05/07/71	SERIAL NO. 141135	NO. OF CLAIMS ALLOWED 1	EXAMINER AND GROUP ART UNIT Bell 242
APPLICANT(S)	Nowak, Roger L.; West Boylston, Mass.			MAILED Mar. 20, 1973 dw
TITLE OF INVENTION (OR CLAIMS AS AUTHORIZED BY 37 CFR 1.601)	Funnel			
	BASE FEE COMPUTATION		BASE FEE DUE	CLASS SUB
\$100.00	+ \$2 (FOR DWG. @ \$2 PER SHEET)	+ \$10 (FOR FIRST PAGE PRINTED SPEC.)	\$112	141/332-000

The complete Issue Fee is one hundred dollars (\$100) plus two dollars (\$2) for each sheet of drawing, plus ten dollars (\$10) for each printed page of specification (including claims) or portion thereof.

Inasmuch as the final number of printed pages cannot be determined in advance of printing, an initial BASE ISSUE FEE (consisting of the fee for printing the first page of specification (\$10) plus the fee of (\$2) for each sheet of drawing, added to the fee of \$100) must be paid within three months from the date of this notice, or the application shall be regarded as ABANDONED.

When remitting said Base Issue Fee, enclosed Form POL-85b should be used, and if use of a Deposit Account is being authorized, POL-85c should also be forwarded.

The Base Issue Fee will not be accepted from anyone other than the applicant, his assignee, attorney, or a party in interest as shown by the records of the Patent Office.

If an assignment has not been previously filed and it is desired to have the patent issue to the assignee, the assignment must be received in this Office with the recording fee together with the Base Issue Fee. In any event, the appropriate space(s) under "Assignment Data" on POL-85b must be completed. Where there is an assignment, the assignee's address must be given to ensure its inclusion in the printed patent.

In connection with the address of the inventor(s), attention is directed to Form POL-231 enclosed.

A Notice of Balance of Issue Fee Due will be mailed together with the patentee's copy of the patent if an additional fee is due. Payment must be made within three months from the date shown on said Notice since FAILURE TO PAY THIS BALANCE WITHIN THE TIME SPECIFIED WILL RESULT IN LAPSE OF THE PATENT.

IMPORTANT

 ATTENTION IS DIRECTED TO RULE 334
REVISED NOVEMBER 4, 1969.

 THE PATENT WILL ISSUE TO APPLICANT
UNLESS AN ASSIGNEE IS SHOWN IN
ITEM 2 ON FORM POL-85b, ATTACHED

 Norman S. Blodgett
39 Highland St.
Worcester, Mass. 01608

PATENT OFFICE COPY

B. Newman

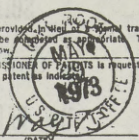
22
 P.O. 10-70

100.00 -- 106.00
 10.00 U.S. Department of Commerce
 Patent Office
 3.10-108

BASE ISSUE FEE TRANSMITTAL

This form is provided to facilitate the transmittal and should be used when transmitting the Base Issue Fee. Items numbered 1 through 4 below should be completed as appropriate. The Base Issue Fee Receipt will be mailed to the address appearing in Item 4 or as designated in Item 4a below.

1. The COMMISSIONER OF PATENTS is requested to apply the Base Issue Fee to the application identified below and deliver the patent as indicated.



Edward S. Blodgett
 (SIGNATURE OF PARTY IN INTEREST OF RECORD)

NOTE: The Base Issue Fee will not be accepted from anyone other than the applicant, his assignee, or attorney, or a party in interest as shown by the records of the Patent Office, nor will this fee be accepted in the application prior to the Notice of Allowance.

FILING DATE	SERIAL NO.	NO. OF CLAIMS ALLOWED	EXAMINER AND GROUP ART UNIT
05/07/71	141135	1	Bell 242
APPLICANT(S)	Nowak, Roger L.; West Boylston, Mass.		MAILED Mar. 20, 1973 dw
TITLE OF INVENTION (Indicates as amended by examiner)	Funnel		NOTICE OF ALLOWANCE DATE
BASE FEE COMPUTATION		BASE FEE DUE	CLASS-SUB
\$100.00	+ \$2 (FOR DWG. @ \$2 PER SHEET)	+ \$10 (FOR FIRST PAGE PRINTED SPEC.)	
		\$112	141/332.000
2. ASSIGNMENT DATA (print or type)		3. BASE FEE ENCLOSED:	
A. The appropriate box(es) in this item MUST be checked:		<input checked="" type="checkbox"/> YES <input type="checkbox"/> NO	
(1) This application is NOT assigned;		Charge to my Deposit Account Number:	
(2) This application IS assigned;		(P.O.L-55c must be enclosed)	
(3) Assignment herewith;		a. <input type="checkbox"/> For Base Fee	
(4) Assignment recorded and returned by Patent Office:		b. <input type="checkbox"/> For Balance of Issue Fee Due, if any.	
<input type="checkbox"/> YES <input type="checkbox"/> NO		c. <input type="checkbox"/> For Recording Enclosed Assignment.	
B. For printing on the patent: (Unless an assignee is identified below, the patent will issue to the applicant above-named. Completion of this item, however, is NOT a substitute for filing the assignment as required in Rule 334)		DO NOT USE THIS SPACE.	
(1) NAME OF ASSIGNEE:			
(2) ADDRESS: (City & State or Country)			
(3) STATE OF INCORPORATION, IF ASSIGNEE IS A CORPORATION:		2 106 100.000K 2 107 10.000K 2 108 2.000K	

MAILING INSTRUCTIONS

NOTE: All further correspondence, the patent together with the Notice of Balance of Issue Fee Due, if any, will be mailed to the addressee entered in the stub marked 4 at the lower left below, unless you direct otherwise by specifying the appropriate name and address in Item 4a below right.

4a. Further correspondence is to be mailed to the following:

United States District Court
for the

SOLICITOR *779*

DISTRICT OF DELAWARE

OCT 3 11974

COMMISSIONER OF PATENTS,
Washington *22*, D. C. 20231 *Wilmington*

U.S. PATENT OFFICE

SIR:

In compliance with the Act of July 19, 1952 (66 Stat. 814; 35 USC 290), you are advised that there was filed on the twenty-first day of October, 1974, in this court an action, No. 74-217, entitled:

Name FunnelcaP Inc., Plaintiff,

Address 132 Sterling Street
West Boylston, Massachusetts 01483
versus

Name Orion Industries, Inc., Defendant,

Address 19914 South Via Baron
Compton, California 90220
Corporation Trust Company
100 West Tenth Street
Wilmington, Delaware 19801

brought upon the following patents:

PATENT NO.	DATE OF PATENT	PATENTEE
3,750,722	August 7, 1973	Roger L. Nowak
1		
2		
3		
4		
5		

In the above-entitled case, on the _____ day of _____, 19____, the following patents have been included by _____ (insert amendment, answer, cross bill, or other pleading):

PATENT NO.	DATE OF PATENT	PATENTEE
1		
2		
3		
4		
5		

In the above-entitled case the following decision has been rendered or judgment issued:

EWAN L. BARNEY

Clerk.

Date October 21, 1974

By *E. L. Barney*
Deputy Clerk.

U.S. District Court (Oct. 1954)

United States District Court
for the

CENTRAL DISTRICT OF CALIFORNIA

In Re Patents

SOLICITOR #10

JAN 2 1975

COMMISSIONER OF PATENTS,
Washington 25, D. C.

For Deposition

U.S. PATENT OFFICE

FOR:

In compliance with the Act of July 19, 1952 (66 Stat. 814; 35 USC 290), you are advised that there was filed on the 5th day of December, 1974, in this court an action, NoCV 74-3571 WPG, entitled:

Name CAL CUSTOM ACCESSORIES, INC., Plaintiff,

Address Compton, California

VERSUS

Name FUNNELCAP, INC., Defendant,

Address West Boylston, Massachusetts

brought upon the following patents:

PATENT NO.	DATE OF PATENT	PATENTEE
1 3,750,722	July 7, 1973	Defendant
2		
3		
4		
5		

In the above-entitled case, on the _____ day of _____, 19____, the following patents have been included by _____ (insert amendment, answer, cross bill, or other pleading):

PATENT NO.	DATE OF PATENT	PATENTEE

In the above-entitled case the following decision has been rendered or judgment issued:

Edward Kritzman

Clerk.

Date Dec. 17, 1974.

By

Irwin Young
Irwin Young, Deputy Clerk.

FORM PO 875 11-6-61	U.S. DEPARTMENT OF COMMERCE PATENT OFFICE	SERIAL NUMBER <div style="font-size: 1.2em; font-family: cursive;">141,135</div>	FILING DATE <div style="font-size: 1.2em; font-family: cursive;">5-7-71</div>				
PATENT APPLICATION FEE DETERMINATION RECORD		APPLICANT (First Named Only) <div style="font-size: 1.2em; font-family: cursive;">Frank, P. L.</div>					
CLAIMS AS FILED - PART I							
	(1) FOR	(2) NUMBER FILED	(3) NUMBER EXTRA	(4) RATE	(5) BASIC FEE \$65.00		
	TOTAL CLAIMS	10	—	=	× \$2.00		
	INDEPENDENT CLAIMS	1	—	=	× \$10.00		
TOTAL FILING FEE →					65.00		
CLAIMS AS AMENDED - PART II							
	(1)	(2) CLAIMS REMAINING AFTER AMENDMENT	(3) MINUS	(4) HIGHEST NO. PREVIOUSLY PAID FOR	(5) PRESENT EXTRA	(6) RATE	(7) ADDITIONAL FEE
AMENDMENT	TOTAL	*	MINUS	**	=	× \$2	=
	INDEP.	*	MINUS		=	× \$10	=
TOTAL ADDITIONAL FEE FOR THIS AMENDMENT →							
AMENDMENT	TOTAL	*	MINUS	**	=	× \$2	=
	INDEP.	*	MINUS		=	× \$10	=
TOTAL ADDITIONAL FEE FOR THIS AMENDMENT →							
AMENDMENT	TOTAL	*	MINUS	**	=	× \$2	=
	INDEP.	*	MINUS		=	× \$10	=
TOTAL ADDITIONAL FEE FOR THIS AMENDMENT →							
AMENDMENT	TOTAL	*	MINUS	**	=	× \$2	=
	INDEP.	*	MINUS		=	× \$10	=
TOTAL ADDITIONAL FEE FOR THIS AMENDMENT →							
* If the entry in Column 2 is less than the entry in Column 4, write "0" in Column 5. ** If the "Highest Number Previously Paid For" IN THIS SPACE is less than 10, write "10" in this space. The "Highest Number Previously Paid For" ("Total" or "Indep.") is the highest number found in the appropriate box in Column 2.							

EXHIBIT C

District Court, D. Delaware

FunnelcaP, Inc.
v. Orion Industries, Inc., et al.
Nos. 74-217 and 75-174
Decided Sept. 1, 1976

PATENTS**1. Infringement — Substitution of equivalents — In general (§39.751)**

Device must do more than perform same function as patented structure in order to constitute equivalent, it must perform same function in substantially same way as patented structure.

2. Pleading and practice in courts — Burden of proof — Validity (§53.138)

Presumption from patent grant — In general (§55.1)

Patent is presumed valid under 35 U.S.C. 282 and party asserting invalidity must prove his assertion "by clear and convincing proof."

3. Patentability — New use or function — Analogous art (§51.553)

Presumption from patent grant — Patent Office consideration of prior art (§55.5)

Invention directed to flexible containers provided with sealable cover means is within art to which one could reasonably be expected to look for solution of problem addressed by patented device designed to snap onto top of standard size cans and serve as pouring and storage device.

4. Patentability — Anticipation — Knowledge of prior art presumed (§51.215)

Patentability — Invention — In general (§51.501)

Inventor is presumed to have knowledge of prior art available at time of his invention, under 35 U.S.C. 103, so that test for invention concerns itself, not with actual mental processes whereby device claimed in patent was developed, but with degree of difficulty in developing device in light of all of prior art.

5. Patentability — Invention — In general (§51.501)

Fact that some feature of claimed structure might not have been obvious to one ordinarily skilled in art has no bearing on whether structure itself is obvious.

TRADEMARKS

6. Marks and names subject to ownership — Descriptive — In general (§67.5071)

Marks and names subject to ownership — Descriptive — Particular marks (§67.5081)

"Funnel cap" is descriptive; generic term is name for class or type of product.

7. Marks and names subject to ownership — Descriptive — In general (§67.5071)

Marks and names subject to ownership — Distinctive display (§67.511)

Fanciful contraction and letter style does not take away descriptive or generic character of mark so as to enable its owner to preclude other from using words without that contraction or letter style.

UNFAIR COMPETITION

8. Appearance of goods or labels — Color or appearance (§68.205)

It is fair to assume that there will be some confusion in market having number of devices of same structural design, but confusion resulting from product copying rather than trademark or trade dress copying, cannot provide basis for legal or equitable relief; color, other than as integral part of distinctive trade dress, cannot be appropriated by one producer in field.

9. Costs — Attorney's fees (§25.5)

Patent infringement action in which patentee was unaware, during prosecution, of pertinent prior art that rendered his patent obvious, no evidence of fraud on Patent Office appears from record, and patent infringement segment of litigation was brought in good faith although erroneous belief that there was infringement, is not 35 U.S.C. 285 "exceptional case" warranting award of attorney's fees to accused infringers.

10. Costs — Attorney's fees (§25.5)

Patent owner is not entitled to recover attorney's fees from accused infringers that defended patent infringement action in good faith, even though accused infringer's affidavits, which are not shown to have caused patent owner to incur any additional legal expenses or to have caused anything to happen that would not otherwise have happened, are troubling in number of respects.

Particular patents — Funnel

3,750,722, Nowak, Funnel, invalid, but if valid, infringed.

Actions by FunnelcaP, Inc. against Orion Industries, Inc., and Cal Custom Accessories, Inc., for patent infringement and unfair competition, and by Cal Custom Accessories, Inc., and Orion Industries, Inc., against FunnelcaP, Inc., for declaratory judgment of nonliability. Judgment for Cal Custom Accessories, Inc., and Orion Industries, Inc.

See also 186 USPQ 50.

John G. Mulford, and Theisen, Lank & Mulford, both of Wilmington, Del. (Berton Scott Sheppard, and Wolfe, Hubbard, Leydig, Voit & Osann, Ltd., both of Chicago, Ill., of counsel) for FunnelcaP, Inc.

Paul E. Crawford, and Connolly, Bove & Lodge, both of Wilmington, Del. (Vern Schooley, and Fulwider Patton Rieber Lee & Utech, both of Long Beach, Calif., of counsel) for Cal Custom Accessories, Inc., and Orion Industries, Inc.

Stapleton, District Judge.

These consolidated actions present issues of patent and unfair competition law. In Civil Action No. 74-217, which was originally filed in Delaware, FunnelcaP, Inc. ("FunnelcaP") asserts four affirmative claims of wrongdoing against Orion Industries, Inc. ("Orion") and Cal Custom Accessories, Inc. ("Cal Custom"). In Civil Action No. 75-174, which was originally filed in California, Orion and Cal Custom assert four corresponding claims for declarations of non-liability to FunnelcaP.¹ These four affirmative and defensive claims have been tried to the Court and the following represents the Court's findings of fact and conclusions of law after trial.²

This Court has jurisdiction over FunnelcaP's patent claim pursuant to 28 U.S.C. §1338(a), and jurisdiction of its unfair competition claim pursuant to 28 U.S.C. §1338(b). There is also diversity jurisdiction pursuant to 28 U.S.C. §1332(a)(1) since FunnelcaP is a Massachusetts corporation, with its principal place of business in that state, and Orion and Cal Custom are Delaware corporations with their principal places of business in California.

This controversy centers around a device known under plaintiff's designation as a "FunnelcaP". This device, which represents the preferred embodiment of the claim of the patent-in-suit, is designed to snap onto the top of standard-size cans and to serve as a pouring and storage device, being particularly useful in situations where the entire

contents of the can are not to be disposed of at once. For example, if the user desires to dispense only half a can of motor oil, he can attach a "FunnelcaP" (see Figure 1 in the Appendix to this Opinion), pour out the amount desired, and store the remainder without contamination by applying the closure element to the spout of the funnel portion of the device. Among other things, plaintiff's funnel device features an off-set neck to facilitate pouring in confined spaces. In addition, plaintiff's device can be removed from the tops of cans merely by applying finger pressure to the inclined surface of the funnel.

This device was first developed by a gentlemen named Roger Nowak, working out of his home in West Boylston, Massachusetts. Although the patent for the device was not obtained until August 7, 1973, sale was begun in 1970 under the name WRN Industries, with Barbara Wyatt, Mr. Nowak's daughter, serving as marketing manager. Of the utility and commercial success of plaintiff's device, there can be no doubt. Sales totaled 20,000 in 1970, over 200,000 in 1971, and, in 1972, over 1,000,000 were sold by WRN Industries. During this time, one of WRN's principal customers was Western Auto Supply Company.³

In 1973, Barbara Wyatt and her husband, Peter, incorporated FunnelcaP, Inc. and acquired the funnel business, including all right, title and interest in the Nowak patent, from Mr. Nowak and WRN Industries. Also in 1973, an entity known as Hollywood Accessories ("Hollywood"), which has been at various times a division of Orion and Cal Custom - the defendants herein - began to market funnel devices similar to FunnelcaP's and to negotiate with Western Auto for its business. These negotiations proved successful; Western Auto dropped FunnelcaP as a supplier in February of 1974. This lawsuit followed.

I. Patent Infringement and Validity.

A. Infringement.

The Nowak patent contains but one claim, reading as follows:

1. A funnel, for use on a container, said container having a circular upper surface, a container flange upwardly directed from

¹ C.A. No. 75-174 also asserts invalidity of the patent-in-suit on various grounds. Eight additional causes of action for affirmative relief for trade label, libel, inducing breach of contract and interference with prospective advantage originally pressed by Orion and Cal Custom were voluntarily dismissed on the opening day of trial.

² Hereafter, the issues shall be treated as if posed in one suit with FunnelcaP as plaintiff.

³ In 1972 and 1973, Western bought "hundreds of thousands" of the devices. Plaintiff's Trial Exhibit (hereafter "PX") G, p. 10; Transcript of Trial Proceedings ("T"), Doc. No. 77, at 119.

the periphery of the upper surface, and a container lip extending radially from the upper edge of the container flange, comprising:

a. a first circular aperture, defining a plane, and having an axis and a circumference,

b. a second aperture of smaller area than said first aperture, and having a periphery and a geometric center, said second aperture being spaced from the plane of the first aperture and located so that its center is spaced from the axis of the first aperture,

c. a elastomer plastic web connecting every point on the periphery of the second aperture to every point on the circumference of the first aperture,

d. a first flange, concentric with the first aperture and extending longitudinally from the plane, and positioned to engage the inner surface of the container flange,

e. a second flange, of large (sic) diameter than and concentric to the first flange, and extend (sic) longitudinally from the plane,

f. a peripheral, inwardly-directed lip extending radially from the second flange, and positioned to engage the lower portion of the container lip thereby cooperating with the first flange to form a seal with the periphery of the container.⁴

Figure 2 of the Appendix is a cross-sectional drawing of the preferred embodiment of the patent claim upon which the Court has indicated the elements corresponding to the various subparagraphs of the claim. As will be noted, there is no one element depicted as corresponding to subsection d of the patent claim; rather, two elements are indicated, d¹ and d². As will later appear, this has been done because the parties are in disagreement over which element of the embodiment corresponds to claim element d.

Turning to the alleged infringing devices, it is clear that they were designed to perform the same function as plaintiff's product. There is no need to describe Hollywood's first funnel product, its original No. 22 Snap-On Oil Can Funnel, in detail. It

has elements which correspond exactly to claim elements a through f of the Nowak patent (however claim element d is construed), as witnesses for both parties testified.⁵ Accordingly, Hollywood's original product literally infringes the Nowak patent, if the latter is valid.

This particular No. 22 funnel was not the only device ever produced by Hollywood, however, which arguably infringed the patent-in-suit. Hollywood had not been in the funnel business very long when it discovered that its original model would not fit certain types of oil cans properly.⁶ This problem led Hollywood to make two changes in its design. The first, of no particular relevance here, was the use of medium-density, rather than high density, plastic. The second change, of substantial relevance, was the redesign of what has been referred to by the parties as the "flange area". A magnified cross-sectional view of the "flange area" of Hollywood's redesigned product is attached as Figure 3.

As can be seen, the principal difference between the flange area of the redesigned Hollywood device and the flange area of the Nowak preferred embodiment is that, in the Hollywood version, the element denoted as d¹ corresponds to element d of the claim of the Nowak patent i.e., it is the "first flange ... extending from the plane, and positioned to engage the inner surface of the container flange". According to defendants, then, the absence of this element in the Hollywood redesign precludes infringement. Plaintiff, on the other hand, argues that the element d¹ does not correspond to claim element d which, they say, is represented in the drawing by element d².⁷ In any event, plaintiff argues, the omission of the element d¹ is without particular consequence to the over-all functioning of the funnel device and, thus, the Hollywood redesign is an "equivalent" of the patented device.

Taking the former claim first, I find that the language of claim element d describes

⁵ See testimony of Roger Nowak, T. 58-9, PX 23; testimony of Robert Comstock, T. 274.

⁶ Dep. of William Hyatt, PX A, at 16. As explained at trial, there are three basic types of oil cans, those made of metal, those made of a cardboard-like fibre material and those made of a plastic-type synthetic material. The upper ends of these various types of cans differ slightly in diameter. T. 26.

⁷ Id. at 29; P.T.O. p. 8; Dep. of Donald J. Shanklin, PX D, at 24.

⁸ Under plaintiff's theory, d¹ constitutes a "skirt extension" to the "flange" d². See, e.g., T. 98.

⁴ PX 80A.

drawing element d¹ and cannot be reasonably said to describe drawing element d². To begin with, the physical element described in claim element d is one which extends "longitudinally from [a] plane", the plane in question being one defined by the larger of the two apertures of the funnel. This plane is horizontal as the preferred embodiment is depicted in the patent and, since the claim says the flange extends from the plane rather than extends in the plane or is situated in the plane, it is more natural to read claim element d as a description of a vertically projecting element.

To the extent that the language of claim element d leaves room for doubt, there is scarcely any doubt when claim element e is considered. That element also describes a flange extending "longitudinally from the plane" and this flange is conceded by plaintiff to correspond to lettered element e in the drawing of the Nowak preferred embodiment.⁹ Given these facts, an application of claim element d to an element perpendicular to drawing element e, rather than to the downwardly-projecting element d¹ parallel to it, would be unnatural.¹⁰

Finally, the specification of the Nowak patent confirms this interpretation of its claim. In that specification, the elements of cross-sectional drawing of the preferred embodiment of the patented device were numbered as in Figure 4. The description in this specification of the elements numbered 13 and 21 is as follows:

The flange 13 extends from the main body 17 around the periphery of the opening 12, the flange being adapted to envelop the end of a container 14. * * *

In addition a downwardly directed axial flange 21 extends downwardly from the interior of the main body in a position generally spaced from and concentric with a flange 13. The flange 21 fits in the inside of the lip of the container to provide for drain-back. * * *

⁹ At trial, Mr. Nowak, in testifying for plaintiff, placed arrows on a drawing of Hollywood's redesigned funnel to indicate the points of infringement. A line said to represent claim element e was drawn to the portion of the Hollywood redesign device corresponding to that part of the Nowak drawing which I have marked with the letter e. PX 124A.

¹⁰ It would also appear more natural to describe element d¹ as being concentric with flange e and as "positioned to engage the inner surface of the container flange" than it would be to so describe element d².

* * *

The funnel 10 is then snapped in place with the flange 13 fitting under the lip on the container and the flange 21 fitting down inside of the end recess of the container. * * *

* * *

[Any liquid] will be prevented from leaking out around the edge of the funnel by the flange 21 which will ensure that this liquid returns to the recessed end of the container. * * *

Claims elements d and e describe two flanges, and no other flanges are described in the claims; the foregoing excerpts from the patent specification refers to two flanges and no other flanges are elsewhere mentioned in the specification. This fact, coupled with the fact that element d² in Figure 2 is not even numbered in the drawing of the Nowak patent specification, makes it crystal clear that claim element d refers to, and was meant to refer to, the downwardly-projecting drawing element 21.

Giving the patent-in-suit its reasonable construction, defendants' second generation funnel does not literally infringe. Accordingly, I turn to plaintiff's equivalency argument. Comparing Hollywood's single-flange model with FunnelcaP's double-flange model, it appears that both can be attached to the top of a can and will allow pouring of the liquid or other substance contained therein through an offset funnel portion, and that these attaching and pouring functions are performed equally well by both.¹²

[1] In order to constitute an equivalent, however, a device must do more than perform the same function as a patented structure; it must do so in substantially the same way as the patented structure. *Graver Tank & Mfg. Co. v. Linde Air Products Co.*, 85 USPQ 328, 330, 339 U.S. 605, 608 (1950).

In the present case, the patent claim states that flange element d "[is] positioned to engage the inner surface of the container flange" and that, while so positioned it "cooper[ates] with [the inwardly-directed lip of flange element e] to form a seal with the periphery of the container." The patent specification further states that flange element d "fits in the inside of the lip of the container to provide for a drain-back" and

¹¹ PX 80A, Col. 2, 11. 17-19; 41-46; 57-61; Col. 3, 11. 8-11.

¹² Testimony of Bud Gibbons, President of Hollywood, T. 321.

that "[liquid] * * * is prevented from leaking out around the edge of the funnel by [flange element d] which will insure that * * * liquid returns to the recessed end of the container." The patented structure, therefore, as claimed and specified, performs its sealing function through the cooperation of two elements, the outer flange and lip and the inner flange. Given the positive role in the sealing function assigned to the inner flange, I do not believe plaintiff can now argue that this element is immaterial and its deletion inconsequential. Though defendant's revised device may seal virtually as well as plaintiff's, it cannot on the record here be said to seal in the same way as plaintiff's and, accordingly, defendant's revised product is not an infringing one.

B. Validity.

[2] A patent is presumed valid. 35 U.S.C. §282. A party asserting invalidity must prove his assertion "by clear and convincing proof". *Trio Process Corporation v. Del Goldstein's Sons, Inc.*, 461 F.2d 66 (1970). The defendants in this case have carried this burden.

1. Anticipation.

Defendants assert that three separate prior art patents disclosed the device claimed in the Nowak patent. The first of these, the Coltman patent, is entitled "Flexible Containers"¹³ and is said to "relate * * * more particularly to flexible containers provided with sealable cover means."¹⁴ In Figures 4, 5 and 6 of the Coltman specification, a "cover means" is described, a cross-section of which is shown in Appendix Figure 5. When this "cover means" is examined with the elements of the Nowak patent in mind, it is found to contain:

a. a first circular aperture, defining a plane, and having an axis and a circumference —

namely, the aperture whose cross-sectional diameter is represented in Figure 5 by the line a₁-a₁.

b. a second aperture of smaller area than said first aperture, and having a periphery and a geometric center, said second aperture being spaced from the plane of first aperture and located so that its center is spaced from the axis of the first aperture —

namely, the aperture formed by Coltman's pouring spout, whose cross-sectional diameter is indicated in Figure 5 by line b₁-b₂.¹⁵

c. a elastomer plastic web connecting every point on the periphery of the second aperture to every point on the circumference of the first aperture —

namely, the plastic surface connecting the two above-described apertures and identified by the letter c in Figure 5.¹⁶

d. a first flange, concentric with the first aperture and extending longitudinally from the plane, and positioned to engage the inner surface of the container flange —

namely, the element identified with the letter d in Figure 5.¹⁷

e. a second flange, of large (sic) diameter than and concentric to the first flange, and extend (sic) longitudinally from the plane —

namely, element e in Figure 5.¹⁸

f. a peripheral, inwardly-directed lip extending radially from the second flange, and positioned to engage the lower portion of the container lip thereby cooperating with the first flange to form a seal with the periphery of the container.

namely, the element labeled f in Figure 5.¹⁹ The device depicted in the Coltman specifications thus contains all of the elements a through f claimed in the Nowak patent.

¹³ The line b₁-b₂ is identified in the drawings of the Coltman specification as element 54, and is described as an "aperture" in column 3, lines 63-68 of the patent specification.

¹⁴ This web is denominated as element 12 in the drawings of the Coltman specification and is described in column 1, lines 30-34 of the specification as being of "moldable plastic".

¹⁵ This element is labeled No. 48 by Coltman in his specification and described as an "inner flange", at column 3, lines 27-8.

¹⁶ This element is denominated with the number 14 by Coltman, and is described at column 3, line 3 of the patent specification as a "flange".

¹⁷ This element was denominated No. 46 in the Coltman specification and was described in column 3, lines 10-11 as "[a] shoulder, rib or like portion * * * provided on or adjacent flange 14 to engage the flat surface [undersurface] of bead 40 [protrusion at the upper end of the container] for the purpose of keeping this bead tightly in [the] recess 44".

¹³ Pat. No. 2,754,866, issued to B. W. Coltman, Jr., July 17, 1956.

¹⁴ Defendants' Trial Exhibit ("DX") HA-01-28, Exh. 16B, Col. 1, 11. 1-3.

FunnelcaP nevertheless urges that Coltman does not anticipate the patent-in-suit for two reasons. First, it is pointed out that the Nowak patent claim is limited in its preamble to "funnels" and it is argued that Coltman's device does not constitute such a structure. FunnelcaP takes the position that the term "funnel" necessarily connotes a conically-shaped instrument.²⁰ Its argument, however, ignores the fact that the device disclosed by elements a through f of the Nowak patent claim is not so limited, as the preferred embodiment depicted in the Nowak specification itself shows. It is often said, a patentee is his own lexicographer and, in this case, Mr. Nowak has defined his "funnel" as a "device comprising" claim elements a through f. Since Coltman reads on those claim elements, it cannot be said to be other than a "funnel", in the sense meant in the Nowak preamble.

FunnelcaP also argues that Coltman does not anticipate the Nowak patent because Coltman is not relevant prior art. The Nowak patent, it is argued, is limited to devices designed to be attached to cans whose lid has been pierced²¹ and, since Coltman does not disclose such a container, it cannot be urged against the patent-in-suit. In my view this argument is without merit.

[3] The problems which the Nowak device attempts to solve are pouring and storage problems, the same problems toward which the Coltman device is directed. These problems are the same irrespective of the presence or absence of an upper surface on the liquid container. I believe that the Coltman device is well within "the art to which one [could] reasonably be expected to look for a solution of the problem which the patented device attempts to solve", *Burgess Cellulose Company v. Wood Flong Corporation*, 431 F.2d 505, 509, 166 USPQ 417, 420 (2nd Cir. 1970), a view which is amply supported by the patent examiner's citation of the *Wagaman* patent²² which discloses a funnel-shaped device designed for attachment to the top of a soda pop-type bottle after the cap has been removed.²³

²⁰ Pl. Reply Br., Doc. No. 85, pp. 13-14.

²¹ Evidently, FunnelcaP's argument is premised on the preamble to the Nowak patent claim, which states that the "funnel" disclosed therein is "for use on a container, said container having a circular upper surface. * * *"

²² Patent No. 3,201,015 "Supplemental Container for a Bottle", R. Wagaman, August 17, 1965.

²³ I find that the other two patents urged against Nowak — namely, Atherton and Tupper

2. Obviousness.

35 U.S.C. §103 provides:

The patent may not be obtained although the invention is not identically disclosed or described as set forth in Section 102 of this title, if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which such subject matter pertains. * * *

[4] Under this statute, the inventor is presumed to have knowledge of the prior art available at the time of his invention, *Application of Winslow*, 365 F.2d 1017, 1021, 151 USPQ 48, 51-52 (C.C.P.A. 1966), and the test for invention thus concerns itself, not with the actual mental processes whereby the device claimed in the patent-in-suit was developed, but with the degree of difficulty in developing such a device in light of all of the prior art. Accordingly, "[under] Section 103, the scope and content of the prior art are to be determined; differences between the prior art and the claims at issue are to be ascertained; and the level of ordinary skill in the pertinent art resolved. Against this background, the obviousness or non-obviousness of the subject matter is determined * * *". *Graham v. John Deere Co.*, 383 U.S. 1, 17, 148 USPQ 459, 466-467 (1966).

As has already been indicated, I believe that the device disclosed in the Coltman patent anticipates the device claimed in the patent-in-suit. Even assuming, however, that the use in the preamble of the claimed patent-in-suit of the word "funnel" precludes literal anticipation by the Coltman device, the Nowak patent must be held obvious. The precise type of offset funnel shape contained in the Nowak preferred embodiment is disclosed in at least three patents which were already of record by the time Mr. Nowak developed his funnel device.²⁴ Given these disclosures, changing the Coltman device to the Nowak device would have required only the raising up of

— fall somewhat short of literally anticipating. See discussion in Section 2 immediately following.

²⁴ Such an offset funnel shape was disclosed in Patent No. 3,256,916, "Liquid Floating Device," R.W. Siletti, June 21, 1966 and in design patents 54,983, "Oil Can", F.D. Gatchell, April 27, 1920 and 60,342, "Oil Can", R. Haskell, February 27, 1922. See DX HA-01-28, Items 9, 12, 13.

the Coltman cover into an already-disclosed shape.

Also extant at the time of the development of the Nowak device were the Atherton patent,²⁵ which discloses an attachment for paint cans for the purpose of pouring and mixing the contents of the can, and the Tupper patent²⁶ which discloses a closure for a container having a "pouring spout type of opening * * *". Each of these devices, ignoring for the moment FunnelcaP's claim that the patented device is limited to the classic conically-shaped funnel, reads on the claims of the patent-in-suit, with one minor exception in each case. The only element missing in Atherton is the inner flange, which is disclosed in both Coltman and Tupper, and the only element missing in Tupper is the radial lip on the outer flange,²⁷ which is disclosed in both Coltman and Atherton.

So far as the degree of difficulty of adapting either the Coltman, Atherton or Tupper devices to suit the purposes of the Nowak device is concerned, Mr. Nowak's trial testimony is instructive. Mr. Nowak was asked to specify what difficulties would be encountered by someone attempting to adapt the Tupper device to his purposes; he could identify none.²⁸ I see no reason for believing that adaptation of either the Coltman or Atherton devices would pose any greater problems. Accordingly, I find that the device developed by Nowak was obvious at the time developed to one ordinarily skilled in the art.

[5] The Nowak patent is thus invalid.²⁹

²⁵ Patent No. 2,873,052, "Paint Can Attachment", W.A. Atherton, February 10, 1959.

²⁶ Patent No. 2,842,167, "Closure with Jigger-Type of Seal", E.S. Tupper, July 8, 1958.

²⁷ Tupper discloses the full equivalent of the radial lip in that his "outer wall" (No. 15) is designed to deform into a lip-like shape, thus attaining a seal with the outer can wall. See Tupper patent, DX HA-01-28, Exh. 16B, column 3, lines 31-42.

²⁸ T. 376-9.

²⁹ FunnelcaP's attempts to resist this result fall short of the mark. In addition to its contention that the prior art patents referred to are not within the relevant art — an argument considered in Section IA supra — it argues that the method of removing the Nowak device from a can — through finger pressure and without the need for tools and for pulling up on the flange area — renders the Nowak device novel. Coltman, Tupper and Atherton all require such manipulation of the flange area for removal, FunnelcaP points out, and the improvement in the Nowak device is not suggested in these references.

II. Unfair Competition.

In addition to patent infringement, FunnelcaP charges Hollywood with having appropriated good will by passing off its funnel as a FunnelcaP product. FunnelcaP also claims that Hollywood has competed unfairly by selling to Western Auto at a price lower than it was then selling to other comparable customers.

A The Alleged Appropriation Of Good Will.

FunnelcaP asserts a number of different legal theories, all of which predicate liability on a wrongful appropriation of good will. One theory is based on the Uniform Deceptive Trade Practices Act (6 Del. C. §§2531-2536; Ch. 121-½ Ill. Rev. Stat. §§311-317); the others are based on the common law of unfair competition.³⁰ I first turn to the relevant facts.

It is a fair inference that the designer of Hollywood's initial No. 22 funnel copied FunnelcaP's product. While Hollywood has since altered its product structurally by deleting the inner flange, it is still using FunnelcaP's idea and structural design, and is still making a profit as a result of that use.

Hollywood, however, has never marketed or advertised its funnel under the name "FunnelcaP" or "Funnel Cap", or any variation thereof.³¹ Rather, the words featured on its labels are "No. 22 SNAP-ON OIL CAN FUNNEL" and "No. 21 SNAP-TIGHT ADDITIVE CAN FUNNEL". The name Hollywood Accessories is molded in the plastic of each funnel.

Even aside from the fact that a pressure-activated release of the flange lip is disclosed in another patent — namely, Patent No. 3,484,016, "Container and Closure", Lloyd S. Turner, December 16, 1969 — FunnelcaP's argument is without merit. What is claimed in the Nowak patent is a structure and the fact that some feature of this structure might not have been obvious to one ordinarily skilled in the art has no bearing on whether the structure itself is obvious. Cf. General Electric Company v. Jewel Incandescent Lamp Company, 326 U.S. 242, 67 USPQ 155 (patent for certain pattern of frosting on inside of light bulb held invalid although surprising strength of frosted glass was achieved, where inside frosting of light bulbs and the frosting pattern in question were known processes).

³⁰ FunnelcaP has not registered a trademark or trademark under the Lanham Act.

³¹ There is evidence tending to show that Hollywood's funnels have been marketed by Western Auto in bins labels "A 1085 FunnelcaP". There is no evidence, however, suggesting that the defendants in this case are responsible for that activity.

This type of product is marketed at the consumer level without packaging and with the label attached directly to the funnel wall. FunnelcaP's original funnels were made with yellow plastic, although it has since made a white plastic funnel as well. Hollywood's funnels are also made with yellow plastic. The labels of the two parties, however, differ materially in color, size and shape. While both contain instructional text and drawings illustrative of the uses of the product, their layout makes the labels readily distinguishable by the consumer.

Hollywood's product catalogs list its funnels under captions like "22 SNAP-ON OIL CAN FUNNEL" and "21 HALF PINT, OFFSET FUNNEL". Each listing shows a picture of the funnel with its distinctive trade dress. Hollywood's listing in the programs of the 1974 and 1975 Auto Parts Accessory Association's trade show, however, contained a lengthy list of its products which includes the words "Funnel Cap". This suggests, FunnelcaP maintains, that these words are used by Hollywood in connection with the marketing of its competing funnels, a suggestion which is said to be supported by their use in a memorandum of Hollywood's Vice President to its sale representatives and in certain company correspondence with Western Auto.

I agree that Hollywood's immediate customers — e.g., jobbers and auto supply houses — have been exposed to the use of the words "Funnel Cap" in connection with Hollywood's efforts to sell its funnels (usually in phrases like the "No. 22 Funnel Cap" referring to Hollywood's product). At the same time, I do not attribute this to any deliberate design on Hollywood's part to usurp FunnelcaP's good will.³² From the context, I believe use of this terminology results from the fact that the words "funnel cap" are a short and accurate way of describing the product itself.

The evidence relied upon by FunnelcaP to show actual confusion is less than persuasive. Mrs. Wyatt, FunnelcaP's Marketing Manager, testified that a representative of one of its customers, the Zeller Company, indicated to her that he thought FunnelcaP was supplying funnels to Hollywood. On cross-examination,

³² Hollywood's motive in copying plaintiff's funnel is obvious; it was a hot item and copying offered the promise of profit. On the other hand, it is hard to perceive a motive for one of the larger automobile supply houses, with an established line of products, going further and attempting to pass off its funnel as coming from another source.

however, she indicated that he might have said he thought Hollywood was manufacturing them under a license from FunnelcaP. The following additional testimony of Mrs. Wyatt is characteristic of the other "confusion" evidence in the record:

Q. Do you recall any other specific instances that would indicate there was confusion in the minds of buyers?

A. Well, yes. I remember another fellow from Illinois area that came to the booth and he stopped and he really looked and admired our product and he said, "You know, the funny thing happened. Last year a couple of people came in here and said they had a new product and he said I told them it wasn't new and I had received mailings on this. It had to be the last year or year and a half before that." So he knew that we were there first and had the product but to the marketplace they thought it was new from the other companies.

Q. Following the 1974 APAA Show did you have any other instances where there was some indication of confusion over the source of the FunnelcaP product?

A. Yes. I received another telephone call from a fellow who called and said I had seen your product being sold at Sears. I said, "I am sorry but ours wasn't sold at Sears and our product, it was a product very much like ours." "And I was reminded of it when I saw it because I received your literature about a year ago and we hadn't done anything on it" but it reminded him enough of it to call us up and he did order some.

* * *

Q. Are you aware of any instances where anyone actually bought a Hollywood Accessory funnel thinking it was a funnel manufactured by FunnelcaP, Inc.?

A. I can't give you a name, a person I know personally, but it seems to me friends will come over and say that I saw your funnel being sold at Sears. And I mentioned earlier in the testimony that there was a call on the phone and a friend said this to me and now as far as them purchasing this funnel and saying it was made by Hollywood, no, they didn't go into the detail of the conversation. It was generalized enough that again I thought the content was there.³³

³³ T. 130-131; 146-147.

To me this evidence suggests not so much that the public has been confused as to the source of Hollywood's funnels, as that some of the public is aware that a product which FunnelcaP initiated has been copied by others. Moreover, to the extent it can be taken as evidence of source confusion, it is entirely consistent with the view that the reason for any confusion is that the structural design of the funnel of Hollywood and five other manufacturers is substantially the same as the design of FunnelcaP's funnel. Mrs. Wyatt explained that there were two competing funnels at the 1973 APAA Show, Hollywood and Allison, and that there were four more by the 1975 Show. She then testified:

Q. Has FunnelcaP, Inc. examined or caused to be examined any other competitive funnel besides the Allison and the Hollywood Accessories' funnel?

A. I have seen some of them. Examine? Well, I looked at them and I looked quickly inside and I might snap one on if I have it, but *I don't have all of the funnels in the market that I consider are infringing and they look alike and I can't even — the difference which the average customer, I don't know how he determines it and they try them to sample them, but back to your examining them, no, I haven't examined them carefully.*³⁴

[6] Turning from the facts to legal analysis, in trademark terminology, the words "funnel cap" are descriptive. Mrs. Wyatt testified that they were chosen as the name for the product because its originators wanted to "emphasize" its two principal features — "it was a funnel and it was a cap, or a storage cover. * * *"³⁵ The record indicates more, however. It suggests to me that the words "funnel cap" became known in the marketplace as a generic term — that is, as a name for a class or type of product. Western Auto, as well as Hollywood, has used the words "funnel cap" or "Funnel Cap" in correspondence in a generic sense, not referring to plaintiff's product. And the same appears to be true of the public, as indicated in the following answers of Mrs. Wyatt:

Q. Are you aware the words "funnel" and "cap" being used in the trade to describe this type of product?

A. Funnel and cap like that, no. I call it a FunnelCap other than funnel space cap as it was in the directory, I have seen it used that way under the Hollywood en-

try, but I am not aware of other people at my show and maybe I can explain it this way and see if this helps to explain it. *People will come up at the show and say it's a FunnelCap³⁶ and I don't know if they are using it in one word or two words or whatever. It is the concept of what my product is to me and as I introduced it in the trade for two years at least.*

Q. *Have you had occasion where someone would come to your booth or other instances where they would refer to a competitor's similar product as a FunnelCap, knowing that that was manufactured by a competitor?*

A. Yes.³⁷

[7] We may assume that the word "FunnelcaP" with capital letters at each end, is associated with a particular source in the minds of some in the market, although there is no direct evidence to this effect in the record. Even so, however, a fanciful contraction and letter style of this kind does not take away the descriptive or generic character of a mark so as to enable its owner to preclude others from using the words "funnel cap" without that contraction or letter style. *L. P. Larson, Jr. Co. v. Lamont, Corliss & Co.*, 257 F. 270 (7th Cir. 1919); 1 *McCarthy, Trademark and Unfair Competition*, §§11.11, 11.12, 12.1, 12.2, 12.14 (1973). This is the most that Hollywood has done. There is no evidence in this record that Hollywood has been responsible for the use of the mark "FunnelcaP" in connection with the sale of its funnel.

[8] Turning from trademark law to more general principles of unfair competition, the question remains whether the totality of Hollywood's activities in the market has created a likelihood of confusion and, if so, whether this circumstance constitutes unfair competition. As previously noted, I find no persuasive evidence in this record of anyone purchasing a Hollywood funnel in the belief that he or she was getting a FunnelcaP funnel. It is fair to assume, however, that there will be some confusion in any market having a number of funnels of the same structural design. But this confusion is the result of product copying, not trademark or trade dress copying,³⁸ and, accordingly, can-

³⁴ Except where otherwise expressly indicated, the witnesses gave the reporters no express instructions with respect to the spelling of the words "funnel cap" or their derivatives.

³⁵ T. 139-140 (emphasis supplied).

³⁶ FunnelcaP asserts that Hollywood also copied its product color. There are two answers to this argument. First, color, other than as an integral part of a distinctive trade dress, cannot be

³⁷ T. 158.

³⁸ T. 137.

not provide the basis for either legal or equitable relief. As the Supreme Court observed in a landmark case involving the copying by Sears, Roebuck of a "pole lamp" designed and sold by Stiffel:

* * * An unpatentable article, like an article on which the patent has expired, is in the public domain and may be sold by whoever chooses to do so. What Sears did was to copy Stiffel's design and to sell lamps almost identical to those sold by Stiffel. This it had every right to do under the federal patent laws. That Stiffel originated the pole lamp and made it popular is immaterial. "Sharing in the goodwill of an article unprotected by patent or trade-mark is the exercise of a right possessed by all — and in the free exercise of which the consuming public is deeply interested." *Kellogg Co. v. National Biscuit Co.*, supra, 305 U.S., at 122. To allow a State by use of its law of unfair competition to prevent the copying of an article which represents too slight an advance to be patented would be to permit the State to block off from the public something which federal law has said belongs to the public. * * *

Sears has been held liable here for unfair competition because of a finding of likelihood of confusion based only on the fact that Sears' lamp was copied from Stiffel's unpatented lamp and that consequently the two looked exactly alike. Of course there could be "confusion" as to who had manufactured these nearly identical articles. But mere inability of the public to tell two identical articles apart is not enough to support an injunction against copying or an award of damages for copying that which the federal patent laws permit to be copied. * * *

Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225, 231-32, 140 USPQ 524, 527-528 (1964).

appropriated by one producer in a field. E.g., *Campbell Soup Co. v. Armour & Co.*, 175 F.2d 795, 81 USPQ 430 (3rd Cir. 1949); *Schmidt Manufacturing Co. of S.C. v. Sherrill Industries, Inc.*, 249 F.Supp. 480, 148 USPQ 141 (W.D.N.C. 1965); 1 *McCarthy, Trademark and Unfair Competition*, §§7.16, 7.17 (1973). Second, to the extent there was any association in the market between FunnelcaP and its product, the association was with the product design and not the color. Accordingly, I do not believe any confusion exists in the market because of Hollywood's use of yellow plastic which would not exist in any event because of Hollywood's copying of FunnelcaP's funnel structure.

For the same reasons, there can be no liability here based on market confusion whether that liability is sought to be predicated on a state deceptive practices statute or on state common law of unfair competition."

B. The Alleged Unfair Competition In Pricing.

FunnelcaP's price to Western Auto in 1972-73 was \$7.20 per case of 48 funnels or \$.15 each. This was the same price Hollywood announced for its No. 22 funnel on July 27, 1973. Hollywood thereafter reduced its price to an effective rate of \$.10 in an effort to get Western's business. This price was lower than Hollywood was then charging to two other mass merchandisers, K-Mart and J. C. Penney. There is no suggestion that the \$.10 price was below cost.

FunnelcaP has not referred the Court to any state statute or common law authority which would impose liability on these facts alone. They do not appear to present a case of common law unfair competition. 2 *Nimes, Unfair Competition* (4 ed. 1947) §300. FunnelcaP implicitly concedes this by addressing virtually all of its post-trial briefing on this point to the Robinson-Patman Act. In the long history of this case, this was the first suggestion of any kind that plaintiff intended to rely on this federal statute and the pre-trial order is inconsistent with any such reliance. In fairness to the defendants, who had no reason to mount a defense of a Robinson-Patman claim, the Court refuses to entertain this claim.

FunnelcaP concedes, as it must, that its second amended complaint nowhere mentions the Robinson-Patman Act and, indeed, nowhere refers to price discrimination. FunnelcaP, however, points out that the revised pre-trial order, which governs this case, contains the following provision:

XII. Amendments Of The Pleadings.

At the pre-trial conference the Court's attention was directed to the following matters which were resolved by agreement of counsel and are now incorporated in this Order so that they do not require formal amendments of the pleadings:

* * *

" The portion of the Uniform Deceptive Trade Practices Act relied upon by FunnelcaP is a codification of the common law of unfair competition and need not be separately discussed.

D. FunnelcaP, Inc.'s alleged causes of action for deceptive trade practices and unfair competition should be broadly construed to encompass such proof of discriminatory pricing by Hollywood Accessories as [may be] presented and admitted in evidence at trial and, if necessary, FunnelcaP, Inc. will be granted leave to amend its complaint in order to conform the pleadings to the proofs.

Given this provision, FunnelcaP argues that it is entitled to have its Robinson-Patman Act claim decided as an "issue not raised by the pleadings [but] tried by express or compelled consent of the parties. * * *" F.R.C.P. 15(b). I do not agree.

As a leading authority on Federal Practice has pointed out, recognition that an issue has been inserted in a case and consent to try that issue are fundamental prerequisites to any post-trial amendment of the pleadings. 3 Moore's Federal Practice, ¶15.13[2], at 922 (1974). In the present case, given the portion of the pre-trial order cited above and defendants' failure to make any objection to the general line of price discrimination questioning at trial, it cannot be doubted that defendants consented to the presentation of price discrimination evidence in support of FunnelcaP's deceptive trade practice or unfair competition theories. I do not think it can be fairly said that defendants ever consented to the presentation of this evidence on a Robinson-Patman Act theory, however.

As can be seen, the portion of the pre-trial order quoted above pegs FunnelcaP's price discrimination evidence to its pleaded causes of action for deceptive trade practices and unfair competition. Respecting these causes of action, the second amended complaint states as follows:

12. Plaintiff's second cause of action is for unfair competition and deceptive trade practices and arises under the Uniform Deceptive Trade Practices Act of the State of Illinois, Chapter 121-1/2 Ill. Rev. Stat. §§311-317 and the State of Delaware, Title 6 Del. C. §§2531-2536. * * *

23. Plaintiff's third cause of action arises under the common laws pertaining to unfair competition. * * *

In the pre-trial order itself, FunnelcaP explained that the Court had jurisdiction of the non-patent claims by virtue of its pendent and diversity jurisdictions. And, in the

section of this order where each party is required to set forth the issues of law which it believes remain to be litigated,⁴⁰ FunnelcaP makes no reference whatever to the Robinson-Patman Act. Local Rule 11 and the pre-trial order itself provide that the pre-trial order "shall govern the course of the trial unless modified by the Court to prevent manifest injustice." In this case, it would create a manifest injustice to permit the insertion at this stage of a legal theory not found in the pre-trial order.

In discussing a comparable situation, the Eighth Circuit has stated:

The proffered amendment set forth a completely new cause of action, based on a wholly different theory from that alleged in the amended complaint. The fact that the evidence submitted and received at the trial, on the then-existing issue raised by the answer and reply, would have been relevant and admissible in the trial of such new cause of action does not mean that the latter was tried by the express or implied consent of the appellee. * * *

Standard Title Insurance Company v. Roberts, 349 F.2d 613, 620 (1965). See also 3 Moore's Federal Practice ¶15.13[2], at 991-92 (1974).

III. Attorneys' Fees.

A. Defendants' Claim.

[9] Defendants assert that this is an "exceptional case" within the meaning of 35 U.S.C. §285 and that they should be awarded counsel fees. I disagree. Contrary to defendants' contention, I am not persuaded that Mr. Nowak knew of the Tupper patent or of its preferred embodiment when his own patent was before the Patent Office and I do not believe the record before me demonstrates fraud on that office. In addition, I conclude that FunnelcaP has litigated the patent infringement segment of this case in the good faith, although erroneous, belief that both Hollywood's funnels infringed the patent-in-suit.

B. Plaintiff's Claim.

[10] Plaintiff's claim for counsel fees will likewise be denied. As my earlier conclusions would suggest, I believe defendants have defended this action in good faith. While some of the affidavits filed by Orion in the early stages of the Delaware action are troubling in a number of respects,⁴¹ I am

⁴⁰ Local Rule 11.

⁴¹ See this Court's prior Opinions of April 10, 1975 and July 7, 1975.

unpersuaded that the portions complained of have caused plaintiff to incur any legal expense that it would not otherwise have incurred.⁴²

IV. Conclusion.

The patent-in-suit, if valid, would be infringed by Hollywood's original funnel, though not by its revised product. The patent-in-suit, however, is anticipated by the prior art, and, even if not anticipated, would be obvious from that art. Defendants are not guilty of unfair competition. Both claims for counsel fees are denied.

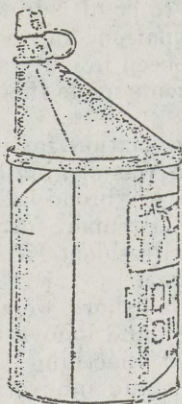


FIGURE 1

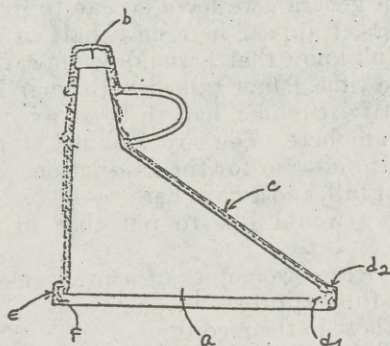


FIGURE 2

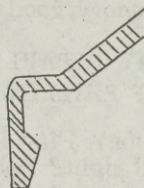


FIGURE 3

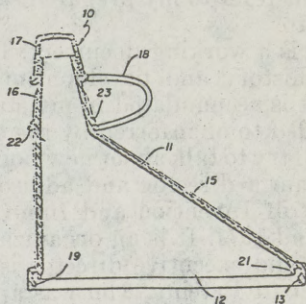


FIGURE 4

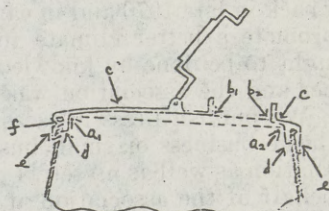


FIGURE 5

⁴² Plaintiff maintains that the affidavits were calculated to secure a litigation advantage with respect to the issue of forum. The problem with

this theory is that the advantage of having the "first-filed suit" in which Cal Custom was a party filed in California was secured on December 5, 1974, seven days before the first of these affidavits were filed in Delaware. In any event, I am not persuaded that anything happened either in California or Delaware which would not have happened in the absence of the challenged segments of these affidavits.

Senator BAYH. The last witness this morning is Mr. Paul Gomory, who is the director of the Washington office of Phillips Petroleum Co. Mr. Gomory, good to have you with us.

TESTIMONY OF PAUL L. GOMORY, DIRECTOR, WASHINGTON OFFICE OF PHILLIPS PETROLEUM CO., WASHINGTON, D.C.

Mr. GOMORY. First let me say—can you hear me all right? Can you hear me all right? Does everybody in the back hear all right?

Senator BAYH. Yes, I believe so.

Mr. GOMORY. OK. I appreciate and thank you for this opportunity to appear. I will make a few initial comments. I will not to any great extent refer to my prepared statement. I understand it will be printed in toto.

It is a working document. I tried there to be of help to you, sir, in the history and development of reexamination, and a good bit of what is accumulated in my statement has been in one way or another alluded to or inferred by the other statements made this morning. So I will try to talk about new points.

I am a director and advisor of the Association for the Advancement of Invention and Innovation, which was originally started up around 1971. It is an organization with a very broad base. The president and executive director is Edward G. Brenner, former Commissioner of Patents, who was appointed by President Kennedy, served under President Johnson and President Nixon.

At the association, which I label A²I² for short, we are interested in promoting a better climate for invention and innovation. We realized back in late 1970 and in early 1971 that something had to be done to promote a better climate for invention and innovation and that it ought to be done by knowledgeable persons. We put our heads together and the association was conceived. We publish a bulletin, Action. We publish press releases. In general, we have no axe to grind for large business or small business. I appear here on behalf of our association as well as myself. I didn't know that I would be appearing on behalf of the association at the time I first talked with your Mr. Joe Allen, but it developed that Mr. Brenner had to be away on a prescheduled vacation and so I am here. You are looking at two people, really. I am here for myself and also for the association.

Mr. Brenner does approve of your bill, and I have here—

Senator BAYH. Mr. Gomory, we would like to put that in the record.

Mr. GOMORY. All right. Now here are two copies of a press release which refers to your bill and which fully approves it.

Senator BAYH. We will also put those in the record.

Mr. GOMORY. May I, even though it is late, congratulate you on the introduction of your bill as well as for your other much needed, important steps on behalf of our great U.S. voluntary disclosure, patent incentive inventive system. I would like to single out your efforts on S. 414, the University and Small Business Procedures Act, the PTO budget, and your intended bill to make the PTO an independent agency which I recognize to be an important basic move.

I would now like to say a word of caution about rewording of your bill. It has been written by patent experts, experts on both sides of the fence. They have the ability, the experience. Any bill can be torn to bits. For instance, we heard this morning about reserving the right of injunction. Well, the bill doesn't take it away, so it is still there.

We heard a number of statements indicating weaknesses in the bill. Now, I am perfectly willing to sit down and talk about those weaknesses. But let's not try—

Senator BAYH. What would be wrong with including it? It could also be argued that by excluding that the Congress intended to exclude rather than to include.

Mr. GOMORY. Once you start saying that the product does not contain rat poison, you have got to say it does not contain roach poison. Once you start saying what your bill does not reach instead of relying on ordinary rules of legal interpretation, you end up with having to list everything exhaustively that you did not want your bill to reach. Your bill is viewed in the light of the present understanding of what the law is and ordinary rules of statutory interpretation.

So this goes for a good number of the comments, and it is too technical to take your time here today to go into it. But these things ought to be gone into. I am urging a caution before we jump down the throat of the bill and start putting all kinds of phrases in it or provisions in it.

Senator BAYH. I think that point is well taken. Certainly we don't intend to approach this in an amateur fashion and use words that are not known by the experts in the field. I appreciate your alerting us to that.

Mr. GOMORY. I will read now, although I didn't intend to get into it at this point, from page 8 of my statement, my formal statement. I am quoting Judge Giles Rich, the seniormost judge of the Court of Customs and Patent Appeals. He is a patent lawyer. His father was a patent lawyer, and he has been on the Court of Customs and Patent Appeals for some 25 years. He is in his seventies and venerated by the entire profession, and by many, many courts on which he has sat by invitation.

He says this:

From what I know of Judges' attitudes, I think they would welcome with open arms a chance to get Patent Trademark Office views on patentability over new art cited by defendants, even if the case had to be sent back to the PTO during the trial to get it. I have listened to a lot of discussion by trial judges about how they can get some of the expert help, independently of the parties' so-called experts. I think they ought to be able to get it from the PTO, where it is available. They do not relish doing the examiner's work and they are not equipped to do it. They are entitled to his help. I think chapter 31 of the Fong bill * * *

And I might interpolate here, chapter 31 of the Fong bill is essentially the substance of reexamination, but for two modifications.

I think chapter 31 of the Fong bill would be a good solution to this problem.

Here is the final phrase:

And it is a good solution because it was devised by experienced patent trial lawyers who understand how things work in practice.

Now, I think that is important to know. This is an eminent patent judge, still sitting, still working, and is credited with having completely turned around the Court of Customs and Patent Appeals, which was really in disrepute among patent lawyers for years before they finally got Judge Rich on that court.

Senator BAYH. The committee is very much aware and impressed with Judge Rich's expertise and his acceptance as such in this field.

Mr. GOMORY. I would like to address some of the points that I have heard here this morning. I have heard this morning that there is some concern that the initial examination may be slighted because, well, there is always a reexamination.

By and large, the examining staff of the Patent Office is composed of professionals who have degrees, some of them have advanced degrees, they have their own personal pride, many of them sign their own Office actions. They don't want to be second guessed or proven wrong. They don't want to build a record of most reexaminations requested coming from their desks. They will be astute to make better searches right now, initially, perhaps, than they may at the present time, because they will say: "Well, down the road there will be a reexamination. I can't just forget about it. I have got to search it." I think reexamination will tend to make better initial examinations, but to put the burden on the applicant for this is quite wrong, quite wrong.

Our system is a voluntary disclosure system. It is a voluntary disclosure incentive system, and the whole idea is to get that disclosure, and the only reason the exclusive right is secured, using the words of the Constitution, for a limited time, is because the inventor is a necessary evil. We want to get his disclosure to develop the country, so we give him this exclusivity, because obviously he is not about to throw his money out and his time out just to give an invention free. So he will go to do something else.

Now, if we make it too hard on him to bring his invention to the Patent Office, he is just not going to come and talk about \$1,500 for a patent search, well, that is a lot of money, and after that patent search has been made, then he must sit down with everything that is there and somebody must explain all of this to the Patent Office. It will be a patent lawyer, of course, and I am not denying patent lawyers their proper function. I am saying, let the inventor come in even if he wants to file his own application, which he can do, and many have done.

Now, the organizations which do make searches routinely today, for the vast majority, routinely supply to the Patent Office all of the pertinent art that was before the attorney when he prepared the case. Many of them write patentability briefs than even explain that art, so that it quickens the work of the examiner. The examiner still makes his own search, and frequently cites art that was not cited to him, perhaps because the particular applicant's attorney didn't make the search in the place that the examiner is looking, but the fact is that many times the examiner comes up with art that the applicant's attorney did not have.

Now, it was said this morning that about half of the innovations come from smaller organizations and individuals. This is true.

Now, if you put the burden on these smaller organizations and individuals to make this very good initial search, they are going to have less of those innovations because there is less money to put out to make the invention and the innovation in the first place. You are going to have to budget all this searching.

It would be far better to wait until their patent has some commercial significance and then come in for reexamination. Chances are that the man coming in for reexamination already knows about the art because he is interested in that field. So the system of your bill selects out the very man who knows the art to come in and ask for reexamination.

So I think it is beautiful the way it is.

You mentioned a golden egg, the goose that lays the golden egg. I think the long term, enlightened self-interest was particularly well expressed by Bob Benson, to whom I refer as the granddaddy of reexamination, when he said that we wanted a better system because we could see less and less present reliance on it. Indeed, it is my personal view that we ought to have 300,000 patent applications out of a country of 220 million, noted for its high technology, noted for its high R. & D. budgets, noted for a Government which puts billions into R. & D. But we are filing only about 100,000 applications a year. That is one-third of what I think we ought to have. It is a very small per capita return from the totality of the Nation.

So it is smart to revamp the system, and I think this will keep the lawyers in business too. I happen to work for a corporation that will be in business anyway. Besides, I should have retired at the first of October, and I would have if it weren't for the inflation.

Now, talking about the inflation, it is terribly important to revitalize what we have in these areas of the patent system, because the system creates jobs. It creates income. It creates a better standard of living. It creates taxes. You know as well as I do the Government needs an awful lot of that money.

So I think, all in all, your bill is excellent. Now, I would like to just refer to a couple of points. In my statement I have included two tables of contents. I have tried to make it available to you, sir, personally, so that you could glance down those contents with Mr. Allen and see just what has been the history of reexamination and why it is truly compelling and really should burst forth right now. There should be no delay.

There is an addendum in my statement, which is about as long as the statement itself, and in there I go back, say, to 1965 where the judges in judicial proceedings were dealing with a bill in the 89th Congress. That bill would have removed from the jurisdiction of the Patent Commissioner the determination of patentability or obviousness or nonobviousness.

The following was stated by that committee to the judicial proceedings, and it is in my report on page 10. "It was the view of the Committees on Court Administration and Revision of the Laws that the proposal, if enacted, would increase greatly the volume of patent litigation in the courts, which would then be called upon to decide initially the issue of obviousness without the advantage," and these are the key words, "of the research and reasoning of the Patent Office." You put

that together with what Giles Rich has said. We want to see both sides of the question, and under your bill both sides of the question would be there with respect to art for which it is not there when the patent issues.

Senator BAYH. Could I ask you a question?

Mr. GOMORY. Sure.

Senator BAYH. You can put your whole statement in the record for us.

What about the rationale Mr. Irons suggested, that if an individual is to benefit from a patent monopoly, this individual should bear the burden for searching the information related to that patent application, by checking the related technology, the prior art, and how his application is unique. The major problem we have right now is that the initial examination is not thorough. What about that? Do you have any contrary evidence or opinions?

Mr. GOMORY. I think I might be able to repeat something I said earlier. I think to put the burden on the applicant beyond what is called for in section 112, meaning to describe his invention and point out what is new, which means he has got to describe some of the background, to do more than that is to put a burden on the average individual, the average small corporation, which they simply cannot bear or will not bear, and there will be inventions lying around which will never be patented.

Even now, even in a large corporation, in my corporation for instance, we turn down—we say “does not warrant the cost of prosecution.” We have got to eliminate a certain number of inventions in terms of priorities, simply because of cost.

If each application for patent is given, initially, the exhaustive search the preceding witness contended for, this will cost many millions of dollars, not at all spent in a cost effective manner. Even at \$1,500, a figure I heard here today, 100,000 applications would have a searching cost of \$150 million. This assumes that searching in each case will have been done by experts in the relevant arts and by persons who are expert searchers. The incentive to find the pertinent art in such initial searches will not be nearly the same as that of the citer of art under your bill. He, the citer, say, wants to manufacture, does not want to pay a royalty, assuming the patent holder will give a license. Further, the citer is in the art, he is expert; in most cases he knows where to search and has his own library in the art.

The number of reexaminations will at most be of the order, as stated by our Commissioner of PTO, Mr. Sidney A. Diamond, of about 1,000 to about 3,000 a year.

So I say, spend the searching time, effort, and money on reexamination as in your bill and not on intensive, extended validity searching of each application filed.

The preceding witness must have assumed that there is now an initial searching capability to do initially what the citer under your bill will have done, if it is necessary for him to do so, when he encounters the issued patent.

My prepared statement, at the foot of page 4 and on page 5, discusses PTO searching capability. I quote from my statement, just briefly and in a somewhat summarizing manner: “* * *, the integrity of the PTO

search files is such, in many instances, that even the best searching will not uncover a missing patent or publication."

The earlier witness also assumed that the PTO files will contain the patents and especially the publications which the citer, who is intimately conversant with his field, already has accumulated during the timespan of his interest in the art.

Now, you can imagine the so-called little guy or the small corporation. They want to put maximum budget into research and development and not into all of these extended initial searches. Now, as far as the initial searching of the PTO is concerned, the PTO now has a far more competent, more experienced staff, which can afford to spend less hours than, for instance, it had to 15 or 20 years ago when the turnover reached well in excess of 42 percent.

In fact, I was on a committee to recruit examiners for the Patent Office because it was being drained by industry and the bar of the patent examiners as soon as they got a little experience.

I would like to talk a little bit about this explosion of technology. It was said here this morning that the later technology will of course explain the earlier, and this is true. As an examiner becomes more experienced, he knows where, in terms of calendar years, to search. He will know that a certain kind of invention didn't spring up until, say, 1932.

He will know that from past experience of searching the same art on a daily basis. And he will start his search there he won't go back to 1886, or what have you, you see. There are ways to shortcut.

Again, the Patent Office has in being a quality audit system, where they audit cases and they make available to the examiners a critique, if you will, of what they have done in allowing a case. And my understanding is the case remains allowed, but the fact is that in the next case the examiner is better qualified.

So I would say, in summary on that point, I would not change the system as it now is, in terms of searching or not searching by the applicant; in terms of the burden carried by the applicant under section 112. I would leave it where it is.

I would fund the Patent Office, so that it can get the best talent and more of it. And I would put the Patent Office as an independent agency, with the stature it should have. It should be regarded the way we regard Charles Edison. And when it is regarded that way we will have our 300,000 applications, and we will generate even more income to the country, to the Government, and improve our situation with regard to inflation and so forth.

The system has been watered down. I heard some fellow from the Bureau of the Budget give a speech. He said he was only taking 15 minutes of his time on the PTO budget—because it was only, at that time, something like \$50 million a year. He said, "I am dealing with billions of dollars. When I come to something like \$50 million, that is only going to take 15 minutes of my time."

That stuck in my brain, because really we are dealing with the catalyst of our industry, of our innovations. We need a better climate, a much better climate, for invention innovation. Have I answered your question?

Senator BAYH. Yes. Very well.

MR. GOMORY. I would like to conclude my remarks, because I realize it is very late.

Senator BAYH. Of course your written statement will be placed in the record, but please proceed.

MR. GOMORY. Yes, well, this one has to be somewhat rewritten. It is a draft that came out of the typewriter yesterday afternoon. Mr. Allen knows that I read it for the first time in his office.

Senator BAYH. Feel free to revise it for our records then.

MR. GOMORY. Yes, all right, I will put this in the record, then, with some slight revision. I would like to conclude here with just a few very quick one-shot remarks. You have three Senators I can think of right now who earlier have approved reexamination. Senator Fong had it in his bill, and it came into his bill by way of Mr. Benson and his committee. Senator Buckley cosponsored that bill after careful investigation—I know because I was involved in it. And Senator McClellan tried very hard, in the processing of a very bad bill, to replace its examination with the reexamination of so-called chapter 31.

So you have three Senators on record, in the record of an earlier Congress as approving it. And on the House side you have several Representatives approving it; and you have a bill introduced, a bill which is identically worded with yours. So you have that too.

It is identically worded. It is really interesting to note that the two bills, introduced within 1 day of each other, by parties who were working—and up until 2 days before the bills were introduced, neither knew that the other one was working on it.

That happened in the Patent Bar—so much for a patent lobby that some people like to talk about.

Senator BAYH. It was not some lightning bolt that came down and struck one member in the House and one Member of the Senate.

MR. GOMORY. Well, it is really truly interesting to note that as active as I have been on reexamination, and as active as I have been on the work that involved bringing up the reexamination in the first place, I did not know that Mike Blommer of the APLA, who was formerly Representative Wiggins' aide, and with whom I did work when Representative Wiggins introduced reexamination in the last Congress—I did not know that Mike Blommer was working with you and your staff to introduce a bill here.

Furthermore, he did not know that I was working with Caldwell Butler and his staff.

Senator BAYH. Well, there needs to be better communication off the record.

MR. GOMORY. You can leave that on the record, sir. I tell it like it is.

Senator BAYH. I was not really intending to go off the record.

MR. GOMORY. Oh. Yes.

Senator BAYH. I thought it rather interesting: The three examples of Senators who have expressed interest in this measure are no longer with us. Fortunately we have others who have taken their place, like Senator Nelson and Senator Dole and myself. I think the kind of support and interest that you are expressing is going to be very helpful.

MR. GOMORY. My prepared statement mentions Senator Gaylord Nelson's bill, and that your reexamination has been adopted there; my notes mention S. 414, and your effort to make the Patent Office an

independent agency, and all of these things; but these have all been alluded to earlier—

Senator BAYH. I think this has an interesting history, but I am really concerned about the future. I think your being here helps us move toward the future.

Mr. GOMORY. I am available at any time, sir.

Senator BAYH. I hate to cut this off, but we have gone on here at some length, and now it is after 2 o'clock, and I know everybody has a lot of things to do. I have to get back over on the Senate floor.

So I thank you for being here. We are going to keep the record open here for 30 days, for anyone who may not be here who wants to put information in, or for those who have been here who want to revise and extend their remarks. Thank you very much. We appreciate your being here.

Mr. GOMORY. Thank you.

[The following are included from Mr. Gomory's notes, selected for the record as approved by Senator Bayh before he left the dias:]

Mr. GOMORY. Your bill and rules which the commissioner of the PTO will undoubtedly promulgate thereunder will protect in equitable manner the rights of the patent holder. Thus the patent holder will not have his patent subjected to reexamination unless the commissioner determines that a substantial new question of patentability affecting the patent is raised in the request for reexamination. The request by the citer of the patent or publication can fully brief the PTO on the cited art and on the applicability of such art to the claims of the patent. The patent holder then can comment on the citer's statement of applicability. Then the citer can comment on the patent holder's statement. This gives the examiner both sides of whatever argument or issue or issues have been raised. Further, in fairness to the party who has brought forth his invention and has obtained a patent, if the examiner does not make a ruling satisfactory to the patent holder, the patent holder has the usual avenues of appeal which are now open to him under the current law, in light of which your bill is read by me.

Finally, I refer to the descriptive contents pages ^[1] of my filed statement and its addendum, for a number of helpful points and documents. These have been included in my statement to aid in the quick finding of information based upon which our Congress can enact reexamination soon to help improve the economic and military posture of our great, but ailing country.

[Whereupon, at 2:12 p.m., November 30, 1979, the hearing was adjourned.]

[The press releases referred to and Mr. Gomory's prepared statement follow:]

PRESS RELEASE BY PAUL L. GOMORY

Retrogressive patent bill passes Senate. No public hearings were held. No floor debate was had. Time-honored patent incentive system endangered by "retrogressive," costly, unnecessarily complicated bill applied to the patent office.

Executive Director Edward J. Brenner, formerly Commissioner of Patents who served on the President's Commission on the Patent System, today expressed his

^[1] EDITORS NOTE.—Please turn to p. III for the descriptive contents of Mr. Gomory's prepared statement and addendum.

deep concern that S. 2255, which he has stated repeatedly to be one of the worst patent law revision bills introduced in Congress' 10-year struggle to attain by legislation the objectives of the President's Commission on the Patent System, had been passed by a voice vote, without any discussion on the floor of the Senate of its 88 printed pages of provisions. This occurred even before the printed report explaining the bill had been made available.

Mr. Brenner deplored the fact that there had not even been available a copy of the printed bill for a time sufficient to permit the Senators to know what was going on. The bill of which he spoke was passed by a minority of the Judiciary Committee, only very recently, without any real discussion, in fact, in a matter of a very few minutes. The bill was not debated in the Judiciary Committee. The bill was reported out within minutes of producing a bare quorum.

Consistent with his printed "Separate Views of Senator Hiram L. Fong," made available well prior to the Judiciary Committee meeting, Senator Fong voted against S. 2255.

Mr. Brenner, speaking for his Association, stated that he had called for public hearings and also for the opinion of the present Commissioner of Patents, as others had done, including Senators McClellan and Hugh Scott, to no avail. The present Commissioner, with OMB approval, in his letters to Senator Fong (See "Separate Views" page 142, 146) had stated that present law could be improved by incorporating portions of Fong's bill S. 214, notably its provisions for reexamination (Chapter 31).

The former Commissioner again noted that there is basically one major existing problem, which might require legislation, namely how to handle the explosively produced tremendous amount of patents and publications which need searching. There should be provided a simple, low-cost procedure assuring that pertinent prior art patents and publications, which the examiner may not have seen, are gotten to the Patent Office for its consideration, when a patent has issued and has become of real interest to some person or organization.

Mr. Brenner noted that the Senate had before it S. 214 of Senator Fong which is virtually unanimously approved by all business, professional and trade associations and organizations and by persons highly skilled in the patent law including judges, former members of the President's Commission on the Patent System, professors and other notable persons. He referred to the "Separate Views of Senator Hiram L. Fong," as including ample basis for his statement that the Fong bill S. 214, had received wide approval, indeed even by the nationally active and so recognized careful American Bar Association, Patent Section.¹ The same "Views" he said show the virtual unanimous opposition to S. 2255, now passed by our Senate.

In closing, he reiterated that he had "marked" S. 2255 "D" for "disappointment" and "disincentive" and that he hoped that whenever the House would take up patent legislation, it would do a much better job than the Senate which drastically revised an institution as old as our Country in a way which would produce significantly adverse results.

When asked about what exactly he meant, the former Commissioner stated: "A 200-year old system, reviewed and codified by a complete coterie of several hundred knowledgeable, competent experts and by Congress, not yet 25 years ago, has now been, in the Senate, 'deformed,' not reformed, by a mere handful of persons, without any Senator really knowing what was being passed, unless it was, of course, Senator Fong. He knew and understood."

He continued:

"We have yet to hear directly from the Commissioner of Patents; further, the bill was slipped through the Senate with no public hearings on its most costly, difficult—regulatory—type concepts, virtually unanimously opposed by all knowledgeable groups and persons across the country. There was no debate in the subcommittee by the Senators responsible to do so, no debate in the Judiciary Committee by the Senators responsible to do so, and no debate or public record of such having taken place on the Senate floor. Thus 100 Senators, not voting on the floor, most all of whom were totally uninformed—the report describing the bill had not yet been printed and available—the Senate of these United States

¹ At the Montreal meeting last summer, the ABA Patent Section adopted resolutions opposing S. 2255 and approving S. 214. Specific resolutions directed to reexamination and specifically approving Chapter 31. S. 214 Fong were passed by overwhelming vote with only 3 nays and 120 yeas. The Patent Section resolution favoring a reexamination as in Chapter 31. S. 214 Fong has been approved by the House of Delegates.

has 'passed' a bill which I have said must be graded 'D' for 'disappointment' and 'disincentive.'

Simply the specification drafting requirement and the expensive foreign-type inter parties opposition proceedings, (not to mention the other complicated provisions totally unnecessary even as intimated by former Secretary of Commerce Rogers Morton) in which the well-financed larger organizations can within twelve months hold up and even destroy a patent of an individual inventor or smaller organization, will retard, not promote, the progress of the useful arts, even as voiced by Senator McClellan in his views several times expressed.

Asked how the bill fit into President Ford's attempt to revise the administrative process, Mr. Brenner stated :

"At a time when the Administration is showing great concern about oppressive requirements of administrative agencies it is not possible to understand a bill placing regulatory, oppressive requirements, which are very costly, on the innovative elements of society. S. 2255 as passed without debate, will greatly increase the regulations and costs imposed on inventors and research organizations who may seek to avail themselves of the services of the Patent Office."

"The Ford Administration has been understood, thus far, to be working to simplify procedures and requirements."

"The U.S. patent incentive inventive system is a voluntary disclosure system. The Patent Office is a service agency. Applicants for invention need not go to the Patent Office at all. They come voluntarily. There is always the alternative, in many instances, of trade secrecy for some part or portion of the making of a product or utilizing a process."

"Research and development under S. 2255 will be increasingly directed toward making inventions which can be maintained secret under the trade secret laws."

The former Commissioner concluded :

"The trade secrecy laws of the several states have been approved in the *Kewanee v. Bicon* case, recently decided by the Supreme Court of the United States."

Thus it is that a bad, very bad bill has been steamrolled through the Senate!

He said he was totally surprised that the opinions of knowledgeable people on the subject had been so totally disregarded. He noted that the National Association of Manufacturers had stated that "... the weaknesses of this bill are too complex and too interrelated to be removed by amendment".

PRESS RELEASE OF PAUL L. GOMORY

PATENT REEXAMINATION : BUTLER H.R. 5075, BAYH, 1679

Unanimous approval, by American Bar Association, Patent, Trademark and Copyright Section, of Butler and Bayh bills providing for patent reexamination is hailed by Executive Director Edward J. Brenner.

Bills to amend title 35, patents to permit further examination by Patent Office are subject of unanimous resolution at Dallas, Tex., national meeting of the American Bar Association.

Unanimous approval of identical bills by Representative Caldwell Butler of Virginia (H.R. 5075) and Senator Birch Bayh of Indiana (S. 1679), introduced August 2 and 3, respectively, to amend present patent law and procedure for further examination of patents on earlier patents and publications, is applauded by Executive Director E. J. Brenner.

The former Commissioner of Patents and member of the President's Commission on the Patent System applauded the approval to amend the patent law.

The procedure of the bills, at a low cost, would upgrade the patent system; would improve validity of patents, reduce the burden on the courts, avoid much expensive litigation, and would much better promote the progress of the useful arts to produce immediate increase in invention and innovation.

Mr. Brenner stated in part :

"* * * there can now be no doubt that several hundred experienced and knowledgeable experts who daily toil in the obtaining, asserting of, and defense against, patents, have again emphasized that the procedure would :

"permit a real upgrading of the overall patent system by reducing considerably expensive patent litigation now carried on in the courts ;

"relieve burdened court dockets ;

"in those cases in which the patent met the test of further examination give the court a record to review rather than the burden to initially pass on references not studied by the examiner in issuing the patent;

"increase validity of issued patents; and

"importantly increase invention and innovation now badly needed by our Country to fight inflation, produce more energy, reduce unemployment, etc."

The former Commissioner explained that:

"The bill would permit any person at any time during the enforceable life of a patent to bring to the Patent Commissioner's attention any earlier patent or publication, not considered by the Patent Examiner, which the citer thereof believes affects the scope or validity of the patent claims. The Commissioner, if he agrees, would institute reexamination or further examination of the patent. Thus, a would-be licensee or a would-be litigant and even the patent holder could request reexamination whenever a patent assumed commercial importance, saving many manpower hours."

Asked about such savings, Mr. Brenner explained:

"At extremely low cost, relative to litigation, the great many problems of costs and manpower involved in litigating to apply to the claims of a patent a prior patent or printed publication would be avoided. A would-be licensee could test such prior art available to him by citing the patent or publication prior to taking a license."

STATEMENT OF PAUL L. GOMORY

I—INTRODUCTION

Mr. Chairman: I appreciate this opportunity to make a statement to support, fully support, S. 1679 as introduced August 3, 1979. Thank you so much.

I ask that my prepared statement be printed in the record.

Senator Bayh, I applaud your actions in introducing your bill. It shows you have recognized the need for it, especially as expressed in the invention and innovation community. Our country needs your bill. It needs patent reexamination!

A—Purpose of reexamination

As I see it, the sole, but important, purpose of the reexamination procedure of S. 1679 is to place before the PTO a prior patent or a prior publication which the examiner did not record or notice as having been before him or as known to him when he was examining the application on which the patent (principal patent) to be reexamined was issued.

B—Problem

The explosive rate of increase in the already available printed items, patents and publications, renders difficult, indeed well nigh impossible, for the PTO to search out and to find, in the case of every application it examines, patents and/or publications sufficiently representative of the technology, in the field in which the applicant for patent is seeking to secure to himself claims to an invention. An adequate examination of the many thousands of applications for patent filed each year is now not possible as a routine.

C—Constitutional provision

As known, patents are issued under 35 U.S. Code Patents. The code was enacted under the power vested in the Congress by our forefathers by Article 1, Section 8, Clause 8 of our Constitution.

Clause 8 simply gave the power to secure for a limited time the exclusive right to an invention ("discoveries").

The inventor's "exclusive right" mentioned in the Constitutional provision is "secured" when a patent is granted.

D—Present situation remedied by S. 1679

Whenever, during the effective life of the patent, some person or organization wishes to enter, or to proceed in, the field in which the exclusive right has been secured by one or more patents, it may be necessary that he operate in the area for which the exclusivity has been secured.

1—Principal patent studied

If the party finds that the patent stands in his way he may secure a license, redesign to avoid the patent if possible, risk ignoring the patent, or, as is the usual case, have searched and studied the validity of its claims as a first step.

2—Choices respecting principal patent

If, upon such study, it appears that the PTO examiner did not have available to him a patent or a publication, which is known to the party and thought by the party to render invalid the claims, as worded in the patent, he now has choices.

(a)—Ignore it, infringe it, or seek license

He can ignore the patent, proceed to infringe the patent claims, wait until he is sued for infringement and then defend with the patent or publication of which he knows but the examiner did not have when he examined the application resulting in the principal patent. Or, he can enter into negotiations for a license under the principal patent.

(b)—Principal patent holder refuses to grant license

The holder of the principal patent may not wish to license. He may desire to use his exclusive right, which the patent secures to him to manufacture or operate the patented invention, thus to build himself his own business or to expand or to protect an existing one.

(c)—Would-be licensee faces dilemma

At this juncture if the would-be licensee does not get a license, he cannot innovate (or continue to innovate if notice of the patent has come to him after he has invested to build and to operate, say, a plant). If he wishes nevertheless to proceed he must run the risk of an expensive, time-consuming lawsuit on a claim or claims of the principal patent.

3—S. 1679: Bayh reexamination procedure

S. 1679 relatively very inexpensively would permit the would-be licensee or manufacturer to ask the PTO to review the patented claims i.e., to reexamine them in light of the earlier patent or publication to which he would call the attention of the PTO Commission who shall order a reexamination if he sees a substantial new question of patentability affecting any claim of the principal patent concerned.

(a)—Provisions of S. 1679 and Commissioner's rules thereunder

The provisions of the bill speak most eloquently for themselves. Suffice to say here that under 35 U.S.C. Patents, the Commissioner of the Patent and Trademark Office may establish rules under any law resulting from enactment of S. 1679 needed to ensure an equitable proceeding in the PTO, while keeping in mind the purpose of the proceeding as above related.

It will be recognized by the courts that the procedure of reexamination is simply to have the PTO examiner pass again on the patentability of the patented claims, the same as the examiner would have done had he had the newly cited patent or publication before him prior to issuing the principal patent.

Thus the relatively simple procedure of reexamination in the PTO as provided in S. 1679 will insure a quick, inexpensive determination of patentability over the kind of earlier patents and publications usually searched for and discovered by the examiner on the initial or original examination, nothing more.

(b)—Other bills

Other pending bills having an reexamination procedure wording identical to that of S. 1679 are: S. 1860 Nelson, Wisconsin, and H.R. 5075 Butler, Virginia. Senator Nelson and Representative Butler have shown a strong interest in the welfare of small business. Their introductions of their bills attest to the importance of the procedure.

(c)—Scope of reexamination in PTO

Questions affecting patentability or validity which may arise quite apart from the cited patent or publication, in view of which reexamination is requested, are left to be resolved in the forum really equipped to do the job—the court.

A—Historical, PTO budgets, searching, etc.

Before discussing history and other advantages of the procedure of S. 1679, in passing, I note that the PTO budgets historically and now have been far too limited to permit sufficient staff and time fully to search each and every of the approximately 100,000 applications for patent received each year.

Also, importantly, the integrity of the PTO search files is such, in many instances, that even the best searching will not uncover a missing patent or publication.

Simply to underscore the problem in the PTO due to limited budget, I note that many millions of dollars are needed to establish, relatively speaking, a high integrity, automated searching information base or facility. Such funding has not been available. Nor is it likely that such funding will be obtained in the foreseeable future, as you may already agree. I am aware of your great efforts to obtain funds for our PTO.

The reexamination, at a fee to cover costs as far as possible, would be requested only when a party needed it to get on with his business.

A Commissioner's rule or regulation could and, no doubt, would require a showing of the need for any requested reexamination or at least an allegation of such a need.

In any event, the Commissioner of the PTO would assure all patent holders that reexamination simply for the sake of reexamination will not be tolerated.

*B—Origin of reexamination procedure**1—American Bar Association, Section on Patent, Trademark, and Copyright Law*

The present S. 1679 reexamination procedure, basically, is one which was drafted in the Committee on Patent Law of the Section of Patent, Trademark, and Copyright Law of the American Bar Association. The work was actually hammered out by experts in the patent procedures area and in the real world of business, including invention and innovation. Many meetings and discussions were held, many comments were received and considered. Patent reviewing court judges have approved the procedure.

2—S. 4259, 93d Congress; S. 214, Fong, 94th Congress

About mid-July, 1974, I was privileged, on request, to draft for Senator Hiram L. Fong a comprehensive patent law revision bill. He introduced his bills because he could not agree with another pending comprehensive bill which was, as history has since demonstrated, a bad bill.

At the time I had been involved in and with the work being done by the ABA, Section on Patent, Trademark, and Copyright Law, Patent Law Committee, of which I had been, was, and still am a member. I had chaired the Patent Legislation Committee of the Bar Association of the District of Columbia, Section on Patent, Trademark and Copyright Law. My work on patent law revision bills was known.

Time being of the essence, we wanted to have a good bill to support a bill introduced by a member of the Senate Patent Subcommittee. I requested and obtained approval to place the ABA, Patent Section, committee-developed, reexamination procedure into Senator Fong's bill. It appeared therein as Chapter 31. The appellation "Chapter 31", was frequently used thereafter to refer to reexamination of the kind under discussion today. ("Chapter 31" appears in the addendum to this statement)

I wish to note, in passing, that an earlier introduced good bill, S. 2930, introduced January 31, 1974, by Senator Buckley, NY, had actually been put aside by the then existing Senate Subcommittee on Patents, presumably because the bill being considered by the subcommittee was one introduced on behalf of the Administration by Senator Hugh Scott, PA, who was a member of that Subcommittee.

This is not the place to detail the many valiant efforts made to obtain White House approval or help to have the Buckley bill considered. It really never was. Efforts also were made at OMB and at the top level of the Department of Justice, to no avail. Yet these efforts were by experts in the field who repeatedly demonstrated or sought to demonstrate the badness of the bad bill,

and the later-introduced bad bills. It appeared that even the Attorney General at that time could not obtain approval at OMB for his expressed desire to have a good bill really considered.

I was involved in the efforts being made, originated many of them, and state these facts here to show that this Congress is acting well by now considering reexamination and not waiting for any comprehensive bill of any kind whatsoever to give our country the needed, wanted and highly recommended and approved reexamination of patents.

The last pending comprehensive patent law revision bill S. 2255, which passed the Senate by a voice vote, even before the committee print to accompany the same had been made available, died in the House in which it did not receive any action prior to the end of the Congress.

After Senate passage of S. 2255, on February 26, 1976, Secretary of Commerce, Elliot S. Richardson, wrote a letter, dated September 14, 1976, to Chairman Peter W. Rodino, Jr. of the House Committee on the Judiciary, together with an addendum, forcefully pointing out the many difficulties of S. 2255. The Secretary's letter and its addendum appears in the addendum to this statement. The addendum to his letter, basically, urged the same type of reexamination now in S. 1679.

In August of 1976, at the Atlanta meeting of the American Bar Association, the Section on Patent, Trademark, and Copyright Law was informed in open meeting, that S. 2255 would not again be introduced.

Thus, there is no comprehensive patent law revision bill pending, and none is advised. There is need for the reexamination proceddré and the need is urgent; especially in view of our country losing its technologic lead due at least in part to the problems involved in the adequate searching to find in the original examination process the pertinent prior patents and publications.

As earlier noted, two Fong bills were drafted, S. 4259, introduced in December, 1974, and S. 214, introduced in January, 1975. S. 214 was a redraft of S. 4259 to include changes in Court of Customs and Patent Appeals matters. These were suggested by its then, and now most senior, Judge Giles S. Rich. Both Fong bills contained Chapter 31, as earlier described.

C—Judge Giles S. Rich, seniormost judge of Court of Customs and Patent Appeals, comments supporting reexamination

Judge Rich, speaking to the American Patent Law Association meeting on October 3, 1975, in Washington, D.C., stated on the basic reexamination procedure hereunder consideration:

"From what I know of Judges' attitudes, I think they would welcome with open arms a chance to get Patent Trademark Office views on patentability over new art cited by defendants, even if the case had to be sent back to the PTO during the trial to get it. I have listened to a lot of discussion by trial judges about how they can get some expert help, independently of the parties' so-called experts. I think they ought to be able to get it from the PTO, where it is available. They do not relish doing the examiner's work and they are not equipped to do it. They are entitled to his help. I think Chapter 31 of the Fong Bill would be a good solution to this problem. And it is a good solution because it was devised by experienced patent trial lawyers who understand how things work in practice."

*D—Letters from former Commissioner of Patents and Trademarks
C. Marshall Dann supporting chapter 31 reexamination*

In his letters of April 28 and May 9, 1975, Senator Fong inquired of Commissioner Dann concerning many detailed points, too numerous even here to summarize beyond saying that they related to patent law revision and, specifically, to reexamination by the PTO.

The following is quoted from Commissioner Dann's responses to Senator Fong May 16 and June 2, 1975, respectively.

"I believe that present Title 35 could be improved by incorporating portions of your bill, as for example, provisions for reexamination on the basis of prior art submitted by members of the public, for patentability briefs from applicants, and for requiring applicants to make full disclosure to the Office of pertinent facts.

"(b) (7) As mentioned in my response to your April 28 inquiry, I believe present law could be improved by incorporating portions of your bill such as

the provisions for reexamination on the basis of prior art submitted by members of the public, patentability briefs and requirements that applicant make full disclosure to the Office of known pertinent facts. The objectives of the President's Commission might be more fully realized if the provisions of Chapter 31 of S. 214 were incorporated into S. 23."

As noted Chapter 31 was reexamination substantially as in your bill S. 1679.

The letters exchanged between Senator Fong and Commissioner Dann, above mentioned, are found in full beginning on page 139 of the "SEPARATE VIEWS OF SENATOR HIRAM L. FONG; (To accompany S. 2255)" offered to be "Part 2 of the Committee Print Report, 94th Congress, 1st Session." (This interesting, elucidating "Separate Views", of 256 pages, though distributed, was not included in the final report for reasons too remote from the subject here at hand to be mentioned now). The letters are included in the addendum.

E—S. 1971, 89th Congress: Judicial Conference wants PTO expertise

S. 1971 would have amended 35 U.S.C. 103 to remove initial determination of the question of "obviousness" of an invention from the jurisdiction of the Commissioner of Patents, making it a matter solely for judicial determination after grant of a patent.

In the annual report of the Director of the Administrative Office of the United States Courts, 1965, on the Proceedings of the Judicial Conference of the United States, the following is stated:

"It was the view of the Committees on Court Administration and Revision of the Laws that the proposal, if enacted, would increase greatly the volume of patent litigation in the Courts, which would then be called upon to decide initially the issue of 'obviousness' without the advantage of the research and reasoning of the Patent Office."

The just-quoted statement supports the view that courts do want the PTO, at least initially, to pass on patents and publications which apply to patent claims. A copy of the pertinent pages of the report is in the addendum to this statement.

F—Judge Henry J. Friendly supports reexamination

In his letter of October 1, 1975, printed at page 147 of Senator Fong's "Separate Views," Judge Henry J. Friendly of the U.S. Court of Appeals, Second Circuit, in writing to Mr. Robert B. Benson, stated:

"I would be very much in favor of a procedure which would give federal judges who are faced with having to decide the validity of patents the benefits of Patent Office review and evaluation of prior art which had not been cited in the Patent Office."

A copy of Judge Friendly's letter is in the addendum of this statement.

G—H.R. 16432, Wiggins, 94th Congress—A²I²

The Association for the Advancement of Invention and Innovation (A²I²), seeking to carry out its principal function to promote a better climate for invention and innovation, was instrumental in the process carried out by Representative Wiggins of California in introducing H.R. 16432. Mr. Wiggins recognized the need to have a reexamination procedure, as here embodied in S. 1679. Indeed, he adopted verbatim the language of Chapter 31 of the Fong Bills. He did so only after careful inquiry and discussion with a group composed of former Commissioner of Patents, Edward J. Brenner, who served on the President's Commission on the Patent System in 1966; Robert B. Benson, who had been the Chairman of the Patent Law Committee, which developed the reexamination procedure; the Patent Law Committee's then Chairman Byard Gard Nilsson of California and myself. Mr. Wiggins was ably aided by his chief aide, Michael Blommer.

H—H.R. 5075, Butler, VA

This bill introduced August 2, 1979, is termed a modified Wiggins Bill and in wording is identical with S. 1679.

It is interesting to comment that H.R. 5075 and S. 1679 were introduced by a Republican and a Democrat, respectively, almost simultaneously in the House and in the Senate, within a 24-hour period, and that these introductions were entirely separate operations, as far as the involvements in the offices of their sponsors

were concerned. Until nearly the last moment, when it became evident to the persons then active in the two Houses of Congress, these persons did not know of each other's efforts.

I—Association approvals: committee votes

The American Patent Law Association, the Section of Patent, Trademark, and Copyright Law of the American Bar Association, various other Bar and patent law associations, the Chamber of Commerce of the United States, The National Association of Manufacturers, a great many other organizations, as well as many individuals, have signified directly or indirectly their support of Chapter 31, that is, reexamination by the PTO.

Specifically, Chapter 31 as a part of the Fong Bills was approved by the Section of Patent, Trademark, and Copyright Law of the American Bar Association at its meeting in Montreal, Canada, in 1975. At the meeting of the Section, in Atlanta, Georgia, in 1976, it unanimously approved Wiggins, H.R. 14632. At the meeting of the same Section in Dallas, Texas, in August, 1979, S. 1679 and H.R. 5075 were unanimously approved. There were well over several hundred patent experts in the room when the votes were taken in Atlanta and in Dallas.

J—Patent and Trademark Commissioner's Advisory Committee favors re-examination

At its June 17, 1977 meeting, the Commissioner's Patent and Trademark Office Advisory Committee considered and adopted a resolution favoring PTO reexamination substantially as now embodied in S. 1679. The resolution is found in the minutes of the public meeting on pages 17, et seq.

K—President Carter's domestic policy review wants reexamination

Proposal II of the Advisory Subcommittee on Patent and Information Policy of the Advisory Committee on Industrial Innovation established as part of the Domestic Policy Review, calls for a PTO reexamination. In his message to Congress of October 31, 1979, based on the Domestic Policy Review the President has acted favorably on reexamination in the PTO.

Proposal II in part, reads as follows:

"Such as H.R. 14632, 94th Congress, January 30, 1976, as modified by Resolutions Two and Three of August, 1977, annual meeting of the Patent, Trademark, and Copyright Law Section of the American Bar Association, the effect of which is to (1) give the court's discretion to stay litigation for determination of the issue by the PTO, and (2) provide third parties who have initiated a reexamination proceeding to have an opportunity to submit a written response to the statements filed by the patentee."

L—President's message to Congress October 31, 1979

The following is quoted from the President's message:

"I will also seek legislation to provide the Patent and Trademark Office with greater authority to reexamine patents already issued, thereby reducing the need for expensive, time-consuming litigation over the validity of a patent."

The following is quoted from the Fact Sheet accompanying the President's Message to Congress, also dated October 31, 1979 (at page 6):

"Finally, to minimize the cost and uncertainty of litigation patent validity in the courts, the President will submit legislation to provide for voluntary reexamination of issued patents by the Patent and Trademark Office at the request of any person or the court." (copied as typed in statement, P. 6).

M—Other documentation supporting reexamination is available

Concluding on this section of my enthusiastic support for S. 1679, I think I have shown, with documentation, a documentation which can be considerably increased should it ever be needed, that passage of S. 1679 is wanted and needed by a spectrum as wide as any could be when concern for legislation exists in a specialized field of endeavor constituting a basic institution of our country.

III—Procedure and advantages of S. 1679

No doubt, the foregoing documentation shows that PTO reexamination of issued patents is a procedure whose time has come.

Nevertheless, it is helpful to detail here, in somewhat summary fashion, some of the characteristics and advantages of the reexamination procedure embodied in S. 1679.

(i)—S. 1679 is procedural only

The Bill deals only with procedure. It does not deal with the substance of the patent law. It in no way changes the substantive requirements to be considered in determining whether a patentable invention has been made.

The simple procedure of the short Bill would be available to any member of the public, including the patentee, whenever it is discovered that a patent or publication, which the member believes the examiner should have seen before he issued the patent, was not passed on by the examiner.

Also, the Bill provides that the further examination can take place at any time. That is, when a person wishes to proceed, say, to manufacture a product and finds that the patent may stand in his way or when the patent holder finds new art and wishes to restructure his claims to avoid that art, the further examination can be requested. At low cost, the patent grant would be reformed accordingly if, in fact, the said discovered prior art did not completely anticipate the invention claimed in the patent and thus render the patent totally invalid.

The patent holder, even as when he may be the citer of such art, will have due process with respect to title to his patent because he will have ample opportunity, even as has the citer of the art, to comment on that art for the benefit of the patent examiner. Thus, if a real contribution has been made, the patent holder will have a patent which better defines the invention in the event the patent examiner finds such new cited prior art to be really pertinent to the claims of the patent which then will be amended or reformed in the light of that prior art.

(ii)—Advantages of S. 1679 procedure

There are several situations in which the bill would be most helpful to save time, funds, and energy.

1. The patent holder discovers art of which he did not know and based on which he would have his patent further examined.

2. A member of the public, who is conducting an operation discovered to be claimed in a patent, wishes to have the patent further examined on the basis of a prior art patent or publication known to that member or which that member has discovered and based upon which he believes the patent should be further examined at least to narrow its claims so that the member of the public can continue to operate, yet keep his operation outside the scope of the claims of the patent.

3. A member of the public is approached by the patent holder and urged to take a license. The member of the public knows of a prior art patent or publication or makes a prior art search and discovers a prior art patent or publication which would form, in his opinion, the basis of a further examination, following which the member of the public may feel he will not have to pay royalties, either because the patent claims are restricted so as not to cover his intended operation or because the patent claims are properly rendered totally invalid.

4. A member of the public is about to enter the field covered by a patent, finds the patent in his way, and accordingly requests a reexamination based on prior art patent or publication known to him or which he can discover by a search.

5. A member of the public is threatened with possible lawsuit. At the present time, if he does not wish to take a license he must actually proceed to manufacture so that, hopefully, he will be sued early whereupon he can contest validity by relying on a prior art patent, and/or a publication in court—a very expensive procedure which the procedure of the bill would avoid in many instances. Or, if the conditions therefor are met, he can bring an action for a declaratory judgment. As known, both types of litigation are expensive and involve a great deal of time as well as delay.

According to the procedure of S. 1679, if litigation has been commenced and is pending and a party to that litigation wishes for any reason to rely on a prior art patent or publication which was not before the examiner, when the patent was originally issued, the court may remand the patent for further examination to the PTO. The court will also provide time for making a prior

art patent or publication search to insure that, now that there is litigation, a thorough searching will be had to bring all possible art to the attention of the court and to the attention of the examiner in the PTO if the patent is to be reexamined. Further, if after litigation has commenced there is discovered new publication evidence, the court may stay the proceeding, in which the validity of the patent is an issue, for a period sufficient to enable a moving party to cite to the Office such newly discovered additional prior art patent or publication.

(iii)—*President's Commission on the Patent System*

The problem with which the procedure of S. 1679 would deal effectively was recognized by the President's Commission on the Patent System in its report submitted in 1966, Recommendation XV. At the least, the President's Commission gave recognition to the problem posed by the exploding manner in which technology or technological information was then currently and is even now being proliferated. There was, and is, a real problem to get before the examiner, as earlier stated herein, all the pertinent prior art patents or other publications which would show to him that the invention, as being claimed, may already have been available to the routineer in the particular art to which the claim pertains.

More specifically the President's Commission, for the first time, proposed that any person, whether in the private, public, or governmental sector, should be encouraged to come forward and to help the PTO in making available to the examiner the pertinent prior patents or publications and accordingly proposed an Ex Parte administrative procedure for review of the patent claims.

(iv)—*S. 1679 deals with the only real principal problem in the patenting procedure*

That problem, is to get all the pertinent "prior art" before the examiner, yet to protect the patent holder's rights, especially in those cases in which the patent has demonstrated commercial value.

From a statistical analysis viewpoint the present rate of invalidity of patents litigated in the District courts is about 50 percent. Bearing in mind that usually only those patents reach the court which at least one party feels can be defeated—that is the patents in a gray area the validity or scope of which can be seriously questioned—the 50 percent is about that which can be expected considering that judgments of reasonable persons can differ.

In those cases in which the patents or publications, which are considered by the court, include only those which are considered by the patent examiner, a very much smaller percentage of the patents litigated in the District courts, 12 percent, are held invalid on prior art. This is an extremely good statistical record, again realizing that judgments of reasonable persons can and do differ, especially in close situations where the decision of the examiner might have gone either way, based on virtually equally acceptable reasonings. It is well recognized that patentability is a matter of judgment and not a result stemming from application of principles of a positive science.

As noted herein, the procedure of the bill, would make it possible, indeed would see to it, that any interested person, at any time during the effective life of the patent, could have the PTO initially determine the question of obviousness in light of newly cited patents or publications. Therefore, in the event of litigation, the court would have the benefit of the "research and reasoning" of the PTO (Judicial Conf. 1965, see page 10).

S. 1679, for modernizing Title 35, doing so in the light of experience dictating actual need for reexamination, is to be viewed in the light of the foregoing and the facts which follow.

1. The courts have not lacked for power to deal effectively with those who may abuse the system.

2. There has been in the past an unwarranted emphasis, amounting to hysteria, on the problems of the system which are in their order of present importance:

(a) Getting the art to the examiner in the PTO.

(b) High cost of litigation.

(c) The ever-present, nonchanging, very small, and most likely irreducible percentage of deliberate improper representations to the PTO, or withholding of information therefrom.

(d) The total costs of producing opinions on patentability presently incurred by industry and commerce as a whole far outweigh the total costs of litigation.

3. The reexamination procedure of S. 1679 provides a simple, inexpensive way to utilize the assistance of the private sector to bring before the PTO the pertinent prior art patents and publications so that these may be utilized in the reexamination procedure.¹ As noted earlier, the millions of dollars needed (and the necessary time) to put PTO searching on computer are not likely to become available in the foreseeable future.

4. The reexamination procedure of the bill does not incorporate expensive time-consuming and delaying pitfalls which are notoriously known to exist in so-called "opposition" procedures which are available in some foreign countries.

5. The reexamination procedure of the bill also would avoid imposing on the PTO, inventors and their representatives, especially the individual and smaller organizations which most need the umbrage of the patent system, full-blown, District Court-type proceedings, with attendant subpoenas, depositions, interrogatories, discovery, production of documents, witness travel, etc. It would also avoid the inordinate use of the time and talents of the PTO personnel which otherwise would be required. A great time and money cost to all of these parties is avoided and in the majority of cases will not have been needed to reach an acceptable PTO decision even if later court litigation ensues. Moreover, the PTO is not a proper forum to engage in the recited proceedings for which it is not truly equipped and which are better left to the courts.

6. Under the procedure of the bill, the use of time of the PTO staff and of the public taken up with consideration of issued patents will be reduced greatly by permitting consideration of only those patents which, at a future time have become important in the scheme of operations of a person or business. The procedure of the bill permits ignoring, at the time they are issued, patents which are not important in the scheme of things of a business or of a person and permits focusing attention and efforts on those patents which are important at a time when these have become important. It considerably differs from any provisions of earlier proposed legislation which would have required a daily checking of each of the thousands of patents issued each year (about 80,000) to interpose objection by way of virtually immediately calling to attention prior art not recorded by the PTO examiner. Such provisions would have involved the PTO and inventors and their associates in a herculean effort with which many of them, especially individuals and small organizations could not cope.

7. The procedure of the bill will permit substantial narrowing of patent claims or, in some cases, elimination of patents which are clearly invalid. This will reduce litigation and the concomitant burden on our now overburdened courts.

8. Where a patent survives further examination the issues on patentability and validity will have been clarified and oftentimes narrowed. The court will act to review a record of pros and cons and an action taken by the expert patent examiner. Most courts are not experts desiring initially to deal with the question of "obviousness" which, even as indicated above in the Judicial Conference Proceedings respecting S. 1971, the judge felt ought to be determined initially in the PTO. (page 10).

9. The escalation of the reexamination to include more than citation of patents and publications, and the concomitant costs will rapidly place the patent system beyond the reach of the individual inventors and many of the small-to-medium-sized corporations. The funds of the small independent inventor and the small organization, would be better spent for research and making more inventions, on which to base innovations creating jobs, etc., than in fighting an expensive, time-consuming, burdensome procedure imposed upon the PTO and upon them.

10. Recognizing that the consumer ultimately pays, the cost of operating our Patent Incentive System should be kept at a minimum regardless of who initially pays the costs involved.

11. It is the individual inventor and the small corporations, i.e., the many suppliers who supply their particular specialty products and services to other corporations, including to the larger ones, who most need the protection of patents, thus to protect the investment of their time, funds, efforts, and energy into research. Such companies as Polaroid, Xerox, and many others started as very small endeavors and many growing companies grew and now grow under the umbrage of

¹The cited patents and publications will improve the subsequent searching and examination of applications for patent and/or the integrity of the PTO search files.

the patent system. They supply better products because their suppliers can secure exclusivity for their own inventions under a good Patent Incentive System which usually will permit even the smallest to compete effectively.

12. As noted, by following the procedure of S. 1679, the court in its discretion, will be able to review a record which includes the "research and reasoning" of the PTO even as the Judicial Conference in 1965 found that it should be able to do. This is consistent with the doctrine of exhaustion of remedies which holds that the administrative agency shall have exercised its procedures fully before the court passes on the correctness of the agency's action.

13. The procedure of the bill is important because it will provide to the court (the judge of which is only rarely expert in the specific patent law, science and technology relevant to determining nonobviousness) the positions or contentions of the respective parties in detail in explanatory detail, and the action of the PTO thereon. The court can then much better "judge" of the correctness of the agency's action.

14. Thus, the court then truly can "judge" rather than make "the initial determination of obviousness." The court usually does not wish to act as the examiner to make this determination initially. It wishes to act as a judge of the respective arguments presented without needing to generate the initial findings of fact and conclusions of law related to whether a patentable invention has been made over the prior patent or other publication cited.

IV—S. 1679 SATISFIES OBJECTIVES OF PRESIDENT'S COMMISSION ON PATENT SYSTEM

The procedure involved in S. 1679 has been tested against each of the objectives of the President's Commission on the Patent System, 1966. The objectives are as follows:

1. To raise the quality and reliability of the U.S. Patent.
2. To shorten the period of pendency of a patent application from filing to final disposition by the PTO.
3. To accelerate the public disclosure of technological advances.
4. To reduce the expense of obtaining and litigating a patent.
5. To make U.S. patent practice more compatible with that of other major countries, wherever consistent with the objectives of the U.S. patent system.
6. To prepare the patent system to cope with the exploding technology foreseeable in the decades ahead.

These objectives have been agreed to by virtually everyone in the patent community and are as good today as they were when first enunciated. They are included here for information and clarification.

S. 1679 either is consistent with, or gives effect to, each of these objectives.

The foregoing very briefly illustrates some of the background against which the simple, much needed reexamination procedure of S. 1679 is considered here today.

S. 1679 is a carefully thought-out bill, its provisions have stood the test of time and much scrutiny. Senator Bayh you are congratulated by our country's invention and innovation community, especially by all those following the history of legislative efforts of the last twelve or so years.

V—AMERICAN PATENT LAW ASSOCIATION: PATENT LAW COMMITTEE POLL STRONGLY FAVORED ENACTMENT FIRST OF REEXAMINATION

1. After much work had been done to draft bills and to produce markups of still other bills, it had become evident that no further comprehensive patent law revision bill should be attempted at the present time.

The Committee on Patent Law, of the American Patent Law Association, was polled to determine what single, most needed change in the patent law should be made if amendment or change in that law was to be made in a step-by-step manner. It was outstandingly demonstrated that the single, most desired change was to introduce reexamination which APLA since then has approved in principle.

2. The Section of Patent, Trademark and Copyright Law of the American Bar Association in Montreal, Canada, as earlier noted, approved S. 214 Fong, in 1975. Importantly, this bill included, in its Chapter 31, the reexamination procedure which but for two modifications earlier noted referring to Proposal II, page 12 hereof, i.e., court's discretion, to remand the patent to the PTO and the citer's opportunity to comment on the patentee's statement, is now embodied in S. 1679.

The approval by unanimous vote of H.R. 14632 Wiggins, in Atlanta, Georgia, in 1976, by the ABA, Section on Patent, Trademark and Copyright Law, has also been noted earlier.

It bears repetition to now state again that S. 1679 was unanimously approved at the August 11, 1979, Dallas, Texas, meeting of the American Bar Association, Section of Patent, Trademark and Copyright.

VI—NEEDED MODIFICATIONS OF REEXAMINATION PROCEDURE ARE IN S. 1679

Finally, as earlier noted, there had developed, some time after the introduction of S. 214, some concern about the reexamination procedure of Chapter 31 of S. 214 Fong, and later of H.R. 14632 Wiggins. The modifications later suggested and approved by the Subcommittee dealing with patents of the Domestic Policy Review and others e.g., the ABA, Section of Patent, Trademark and Copyright Law, are included in S. 1679, and completely satisfy that concern.

Thus, in original Chapter 31 of the Fong Bills and in H.R. 14632 Wiggins, the court did not have discretion to retain jurisdiction of the patent in litigation whenever a party to an action cited a patent or publication which had not been before the examiner when he issued the principal patent. S. 1679 provides this discretion, as noted. It is in Section 309 (b) of the bill.

Further, the citer of a patent or publication requesting reexamination was not given, in so many words, specific opportunity to comment on the patent holder's comments on such cited earlier art. This is now included in Section 305 of S. 1679.

Even Senator Fong recognized, in the 94th Congress, 1st Session, in his "Separate Views," earlier noted, that there should be discretion in the court to retain a patent before it and not to return it to the PTO unless the court really wanted to do so to get the "expertise" of the PTO. Thus, on page 25 he stated:

"However, in a spirit of compromise and in an effort to mediate the polarization which exists, I will propose an amendment to my Chapter 31 which would give the court at its option the power to retain the case before it and to not send it back to the Patent Office unless the court felt that it wanted the expert opinion of that Office."

Further, on page 26 Senator Fong stated:

"However, in an effort to mediate and to compromise I offer to amend my Chapter 31 to provide that after the examiner and the patent holder have each of them terminated their consideration of the newly cited patent art or publication art and even when claims might have been amended thereafter, that the citer of the new patent or new publication shall have an opportunity to fully brief whatever new position he adopts at that time for review by the examiner."

The patent experts, notably those involved actively in the legislative area in the Section of Patent, Trademark and Copyright Law of the American Bar Association, passed resolutions supporting giving the court the discretion whether to stay the litigation pending a reexamination and to permit each of the third parties, who has initiated a reexamination proceeding, an opportunity to submit a written response to statements filed by the patentee responsive to the citing of the patent or publication not available to the examiner when he originally determined to issue the principal patent. This is embodied in resolutions 2 and 3, Chicago, Illinois, August, 1977.

VII—ABBREVIATED BIOGRAPHICAL SKETCH

The following is mentioned by me as qualifying me, additionally to the foregoing, to have submitted this statement.

The information here listed is restricted to some of those of my activities and qualifications which are pertinent here.

I have chaired a number of committees in the American Bar Association, the District of Columbia Bar Association, and in the American Patent Law Association. These committees have been related to public relations, public information and patent law legislation. I was liaison and councilman for the D.C. Bar Association, Section on Patent, Trademark and Copyright Law, with the National Council of Patent Law Associations. I have served on the Council of the Patent, Trademark and Copyright Section of the District of Columbia Bar Association. Until recently I was a member of the Antitrust and Trade Regulation Committee of the Chamber of Commerce of the United States and its Subcommittees on Patents and Divestiture. I continue to serve informally. I have also served as Chairman of the Legislative Action Committee of the National Council of Patent Law Associations.

I have been active in A²I² (Association for the Advancement of Invention and Innovation) and am currently a Director and Advisor to that Association, the Executive Director of which is Former Commissioner of Patents Edward J. Brenner. I work in close touch as advisor to Intellectual Property Owners.

I have worked with the Business Round Table, especially in patent, antitrust, and related matters.

I was awarded a Bicentennial medal in 1976 in Philadelphia for my service to the patent system.

I am a director and advisor of A²I², short for Association for Advancement of Invention and Innovation. Our President, former Commissioner, Edward J. Brenner, was instrumental in having introduced the Wiggins bill in the last Congress and Representative Butler's bill, H.R. 5075, in the present Congress. He is away on a scheduled vacation. I know he would be here if it could have been arranged. I know that he supports my statement made here, today, and in my prepared text.

VIII—ADDENDUM

“Chapter 31.—PRIOR ART CITATIONS TO PATENT OFFICE AND REEXAMINATION OF PATENTS

“§ 311. Rules Established by Commissioner of Patents

“The Commission shall establish rules and regulations for the citation to the Office of prior art patents or publications, pertinent to the validity of patents, and for the reexamination of patents in the light of such prior art.

“§ 312. Citation of art

“Any person may, at any time within the period of enforceability of a patent, cite to the Office prior patent or publications which may have a bearing on the patentability of any claim of the patent, provided that the person citing such prior art identifies in writing the part(s) of the same considered pertinent and the manner of applying the same to at least one claim of the patent. The writing identifying and applying the same shall become a part of the official file of the patent. The identity of the person citing the prior art will be excluded from such file upon his request to remain anonymous.

“§ 313. Request for examination

“Any person may, at any time within the period of enforceability of a patent, request reexamination of the patent as to the patentability of any claim thereof in the light of any prior art cited under the provisions of section 312 of this chapter, by filing in the Office a written request for such reexamination accompanied by a reexamination fee prescribed according to this title and by a statement of the relation of such prior art to the patentability of the claim or claims involved. Unless the requesting person is the patentee, the Commissioner shall promptly send a copy of such request and statement to the owner of the patent appearing from the records of the Office at the time of the filing of the request.

“§ 314. Determination of issue by Commissioner of Patents

“(a) Within ninety days following the filing of a request for reexamination under section 313 of this chapter the Commissioner shall make a determination as to whether a substantial new question of patentability affecting any claim of the patent concerned, not previously considered in examination or reexamination of such claim, is raised by the consideration, with or without any other prior art, of the prior art which has been cited in relation to the patent according to section 312 of this chapter. The Commissioner on his own initiative may make such a determination at any time.

“(b) A record of the Commissioner's determination under paragraph (a) of this section shall be made in the file of the patent, and a copy of it sent promptly to the owner of the patent.

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

“§ 315. Reexamination ordered by Commissioner of Patents

“If, in a determination made pursuant to paragraph (a) of section 314, the Commissioner finds that a substantial new question of patentability affecting a claim or claims of the patent is raised by consideration of the patents and pub-

lications that have been cited in relation to the patent according to section 312 of this chapter, he shall order a reexamination of the patent for the resolution of the question, and shall proceed to resolve it in accordance with sections 131, 132, 133, and any other pertinent section of this title, as though the claim or claims involved were present in a pending application. The patent owner shall be given a reasonable period, not less than two months, after the filing of the reexamination order within which he may file a statement on such question for consideration in the reexamination. Any reexamination proceeding under this section shall be conducted with special dispatch within the Office.

“§ 316. Response or amendment by patent owner

“The patent owner shall be provided an opportunity in any reexamination proceeding under this chapter to amend any claim of his patent in order to distinguish the claim from prior art cited according to section 312 of this chapter, or in response to a decision adverse to the patentability of the claim, but no amendment enlarging the scope of a claim shall be permitted in a reexamination proceeding under this chapter.

“§ 317. Appeals

“The owner of a patent involved in a reexamination proceeding under this chapter may appeal in accordance with section 134, sections 141 through 145 or other pertinent section of this title from a final decision in such proceeding adverse to the patentability of any claim, or amended claim, of the patent.

“§ 318. Certificate of patentability; unpatentability and claim cancellation

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

“§ 319. Reliance on art in court only after Office review

“No patent or (printed) publication may be relied upon as evidence of non-patentability in a civil action involving an issue of validity or infringement of a patent unless the patent or publication was cited by or to the Office during prosecution of the application for the patent or was submitted for consideration by the Office in accordance with sections 312 and 313 of this chapter and was actually considered in accordance with section 314. The limitation provided by this section shall apply in any civil action in which a pleading presents a claim for infringement or for adjudication of the validity of a patent, upon the basis of the contents of the patent file as it existed on the date of the filing of such pleading, excepting that a party may rely upon a patent or publication cited later, and upon the final determination had on a request for reexamination in the light of such patent or publication, if such patent or publication was cited and such request was filed in the Office within the period of a stay ordered by the court in accordance with section 320 of this chapter.

“§ 320. Stay of court proceedings to permit Office review

“(a) Any party to a civil action against whom a pleading presents a claim for infringement or for adjudication of the validity of a patent shall have the right, by motion brought before any responsive pleading, to secure a stay of all proceedings in the action by order of the court for a period, not less than four months, sufficient to enable such party to search for and cite patents or publications considered pertinent to the patent and to request reexamination of the patent in view of such prior art according to sections 312 and 313 of this chapter. If such party files a request for such reexamination in the Office and serves and files a copy of it in the action within the period of the stay provided by such order, the stay shall be extended by further order of the court until at least twenty days after the final determination of the requests for reexamination.

“(b) The court, on motion and upon such terms as are just, may at any time stay the proceedings in a civil action in which the validity of a patent is in issue for a period sufficient to enable the moving party to cite to the Office newly discovered additional prior art in the nature of patents or (printed) publications and to secure final determination of a request for reexamination of the patent in the light of such additional prior art, provided the court finds that such additional

prior art, in fact, constitutes newly discovered evidence which by due diligence could not have been discovered in time to be cited to and considered by the Office within the period of a stay of such proceedings that was or could have been secured according to subsection (a) of this section.

“§ 321. Dismissal of complaint

“The party or parties whose complaint commencing a civil action presents a claim for infringement or for adjudication of the validity of a patent shall have the right, by notice served upon the other party or parties and filed in the action at any time within the period of a stay ordered by the court pursuant to section 320 of this chapter, to dismiss such complaint without prejudice and without costs to any party.

SECRETARY OF COMMERCE,
Washington, D.C., September 14, 1976.

HON. PETER W. RODINO, Jr.,
Chairman, Committee on the Judiciary,
House of Representatives,
Washington, D.C.

DEAR MR. CHAIRMAN: Proposals to revise our patent laws have been continuously pending in Congress for ten years, S. 2255, passed by the Senate on February 26, 1976, and referred to the House, is the latest effort to modernize the law to accommodate the accelerating progress of science and technology, the changing nature of applied research, and the vast proliferation of technological information. Although it is evident that the House will not have time this session to consider the many complex issues contained in S. 2255, I believe our comments will be helpful to future consideration of patent law revision proposals. In offering these comments, I would like to emphasize that they represent the views of the Department of Commerce only and not necessarily those of the Administration.

The Department of Commerce is concerned that many of the provisions of S. 2255 will be excessively expensive and unduly burdensome, both to the Patent applicant and to the Patent and Trademark Office. The bill establishes some new procedures which are not needed, and fails to establish some that are needed. Finally, many of the provisions in S. 2255 include unnecessary detail, better left to agency rules. Included herein and appended hereto are our suggestions for improving S. 2255.

BACKGROUND

Patent law is of vital concern to this Department and to the Nation as a whole since patent law can exert a strong influence on the development and use of new technology. While consensus exists that some revision of the patent law is timely and appropriate, substantial opposition to S. 2255 has been expressed by concerned citizens and by members of the patent bar.

We are conscious that in a number of respects S. 2255 is similar to S. 1308, the bill introduced by the Administration. The Department of Commerce, however, did not concur with every provision of S. 1308. While, from our perspective, S. 2255 makes some substantial improvements in S. 1308, we feel that additional modifications are necessary to achieve effective, acceptable and viable patent law revision.

Among the improvements in the Senate-passed bill over S. 1308 are the following: disclosure requirements have been modified to eliminate an implication that confidential proprietary information must be disclosed; public involvement is provided after the grant of a patent rather than before, thus eliminating double publication; review of decisions of the Court of Customs and Patent Appeals would remain in the Supreme Court rather than be switched to the Court of Appeals for the District of Columbia; procedural pitfalls which could have resulted in deserving inventions' being denied protection have been eliminated; and numerous drafting redundancies and ambiguities have been eliminated. Notwithstanding these improvements, from the standpoint of the Department of Commerce, the Senate-passed legislation contains a number of features which would make more expensive and more burdensome the obtaining of a patent and would lead to less certainty of protection by that patent. Thus, we fear that the Senate-passed bill would reduce rather than increase incentives to use the patent system. It would therefore reduce the incentives for voluntary investment in, and disclosure of the results from, research and development activity. The reduced

incentive to use and thus disclose via the patent system would lead to an increasing reliance upon a trade secret approach to protect new technology, resulting in needless duplication of work and the loss of additional technological advances which might have been stimulated by disclosure. It is our belief, however, that S. 2255, if suitably amended, can serve as the basis for sound and desirable reform.

COSTS

The Administration estimated its bill would increase the estimated current \$1500 average cost to the applicant to obtain a patent by 75 to 100 percent, and many believed this too conservative. The cost increase to the Government was estimated to be nearly 20 million dollars. The estimated costs to applicants under S. 2255, while lower than the Administration bill, are still much too high. Although we cannot quantify the impact on the public of these cost increases, we are confident that significantly fewer patent applications will be filed. The resultant loss of public disclosure of technological information, the loss of incentives to invent or to invest in research, development, and commercialization of new products and processes is bound to have an adverse affect on our technological progress and economic growth.

BURDENSOME PROCEDURES : REEXAMINATION

An important concept of patent law reform is that at some point before a patent can be enforced there should be opportunity for members of the public to come forward with reasons why the patent should not be enforceable. Unfortunately, sections 135 and 135A of S. 2255 provide this opportunity in an unnecessarily burdensome and costly way.

Under section 135, any member of the public, who during the first year after grant presents reasonable grounds for rendering a patent claim invalid, may provoke an inter partes opposition proceeding. In this proceeding the patentee is subject to full discovery, including interrogatories, extensive document production and the taking of testimony. Thereafter, for the balance of the patent term, section 135A provides for a second inter partes reexamination proceeding, this time limited to prior patents, publications and other information in tangible form. Either party may appeal to the courts the decision ultimately reached by the Office in either type of opposition proceeding.

These provisions invite harassment of the patentee. They could be particularly burdensome to patentees of limited means— independent inventors and small business concerns. There are several aspects of S. 2255 designed specifically to assist inventors of limited means: upper limits on filing, examination, and issuance fees and an opportunity to defer maintenance fees. However, the potential costs associated with the opposition and reexamination procedures under sections 135 and 135A of S. 2255 not only could begin to accumulate immediately after grant, but could far exceed the token concessions granted such individuals with respect to government fees.

A simpler and less burdensome procedure, but one essentially as effective in bringing forth information bearing on patentability, is available. Under this procedure, set forth in detail in the attachment to this letter, prior patents and publications could be submitted for consideration by the Patent and Trademark Office at any time during the life of the patent, and patents and publications could not be used to prove invalidity in an infringement or declaratory judgment action unless first submitted for Office consideration. Neither discovery nor appeals by the opposer would be permitted. The court would thus have the benefit of the views of the Office experts on all cited references, but would be no more bound by those views than it is today.

This procedure would effectively bring forth the best art, but would be less expensive and less burdensome than the provisions for public participation in S. 2255. It would reduce and simplify patent litigation. In our opinion it should be substituted for the procedures contained in S. 2255.

DEFERRED EXAMINATION

The Department of Commerce agrees with the Administration that the procedure referred to as "deferred examination" is not needed or desirable at this time. Under the system which S. 2255 would establish, the examination of a patent application by the Office would normally be deferred until requested by

the applicant. If no request for examination is made within five years from the earliest date to which the application is entitled, the application is regarded as abandoned. Since a request for examination would not be made in every application, it is argued that with fewer applications to consider the examiner could spend more time on each application. This argument, however, ignores the administrative realities by which a decrease in workload is normally accompanied by a corresponding decrease in appropriations and staffing.

Furthermore, the publication of unexamined and unscreened applications required under the deferred examination system of S. 2255 would unjustifiably swell the volume of technical literature, would force potential competitors to make in effect their own examination, and, as indicated by the Assistant Attorney General for the Antitrust Division (Hearings on S. 1321 Before the Subcommittee on Patents, Trademarks and Copyrights of the Senate Committee on the Judiciary, 93rd Congress, 1st Session 299 (1973)), could have a chilling effect on the competition. For these reasons, section 191-194 and those other parts of S. 2255 which provide for deferred examination should be deleted.

JOINT VENTURES

The complexities of modern science and technology, coupled with the specialization of today's engineers and scientists, have resulted in the extensive use of organized research teams funded by government, industry and the universities. Cooperative effort of this sort should be encouraged and not penalized by unnecessary technical requirements with respect to patents for inventions made jointly by two or more inventors. We urge amendment of section 116 to permit filing by several inventors where they have jointly contributed to at least one claim in the application.

ADMINISTRATIVE PROVISIONS

Section 1 of S. 2255 would substantially modify current law concerning the establishment of the Patent and Trademark Office and its relation to the Department of Commerce. In order to clarify the relation of the Office to the Department, it is suggested that section 1 be modified to indicate that the Office and its functions shall be continued in the Department of Commerce under the Secretary of Commerce. Furthermore, since decisions concerning initiation of judicial proceedings and rulemaking involve broad policy considerations which are appropriate for departmental review, the Office should not be independent of the Department in these matters.

Section 3 of S. 2255 would elevate the Commissioner of Patents to an Assistant Secretary of Commerce. Not only is this undesirable because it sets a precedent for the proliferation of Assistant Secretaries, but the Patent and Trademark Office, which is composed of scientists and engineers, should be associated with other science and technology operating units under the jurisdiction of an Assistant Secretary for Science and Technology.

DRAFTING APPROACH

Finally, the bill should be amended to minimize unnecessary procedural rigidity and to avoid procedural traps. The drafting of S. 2255, carried over from earlier bills, evidences a strong tendency to rewrite unnecessarily each section of present law, often introducing unintended changes in substance or including procedural details which are more appropriate for implementing regulations.

Sections 112 and 132 are among those sections containing provisions which would significantly limit the flexibility of the Patent and Trademark Office to modify its procedures as experience dictates. In other sections, some of which have been the subject of extensive litigation, the language seems to have been changed for no particular reason. For instance, 35 U.S.C. § 112 (1952) of existing law requires a disclosure of an invention sufficient to enable any "person skilled in the art" to make and use it. The same section in S. 2255 has been modified to require that the disclosure be such as to enable any "person having *ordinary* skill in the art" to make and use the invention. Notwithstanding the fact that the proper interpretation of the phrase "person skilled in the art" has been addressed in more than 100 cases (35 U.S.C.A. § 112 n.50), this change and the significance to be attributed to it are not even mentioned in the report accompanying S. 2255. A number of suggestions to improve the drafting

of S. 2255, as well as language to implement the points previously mentioned, are included in the attached appendices.

In our view, the changes proposed for S. 2255 in the attached appendices would make that bill an acceptable revision of our patent law; a revision which improves the strength and reliability of the patent system, while enhancing the incentives to invent, invest in, and disclose new technology. It is our hope that these suggestions will receive due consideration when patent law revision is considered in the 95th Congress.

With warm regard,
Sincerely,

ELLIOTT L. RICHARDSON.

Enclosures.

I. OPPOSITION AND REEXAMINATION

The provisions dealing with oppositions during the first twelve months from issuance (section 135, page 40, lines 20 through 39 and page 41, lines 1 through 39) as well as the provisions dealing with reexamination for the balance of the term (section 135A, page 42, lines 1 through 39 and page 43, lines 1 through 38) should be deleted and the following provisions dealing with pre-litigation reexamination substituted. The proposed substitution for sections 135 and 135A sets forth procedures for a reexamination; the suggested additions to section 282 set forth a requirement that prior art be considered by the Patent and Trademark Office before it may be relied upon in litigation.

SECTION 135. REEXAMINATION

(a) (1) At any time within the period of enforceability of a patent, any person may request reexamination of such patent pursuant to this section.

(2) Such person shall:

(A) file a written request for such reexamination,

(B) notify the Commissioner in writing of any patents or accessible printed or other tangible form of publications that may have a bearing on the validity of any claim of the patent at issue, and

(C) submit an explanation of the relation of such patents and publications to the patentability of the claim or claims involved. The written request shall become a part of the official file of the patent. The identity of the person filing such request will be excluded from such file upon his request to remain anonymous.

(b) (1) Unless the requesting person is the patentee, the Commissioner shall promptly provide the owner of the patent, as indicated from the records of the Office at the time of the filing of the request, a copy of such reexamination request together with the patents and publications cited pursuant to subsection (a) (2).

(2) Within 90 days following the filing of a request for reexamination, the Commissioner shall make a determination as to whether a substantial new question of patentability affecting any claim of the patent at issue is raised by the consideration of the patents and publications cited pursuant to subsection (a) (2). The Commissioner on his own initiative may make such a determination at any time.

(3) A record of the Commissioner's determination shall become a part of the official file of the patent, and a copy of it sent promptly to the owner of the patent.

(4) A negative determination by the Commissioner shall be final and non-appealable.

(5) If the Commissioner finds that a substantial new question of patentability is raised, he shall order a reexamination of the patent.

(6) The patent owner shall be given a reasonable period, not less than two months, after the filing of the reexamination order within which he may file a statement on the issues for consideration in the reexamination. The patent owner shall be provided an opportunity in any reexamination proceeding to present new or amended claims in order to distinguish the claim or claims from patents or publications cited pursuant to subsection (a) (2) of this section. No such amendment shall materially enlarge the scope of the claim or claims of the patent or add new matter.

(7) The owner of a patent involved in a reexamination proceeding under this section may appeal from a final decision adverse to the patentability of any claim, or new or amended claim, of the patent. Such appeal shall be in accordance

with section 134, sections 141 through 145, or other pertinent sections of this title.

Section 282, page 67, line 14, after "patentability", insert ", provided, however, that no patent or printed publication may be relied upon as evidence of non-patentability unless it was cited by or to the Office during prosecution of the patent at issue or was considered by the Office in accordance with section 135 of this title"

Section 282, page 67, line 22, "(4)" should be deleted and "(3)" substituted therefor.

Section 282, page 67, following line 41, add the following :

(D) The court shall stay all proceedings in the action until at least 20 days after the final determination in regard to any request for any reexamination which was made in accordance with section 135 of this title by any party against whom a pleading presents a claim for infringement or for adjudication of the validity of a patent, provided that such request was made within six months of the bringing of the action and before any responsive pleadings are made.

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

(F) The party or parties whose complaint commencing a civil action presents a claim for infringement or for adjudication of the invalidity of a patent shall have the right, by notice served upon the other party or parties and filed in the action at any time within the period of the stay ordered by the court pursuant to subparagraphs (C) or (D) of this paragraph, to dismiss such complaints without prejudice and without costs to any parties.

Page 68, paragraph "(3)", lines 6 through 9, should be deleted and paragraph "(4)", line 10, renumbered to read "(3)".

* * * * *

[NOTE BY PAUL L. GOMORY.—Please note, there are 19 more pages of Addendum attached to Secretary Richardson's letter of September 14, 1976, to Chairman Peter W. Rodino, Jr. not relating to reexamination by PTO, these pages have been omitted to save energy and for sake of brevity.]

The pending legislation would require significant changes in the procedures of the Patent Office. We therefore believe that the enactment of a sound new patent code would be appreciably facilitated if you would authorize the Commissioner of Patents to directly make known to the Subcommittee his comments on S. 2504 and proposed modifications. Our request is consistent with the authorization recently given to the Department of Justice to testify independently of the Administration's position on the patent provisions of several energy bills.

In view of our desire to obtain early passage by the Senate of S. 2504, we hope that this request will be acted on as soon as possible.

With highest personal regards, we are

Respectfully yours,

JOHN L. McCLELLAN,
Chairman.

HUGH SCOTT,
Ranking Minority Member.

U.S. SENATE,
COMMITTEE ON THE JUDICIARY,
Washington, D.C., April 28, 1975.

HON. C. MARSHALL DANN,
Commissioner, Patent and Trademark Office,
Arlington, Va.

DEAR COMMISSIONER DANN: Kindly refer to my comments, in the Congressional Record of January 17, 1975, pages S 387-S 413.

The referenced pages, which also include my bill, S. 214, explain my reasons for introducing my patent bill.

In the light of the comments, with which I am sure you are familiar, I ask your opinion on the following points. Kindly bear in mind the substance and requests of my letters of March 3 and March 11, 1975, addressed to the Secretary of Commerce, then Frederick B. Dent, copies of which are attached for your ready reference.

It would help me personally in working with my aide and to hopefully end the years of frustration, since the President's Commission on the Patent System rendered its report in 1966, to have your personal views on my bill.

Your comments on the following points will bear influentially on my considerations because of your intimate knowledge and experience in and with our voluntary disclosure patent incentive inventive system, especially in view of your more recent experience of well over a year as Commissioner of Patents.

(1) Generally, can the Patent Office operation be effectively conducted under my bill?

(2) Specifically concerning the examination operation provided for in my bill:

(a) Will the examination of applications for patent be effective?

(b) Will reexamination of patents be effective?

(c) Will the presumption of validity of patents, as issued, be enhanced in view of the knowledge on the part of applicants of possible reexamination under Chapter 31?

(3) Will the ultimate validity of patents be sufficiently improved by my bill:

(a) Generally?

(b) On a cost-effective basis?

(c) On the basis of burden on the Patent Office relative to the results accomplished under S. 214?

(4) What are the costs of those provisions of my bill which are new to Title 35 U.S.C.:

(a) Respecting additional manpower hours needed?

(b) Dollar costs of operation of the Patent Office?

With respect to my comments above mentioned, and particularly to the "Overview" on page 389 in column two, do you, Mr. Commissioner, believe that the principal problems known to and addressed by the President's Commission on the Patent System (1966) can be solved by the Commissioner's regulations under the provisions of my bill, in the drafting of which I sought to avoid undue statutory rigidity? Kindly refer on page 391 in the third column to "Commissioner's Freedom to Regulate Appropriately."

(5) What effect on or change of the incentive to continued use of the Patent System by the inventive community will result if the new provisions of my bill are enacted into law:

(a) In general?

(b) With respect to protection by trade secret alternative?

(c) With respect to the requirement for maintenance fees:

(1) As in my bill?

(2) On an annual basis of minimal amounts payable to raise some of the patent office operation expenses?

(6) I will also appreciate greatly your views on whether my bill in your opinion is in the direction of attaining the objectives of the President's Commission:

(a) In general?

(b) Specifically:

(1) Shortening the period of pendency of an application for patent?

(2) Accelerating public disclosure of technological advances?

(3) Reducing or at best keeping at a minimum the expense of obtaining a patent?

(4) Reducing the amount and or expense of litigating a patent?

(5) Keeping or rendering U.S. patent practice compatible with those of other countries consistent with the objectives of our voluntary disclosure system?

(6) Preparing the patent system and in particular the Patent Office operation to cope with increasingly exploding technology?

(7) Whether these objectives can be reached by incorporating into Title 35 one or more portions or sections of my bill? If so, please identify such portions or sections.

Finally, because I believe that you are the most qualified person in the Administration to speak on patent legislation, your personal opinion is solicited in view of your intimate knowledge of Patent Office operation. You, of course, can view my bill in the light of your many years of experience at the bar which includes your experience in the procedures and costs of obtaining patents.

I am also today asking the General Counsel of the Commerce Department, Mr. Karl Bakke, for his personal opinion of my bill. Herewith enclosed, kindly find a copy of my letter to Mr. Bakke.

As you know, selection of a bill for markup is imminent. I am currently awaiting answers to my above-mentioned letters and to similar letters addressed to bar association. Accordingly, your early convenient reply will be helpful and greatly appreciated.

I thank you now for your early, convenient reply to the questions in this letter.

With warm regards and aloha,

Sincerely yours,

HIRAM L. FONG.

U.S. DEPARTMENT OF COMMERCE,
PATENT OFFICE,
Washington, D.C., May 16, 1975.

HON. HIRAM L. FONG,
U.S. Senate, Washington, D.C.

DEAR SENATOR FONG: Your letter of April 28, 1975, asks my opinion with respect to a number of specific inquiries about your patent revision bill S. 214. I will attempt to respond to the questions as asked.

1. If S. 214 were to become law, there would be no difficulty in adjusting the procedures of the Patent and Trademark Office to operate effectively under the law.

2. It should be possible to carry out an effective examination under the provisions of the bill and to conduct an effective reexamination when prior art was submitted by members of the public. I believe prior art submitted in connection with reexamination would receive the same consideration as art initially discovered during the original examination.

I would not expect much change in the presumption of validity of patents, as issued, under the bill, since at that point there would have been no opportunity for public participation in the examination process. The presumption should be enhanced when a patent is litigated, however, since by that time all the prior art would have been considered and overcome before the Patent and Trademark Office.

3. As compared with present law, the ultimate validity of patents which survive examination and reexamination should be considerably improved in view of the chance for all interested persons to bring forth the best art they know of at any time during the life of the patent. This improvement in validity would be obtained at modest cost and without significant added burden to the Patent and Trademark Office.

4. It is estimated that operations of the Patent and Trademark Office under your bill would require from 100 to 150 additional positions, an increase of 3 to 5%. The increased cost, based on fiscal year 1974 costs, would be 2.4 to 3.4 million dollars.

To the extent that procedural matters are not dealt with in your bill and are left for handling by Commissioner's regulation, it should be possible to accomplish this so as to achieve the principal objectives of the President's Commission.

5. I would not expect your bill to have any adverse effect on patent incentives. There might be a positive effect, since the validity of patents should be enhanced. Enactment of the bill should not affect the protection of trade secrets.

I would not expect maintenance fees in the amounts set forth in your bill to have any substantial effect on the incentives of the patent system. The impact of these fees would ordinarily fall only on those patentees who had found it possible to commercialize their inventions.

Establishment of annual maintenance fees, even on a minimal basis, would seem to me more burdensome both to the patentee and to the Patent and Trademark Office. More record keeping would be involved and the fees would be payable at a time when the patentee might have little idea whether he would ever make any money from his invention.

6. Your bill does appear to me to be in the direction of attaining the objectives of the President's Commission. Provision for the 20-year term should be helpful in shortening patent pendency, though otherwise the bill would not seem to have significant effect on pendency as compared with present law. To the extent that the bill encourages the filing of patent applications, it helps to accelerate public disclosure of technological advances.

The bill would not add much to the cost of obtaining a patent, while the provisions of Chapter 31 would be expected to reduce substantially both the amount and the costs of patent litigation. Under your bill our patent system should remain compatible with the systems of other countries, and should be able to cope with modern technology developments.

I believe that present Title 35 could be improved by incorporating portions of your bill, as for example, provisions for reexamination on the basis of prior art submitted by members of the public, for patentability briefs from applicants, and for requiring applicants to make full disclosure to the Office of pertinent facts.

I hope this will be helpful to you and would like to thank you for the active interest you have shown in working toward an improved patent system.

With best regards,

Sincerely,

C. MARSHALL DANN,
Commissioner of Patents and Trademarks.

U.S. SENATE,
COMMITTEE ON APPROPRIATIONS,
Washington, D.C., May 9, 1975.

Hon. C. MARSHALL DANN,
Commissioner, Patent and Trademark Office, Arlington, Va.

DEAR COMMISSIONER DANN: In my April 28 letter to you I referred to my comments in the Congressional Record of January 15, pages S 387-413. I also referred to the substance and requests of my letters of March 3 and March 11 addressed to the then Secretary of Commerce, Frederick B. Dent, of which copies were furnished for your ready reference.

At the time of these letters, no bill had been chosen for markup. Now S. 23 has been chosen for markup. Therefore in considering your now expected reply, I would be most appreciative if it would also be directed to the attached questions in my addendum which are directed to the substance and procedures of S. 23. Such information will aid me greatly in deciding what amendments I may offer to S. 23. I will still also rely upon your opinion with respect to the questions of my letter of April 28. Accordingly I ask you to kindly combine your answers to the questions in my addendum with those forthcoming from my letter of April 28.

As you know, great care was exercised in the preparation of my bill, S. 214, which took into account positions and recommendations received from interested parties, including importantly the patent bar.

Any amendments I may offer will be prepared in the light of provisions of my bill and comments you may make on both my bill S. 214 and S. 23.

I am advised that amendments to be considered in markup must be submitted to the Chief Counsel of the Subcommittee not later than May 20, so you can see that time is of essence.

Your early convenient cooperation in responding to my letters will be very much appreciated.

I have also recently noted with keen interest, Secretary Morton's response to the Senate Commerce Committee's questions. (P.T.C.J., May 1, 1975, pp. A-4 and A-5)

With warm regards and aloha,
Sincerely yours,

HIRAM L. FONG.

U.S. DEPARTMENT OF COMMERCE,
PATENT OFFICE,
Washington, D.C., June 2, 1975.

Hon. HIRAM L. FONG,
U.S. Senate,
Washington, D.C.

DEAR SENATOR FONG: This letter is in response to your letter of May 9, 1975, which notes that S. 23 has been chosen as the basis for the mark-up of a patent

revision bill. Your earlier letter of April 28 asked my opinion on various points relating to your bill S. 214, and you now ask that I expand the answer to include S. 23 as well.

My response to your letter of April 28 was already completed and forwarded to the reviewing officials in the Department of Commerce and the Office of Management and Budget when your May 9 letter was received. I believe you have now received that response. Accordingly, in the present letter I will try simply to answer the questions asked in the addendum to your May 9 letter.

Taking up your specific questions:

(1) If S. 23 were to become law, there should be no trouble in accommodating the procedures of the Patent and Trademark Office for effective operation under that law, with one possible exception. According to our analysis, if deferred examination is put into effect without some provision for regulating the Office workload, there could be a drastic reduction in the number of applications available for examination during the first few years after the law became effective. This might make it necessary for us to reduce our professional examining staff by as much as two-thirds, and within a few more years to attempt to build it up again to approximately three-fourths of the present level. The Administration does not consider deferred examination necessary or desirable, but if it should be included, I would urge strongly that there be some provision to give the Office a degree of control over the amount of its workload.

(2) The effectiveness of the Patent and Trademark Office operation, in the sense of being able to conduct a more thorough examination, should be improved by the provisions of either S. 23 or S. 214 over present law, since in each case there is opportunity for the public to bring forward prior art or other information bearing on patentability.

(3) (a) As between S. 23 and S. 214, it is difficult to say which will produce more effective examination of applications for patent. S. 214 affords somewhat greater flexibility in Office procedures.

(b) The inter partes procedures available under S. 23 will in some cases produce information not otherwise available and to that extent will provide more effective re-examination. On the other hand, under S. 214 the opportunity to oppose at any time during the life of the patent and consequently the likelihood that oppositions will be brought at a time when the opposer is seriously concerned with the patent will mean that usually a more thorough search will have been made by the opposer. On balance, I would expect more effective re-examination under S. 214.

(c) I would not expect much difference in the time consumed for the examination of applications under S. 23, S. 214, or present law. Application pendency would, of course, be prolonged for those applications under S. 23 where deferred examination was invoked.

(d) Because of the inter partes nature of the proceedings, re-examination under S. 23 would be more time consuming than under S. 214.

(e) In his May 6, 1975 response to your letters of March 3 and March 11, 1975, Acting Secretary Tabor estimated that the additional cost of operation of the Office under the opposition procedures of S. 23 would be from 2.7 to 8.0 million dollars. The additional costs of operation due to the opposition provisions in S. 214 were estimated to be 0.5 to 1.5 million.

(4) (a) The ultimate validity of patents under S. 23 should be improved over that obtained under present law, largely because of the opportunity for re-examination. Under S. 214 the requirement that all prior art be submitted to the Patent and Trademark Office before being used in court should mean that any patents surviving re-examination will enjoy a considerably enhanced presumption of validity.

(b) Our analysis indicates that operation under S. 23 will be more expensive than either S. 214 or present law. Again referring to Acting Secretary Tabor's letter of May 6, it was estimated that the total additional costs of operation for the Office under S. 23 would be 13.1 to 18.4 million dollars compared with a total additional cost under S. 214 of 2.4 to 3.4 million.

(c) The ultimate validity of patents should be improved by the provisions for re-examination and the insistence on completeness of disclosure of any facts bearing on the right to patentability. Both S. 23 and S. 214 contain such provisions.

(5) Although some of the objectives of the pending bills could presumably be accomplished by regulations, this is not true in all cases. For example, without

change in the law, it is not possible to require re-examination for all applications or for any patents. As I believe you know, the Office is currently experimenting with a voluntary protest procedure. Of 2,000 applicants offered the chance to have their applications published for protest, one-third elected to do so. During the three-month period following publication, 9 percent of the published applications attracted protests. The Office is currently studying the references submitted and does not yet have any figures on how many may ultimately be rejected on this basis.

(6) Acting Secretary Tabor's letter of May 6 analyzed those areas of S. 23 and S. 214 which are new to present law and appear to have the greatest cost implications. These costs are reproduced in the table below, expressed in terms of fiscal year 1974 costs except where otherwise indicated.

	S. 23 (McClellan)	S. 214 (Fong)
Secs. 3(d) and 24	1.9	0.5
Sec. 115	2.5	
Sec. 414	.4
Oppositions	2.7-8.0	5-1.5
Miscellaneous provisions	4.9	1.0
Deferred examination7	
Total	13.1-18.4	2.4-3.4
Mean (fiscal year 1974)	15.8	2.9
Estimated (fiscal year 1976 basis)	18.1	3.3

Operations of the Patent and Trademark Office under S. 214 would be expected to require from 100 to 150 additional positions. Operation under S. 23 would require 500 to 800 additional positions except for reductions in examining requirements which would presumably result from deferred examination. Depending on the assumptions used, net additional needs under S. 23 with deferred examination might be about 100-400 positions.

(7) (a) and (b) If S. 23 becomes law, I believe that it will have both positive and negative effects on the incentive to continued use of the patent system. To the extent that it produces a greater presumption of validity, filing of applications will be encouraged. On the other hand, the increased costs and the danger of unintentionally running afoul of some of the procedural requirements will induce some to rely on secrecy instead of patent protection. Less of this negative effect would be expected under S. 214.

(c) Whenever patent procedures become more expensive, risky or burdensome, there is incentive to maintain inventions as trade secrets. This incentive would be somewhat greater under S. 23 than under S. 214, but I would hope and expect that most would still choose to use the patent system under either bill.

(d) Maintenance fees in the amounts contemplated by S. 23 and S. 214 should not have very much effect on the incentives to file, although obviously the effect will be greater as the fees become higher. As indicated in my earlier letter, annual maintenance fees would seem to be more burdensome to the patentee and to the Patent and Trademark Office than larger amounts payable at the times provided in the pending bills.

(8) (a) In my judgment, both S. 23 and S. 214 will accomplish some of the objectives of the President's Commission and will fail to accomplish others.

(b) (1) Neither bill would be expected to shorten the period of application pendency, since the Office expects to reach eighteen-month average pendency in another year. Pendency of any applications deferred under S. 23 would be lengthened.

(b) (2) There should be little change in the time of public disclosure of technological advances under either bill as compared with present law. Under S. 23 the inventions of those choosing deferred examination would be published shortly after eighteen months, but this will be about the same as the average under the present law. To the extent that any potential patent applicants are dissuaded from filing because of added costs or other burdens, there might be a net decrease in public disclosures of new technology.

(b) (3) Both bills would add to the expense of obtaining a patent. The increase would be greater for S. 23 than for S. 214.

(b) (4) Both bills should reduce the amount of litigation and the expense of litigating a patent, largely because of the provisions favoring arbitration of patent disputes. In addition, it would be expected that the amount and costs of patent litigation under S. 214 would be substantially reduced by the requirement that all prior art must first be considered in the Patent and Trademark Office.

This would weed out a number of patents which would otherwise be litigated and would give a greater presumption of validity for the others.

(b) (5) Procedures under the two bills are generally consistent with foreign practice, although any increase in disclosure requirements will tend to make U.S. practice diverge from those of all other countries.

(b) (6) The procedures of both bills should be flexible enough to cope with the developments of modern technology.

(b) (7) As mentioned in my response to your April 28 inquiry, I believe present law could be improved by incorporating portions of your bill such as the provisions for re-examination on the basis of prior art submitted by members of the public, patentability briefs and requirements that applicant make full disclosure to the Office of known pertinent facts. The objectives of the President's Commission might be more fully realized if the provisions of Chapter 31 of S. 214 were incorporated into S. 23.

Finally, I should mention that none of my comments should be taken as in any way altering the Administration's position on patent law revision.

With kindest personal regards.

Sincerely,

C. MARSHALL DANN,
Commissioner of Patents and Trademarks.

ANNUAL REPORT OF THE DIRECTOR OF THE ADMINISTRATIVE OFFICE OF THE UNITED STATES COURTS, 1965

PATENT CASES

S. 1971, 89th Congress would amend 35 U.S.C. 103 to remove the initial determination of the question of "obviousness" of an invention from the jurisdiction of the Commissioner of Patents and made it a matter solely for judicial determination after the grant of a patent. This change in existing law was suggested because of the large backlog of pending patent applications resulting from the detailed investigations conducted by the Patent Office to resolve the issue. It was the view of the Committees on Court Administration and Revision of the Laws that the proposal, if enacted, would increase greatly the volume of patent litigation in the Courts, which would then be called upon to decide initially the issue of "obviousness" without the advantage of the *research and reasoning* of the Patent Office.

U.S. COURT OF APPEALS,
SECOND CIRCUIT,
New York, N.Y., October 1, 1975.

ROBERT B. BENSON, Esq.,
Allis-Chalmers Corp.
Milwaukee, Wis.

DEAR MR. BENSON: Thank you for your letter of September 25.

I would be very much in favor of a procedure which would give federal judges who are faced with having to decide the validity of patents the benefit of Patent Office review and evaluation of prior art which had not been cited in the Patent Office. This seems to me to be particularly important in view of the serious effect of a declaration of invalidity under the *Blonder-Tongue* decision. In view of the time usually taken by patent litigation, I would not think a short automatic stay in the court proceedings would be objectionable.

I would not want to be understood as taking a position on other provisions of the bill which provide for Patent Office reexamination. I do not mean this to constitute an expression of opposition; I simply am not sufficiently familiar with the pros and cons.

Sincerely,

HENRY J. FRIENDLY.

AMERICAN PATENT LAW ASSOCIATION, LUNCHEON ADDRESS BY GILES S. RICH,
JUDGE, U.S. COURT OF CUSTOMS AND PATENT APPEALS OCTOBER 3, 1975

HOW SYSTEMATIC IS THE PATENT SYSTEM?

When Don Banner asked me to do this talk, I asked him, "What do you want me to talk about?" His answer was, "On the basis of your long experience, I'd just like

to hear your philosophy of where we are right now." I said, "If you want a topic, what about how systematic is the patent system?"

I am sure you appreciate that that is an open-ended topic. In the past month I have tried to assemble for you what Don refers to as my "philosophy."

Believing, as I do—and as most of the world seems to believe—that the patent right, or right to exclude (the monopoly as some call it), when limited to new, useful, and unobvious inventions, serves a socially useful purpose. I find my philosophy is an ever-growing thing, as specific situations are faced, and time permits me to give you only a sampling of it.

One of my bits of research was to read the hottest item of the current legislative proposals, S. 2255, 94th Cong., 1st sess., the "mark-up" representing the latest thinking in the Senate Patent Subcommittee. Toward the end is a new provision, § 298(a), in obscurantist Senatese, which provides that the United States can't attack the validity of a patent it has granted in any suit unless it gives 30 days prior notice to the Patent Office Solicitor of such intention. The Solicitor will then "advise the United States . . . concerning the proposed assertion of invalidity"—and here is the point I am after—"if he determines it to be necessary or appropriate to assure the strength and reliability of the patent system." (My emphasis.)

That means if he feels like it—but
What do they mean, "strength"?

* * * * *
validity over art A and over art B will be equal. It will be presumed that the administrative agency knew what it was doing and the burden will be where it ought to be, on the person who would seek to have the agency's action reversed.

Indeed, viewing the system as a whole, the present law has worked quite satisfactorily except for a mechanism to get the patents and publication art before the patent examiner. Judge Rich has noted that the courts have dealt adequately with "* * * all of the sins of the past generations * * *".

Before taking up other points in the additional views here discussed, in fairness to the readers, I now rebut their specific attacks on my Chapter 31 of S. 214.

1. The Federal Courts would be barred from adjudicating the validity of a patent upon patents or printed publications not cited by or to the Patent Office.

Clearly referral back to the Patent Office would not bar the court from adjudicating the validity of a patent on such art. The Patent Office, if it decided an issue was presented, would pass upon the patent ability (not validity) of the patent claims. These claims may indeed be rewritten. Then the case would go back to the court if there was still a patent in existence, and the court could then adjudicate the "validity". Thus, the non-patent holder party citing the new art would either destroy the patent in the Patent Office, have it further limited, or would fail to do so. The further limited patent or the same patent would then come back to the court if the patent holder persisted in applying his patent or if the non-patent holder persisted in having a declaration by the court of the invalidity of that patent. In no event, do I see here barring of the federal courts from adjudicating the validity of a patent on any basis.

However, in a spirit of compromise and in an effort to mediate the polarization which exists, I will propose an amendment to my Chapter 31 which would give the court at its option the power to retain the case before it and to not send it back to the Patent Office unless the court felt that it wanted the expert opinion of that Office.

2. Chapter 31 of S. 214 would require mandatory examination throughout the twenty year life of the patent regardless of consent of one or both parties to the suit before court could consider the new art.

In passing I note that the life of the patent would begin only after it has been granted. The term of a patent under S. 214 would be twenty years from the filing date, even as it is under S. 2255. Thus, the time of pendency in the Patent Office must be subtracted from the twenty year period, and therefore the life of the patent would always be less than twenty years.

The objective of the system should be to issue valid patents and to invalidate those which are not properly issued. The court representing the public and the public interest should decide whether the patent should be referred back to the Patent Office for further examination. Thus, the consent of one or both parties may not always be in the public interest. The court should decide.

3. Chapter 31 of S. 214 would give patent holder in litigation an automatic stay of proceeding pending re-examination by the Patent Office.

It is well-known that patent cases require many months to come to trial. Under my Chapter 31 as soon as the pleadings are in and either party has cited the new

patent or publication, new in the sense that it was not before a patent examiner in the Patent Office when he granted the patent, the court could refer the patent to the Patent Office for its opinion which could be obtained in a very short time and well prior to the taking of testimony, interrogatories, depositions, discovery, and the making of further pleadings. Thus, the whole idea of my Chapter 31 is that all of this litigation expense might well be saved.

Still further and importantly, my Chapter 31 would allow a small individual or small-to-medium-size corporation or any corporation to appeal to the Patent Office based upon newly discovered patents or publications for a further examination as to patentability over such art. This would, at a time when the patent comes into the scheme of things of such person or corporation, for a very low cost, give a decision as to the effectiveness of the patent. Chapter 31 would avoid persons or corporations who could not afford expensive litigation taking a license and paying over a period of years a great deal of royalties and passing the added costs to the consumer, because they could not afford to go to court. Without Chapter 31, only the consumer suffers.

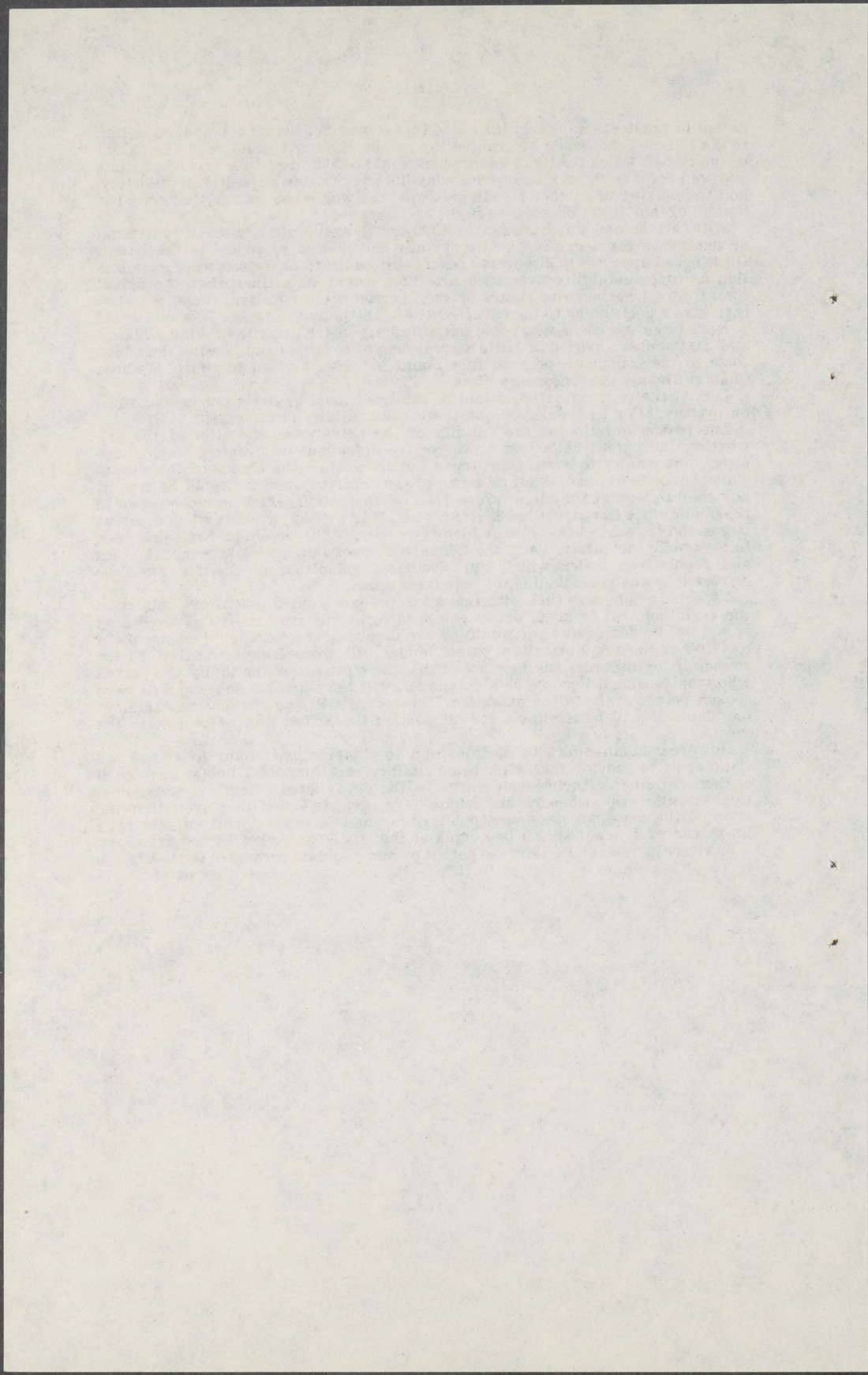
4. That the re-examination would be the traditional ex-parte proceeding without participation by the person questioning the validity of the patent.

The person questioning the validity of the patent, i.e., the citer of the art, whether the patent holder or a prospective defendant or licensee, would have every opportunity to completely argue the art against the claims of the patent. This cannot be termed as an ex parte proceeding. Any person would be free at any time to look at the file of prosecution of the patent which would be open to the public since the patent has been granted. It is well-known that when a patent is granted its prosecution, file or history is open to the public and remains open to the public thereafter. Thus, the Commissioner of Patents could establish rules and regulations under which any document submitted to the file could be inspected by anyone including the patent examiner.

I specially note here that with respect to the newly cited patent or publication the examiner will be much better equipped to handle it because the proceeding would not be "ex-parte" but would be one involving the considered comments of the citer of the art. Normally a patent holder will proceed under Section 251 for reissue if he discovers the new art. Thus, the citer of art, normally the person who may become a licensee or a defendant, will have had his say and will have spoken persuasively to the examiner. The record will show what the examiner has done. It will be available for all parties thereafter, and of course, to the courts.

However, in an effort to mediate and to compromise I offer to amend my Chapter 31 to provide that after the examiner and the patent holder have each of them terminated their consideration of the newly cited patent art or publication art and even when claims might have been amended thereover, that the citer of the new patent or new publication shall have an opportunity to fully brief whatever new position he adopts at that time for review by the examiner.

5. After the re-examination, the patent owner would be permitted to modify the scope of his claims to attempt to justify the reissuance of another patent.



APPENDIX

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

DRAFT REPORT ON PATENT POLICY

(A Draft Report of the Advisory Subcommittee on Patent and Information Policy of the Advisory Committee on Industrial Innovation established as part of the Domestic Policy Review, December 20, 1978¹)

POSITION STATEMENT ON THE U.S. PATENT SYSTEM

INDUSTRIAL RESEARCH INSTITUTE

The Industrial Research Institute (I.R.I.) affirms the basic concepts of the U.S. patent system as originally premised in the Constitution and as they exist today. We believe that the fundamental merits of the patent system are as sound today as they were in the period of industrial growth and respect for patents in the nineteenth century and in the first half of the twentieth century. The Federal patent law still responds to the Constitutional objective "to promote the progress of . . . useful arts by securing for limited times to . . . inventors, the exclusive rights to their . . . discoveries." Continued industrial success of the U.S. requires the incentives of the patent system, not only to encourage the necessary investment of capital and effort in research and for the commercialization of inventions so that society can enjoy their benefits, but also to encourage the disclosure of inventive technology.

The grant of a limited exclusionary right by the enabling Federal patent statute in return for the prompt disclosure of newly created technology provides the basis for these incentives. Without these incentives, innovative research and development would not be supported with the degree of enthusiasm and willingness to invest risk capital that has been the American tradition. Moreover, the inventions produced by R&D might otherwise be kept secret to an extent which would inhibit technological progress. The exclusionary right granted under a well-examined patent does not take from the public anything that previously existed; rather, the patent right stimulates the creation, early disclosure, and utilization of new technology thus adding to the store of human knowledge. The exclusionary right often stimulates others to "invent around," resulting in further technical progress.

Our patent system has a number of features of significant merit which should be preserved and strengthened:

1. The basic requirements of a patent—novelty, utility, unobviousness, best mode, and enabling disclosure—are reasonably well developed in the statutes and patent jurisprudence. I.R.I. advises against attempts to legislate detailed changes or additions to these requirements or to introduce standards of judgment and disclosure that would be stricter than the American inventor, executive, or patent lawyer can reasonably understand and manage. Such attempts would result in unnecessary and undesirable uncertainty.

2. The U.S. Patent and Trademark Office generally performs well in its examination of patent applications, but there is room for improvement. It is staffed with many competent and dedicated professional employees of high integrity. I.R.I. encourages improvement in funding, training, and management of the examining corps and, especially, their administrative support.

¹ This report represents the views of the Subcommittee on Patent and Information Policy of the Advisory Committee on Industrial Innovation, an advisory committee convened by and reporting to the Secretary of Commerce. The views of the Subcommittee do not necessarily represent those of the Department of Commerce or any other agency of the Federal Government.

3. The examination of patent applications should be as comprehensive and thorough as practicable so that issued patents will be respected by competitors of the patent owner and by the courts. Such respect is an essential part of the patent incentive for industry. This thorough examination need not be exhaustive, but should be reasonably prompt, however. Early issuance of worthwhile patents adds to the certainty of businessmen when considering the investment of risk capital to make the new technology available to the public; they want to know if they can plan on patents of their own and whether patents of others will cause problems. Early disclosure also helps keep the published technologies current with the actual state of advance. The balance between thorough and prompt examination should be weighted in favor of thoroughness.

4. Awarding a patent to the first-to-invent rather than the first-to-file is deemed by the I.R.I. to have continuing justification. It respects the value of the individual in American tradition and avoids inequities which can result from a "race to the Patent Office"; thorough and thoughtful reduction-to-practice of meritorious technology should continue to be encouraged.

5. I.R.I. strongly endorses the present one year grace period between certain events such as first sale or publication and the application filing date. This likewise facilitates thoughtful and thorough refinement of invention; it encourages prompt patent disclosure but with greater completeness than occurs under the abrupt requirements of those foreign countries which require absolute novelty without a grace period.

The U.S. patent system, despite its basic soundness and almost 200 years of valued existence, is not without areas where improvement could be made. I.R.I. encourages attention to the following areas, on a tailored basis, point by point, to avoid confused, poorly drafted, or overly detailed patent law revisions.

1. We recognize the generally sound examining skills of the Patent Office and the basic honesty and sincerity of patent applicants, patent owners, and patent lawyers. We also recognize, however, the inability of the Patent Office to examine applications as comprehensively as the public and courts might desire, even with the frequent assistance of the patent applicant in supplying prior art and other information to help the examination process. Without judging the merit of the criticisms, we believe that the examination procedure is criticized because it is necessarily conducted in secret to protect the invention before it is deemed patentable.

Therefore, the I.R.I. endorses the concept of permitting useful, reasonable, and timely post-issuance participation by the public in the examination of the invention and the propriety of the patent grant.

Such participation should occur after the patent has issued to preserve the rights of the inventor. Participation should only be permitted in a manner which strengthens the presumption of validity and adds confidence in the overall examination system; it should not unduly increase the expense and difficulty of getting a patent, and should not detract from the certainty desired by the patent owner for making a commercialization investment. The reissue practice, introduced by former Commissioner Dann, is a sound step toward this public participation, but could be improved by rule changes or legislation which would permit reasonably simple and prompt re-examination of an issued patent by permitting any person to cite prior art and possibly other re-examination considerations.¹ I.R.I. does not favor re-examination adversary proceedings of the type employed in German oppositions or U.S. patent litigation. Such proceedings would unduly erode the U.S. patent system by favoring those patent applicants with resources and by introducing unacceptable delay and unmanageable uncertainty.

2. The I.R.I. believes that the term of a patent should be changed from the present 17 years from issuance to a term of 20 years from date of the first filing. If examination is expeditious and there is no interference, the current 17 years is satisfactory. However, there continue to be a number of patents, particularly commercially important ones, which have lengthy and complex prosecution of as much as 5 to 10 years because of refilings, appeals, or interferences. This can result in patent terms which expire as long as 22 to 27 years after initial filing. A carefully conditioned term ending 20 years after first filing will provide greater equity and certainty for patent owners and their competitors.

3. Enforceability of a patent is an integral part of the patent system because assertion in litigation is the ultimate test of the basic exclusionary property right

¹ 53 percent of the I.R.I. membership were in favor of limiting re-examination to published prior art; 42 percent were not in favor (see Patent Survey Results, attached).

of the patent. Many patents are afforded their deserved respect without the necessity of litigation. This respect will be broadened if overall patent quality is improved by better examination. There has, however, historically been a need to litigate patents which involve honest differences of opinion on validity and scope between the patentee and alleged infringer. Unfortunately, such litigation has become complex, lengthy, and expensive, in a large measure because of the scope of discovery; this presents difficulties for both the patent owner and accused infringer. Litigation problems have unduly discouraged patent owners, particularly those with limited financial resources, from asserting their patents because a validity determination by a court is expensive and uncertain; and if the patent is upheld, the damages may not be enough to pay for the litigation. This reluctance to assert has encouraged infringement of patents which should otherwise be respected. Litigation expense may intimidate a patent owner into accepting unfavorable settlements. Conversely, a patent owner may intimidate a weak infringer with the expense of litigation. Compounding these problems is the variance in the opinions in the Federal courts regarding patentability standards. Patent owners and infringers jockey to get into courts which favor their own interests. This further adds to the expense and uncertainty of owning patents and making investments in reliance on patents.

The I.R.I. supports legislative and judicial efforts to decrease the expense, uncertainty, and inequities experienced by patent owners and those accused infringers having honest differences of opinion on the validity and scope of a patent. We believe that it would be worthwhile to give careful consideration to a single court of appeals for patent litigation which would speed up patent litigation and make it more uniform and certain. If such a court could institute discovery reform, litigation expenses could be reduced. This concept of a Patent Appeals Court has been controversial because of a prediction that the patent court would be rigid, technical, inflexible, and unable to handle issues ancillary to patent validity and infringement, such as unfair competition and antitrust issues. Even if this prediction were accurate, we submit that the reduction in expense, time, and uncertainty would significantly offset any shortcomings of the specialized court.

PATENT SURVEY RESULTS

This is a summary of the responses to the questionnaire which accompanied the draft I.R.I. position statement on the U.S. Patent System, distributed in June 1978 to the 245 I.R.I. member companies. There were 127 responses, which provided yes or no answers to the questions. Many extra comments were also made and the numbers of these are tabulated.

A. Do you agree with the basic premises of the first two paragraphs? Yes, 100 percent; no, 0 percent; 21 extra comments.

B. Regarding the U.S. Patent system features of merit, do you agree that:

1. The basic requirements are well defined and should not be changed? Yes, 93 percent; no, 6 percent; no answer, 1 percent; 24 extra comments.

2. The Patent Office performs generally well: Yes, 86 percent; no, 12 percent; no answer, 2 percent; 46 extra comments.

3. Thorough examination is important: Yes, 97 percent; no, 1 percent; no answer, 2 percent; 34 extra comments. It should be balanced with reasonably prompt examination: Yes, 97 percent; no, 1 percent; no answer, 2 percent; 27 extra comments.

4. The patent should go to the first-to-invent: Yes, 89 percent; no, 7 percent; no answer, 4 percent; 43 extra comments.

5. The one-year grace period should be retained: Yes, 94 percent; no, 5 percent; no answer, 1 percent; 31 extra comments.

6. Are there any other features of merit which should be emphasized in the paper? Yes, 32 percent; no, 50 percent; no answer, 18 percent; 42 extra comments.

C. Regarding areas for improvement, do you agree that: The I.R.I. should take a positive approach and some initiative? Yes, 95 percent; no, 1 percent; no answer, 4 percent; 25 extra comments.

1. The Patent Office examination should be supplemented by public participation to improve thoroughness and openness of examination: Yes, 85 percent; no, 13 percent; no answer, 2 percent; 53 extra comments. Such re-examination should be after issuance: Yes, 75 percent; no, 17 percent; no answer, 8 percent; 41 extra comments. Such re-examination should be limited to published prior art: Yes,

53 percent; no, 42 percent; no answer, 5 percent; 54 extra comments. Such re-examination should be moderate in procedure and scope: Yes, 78 percent; no, 13 percent; no answer, 9 percent; 43 extra comments. Do you agree that the Courts and the Department of Justice's concern about the lack of public participation in the examination process will continue even if Congress loses interest in Patent Law Revision? Yes, 75 percent; no, 13 percent; no answer, 12 percent; 40 extra comments.

2. The term of the patent should be 20 years from filing rather than 17 years from issuance. Yes, 70 percent; no, 27 percent; no answer, 3 percent; 69 extra comments.

3. Snforceability of a patent in court is so complex, lenthly, expensive, and uncertain that the full value of the patent incentive is being eroded; Yes, 84 percent; no, 10 percent; no answer, 6 percent; 35 extra comments. Variance in the courts on standards of patentability is a part of these problems: Yes, 84 percent; no, 11 percent; no answer, 5 percent; 35 extra comments. Some legislative and judicial efforts to decrease these problems should be made: Yes, 86 percent; no, 7 percent; no answer, 7 percent; 32 extra comments. A single court of appeals for patent litigation should be considered: Yes, 72 percent; no, 26 percent; no answer, 2 percent; 52 extra comments. Would such a court, if properly organized, streamline and speed up patent litigation and make it more uniform? Yes, 76 percent; no, 13 percent; no answer, 11 percent; 48 extra comments. Would such a court tend to be rigid, technical, inflexible, and unable to handle issues ancillary to patents? Yes, 21 percent; no, 64 percent; no answer, 15 percent; 69 extra comments. If such a court did have these problems, would the improvement advantages outweigh them for the principal industrial users of the patent incentive? Yes, 59 percent; no, 29 percent; no answer, 12 percent; 26 extra comments. Do you know of any other legislative or judicial change which should be considered to reduce the burdens of litigation? Yes, 59 percent; no, 11 percent; no answer, 30 percent; 84 extra comments. Should this be used instead of, or in addition to, a single patent appeals court? Yes, 36 percent; no, 9 percent; no answer, 55 percent; 43 extra comments.¹

4. Are there any other areas for improvement which should be emphasized in the paper? Yes, 20 percent; no, 47 percent; no answer, 33 percent; 46 extra comments.

STATEMENT OF THE NATIONAL NEEDLEWORK ASSOCIATION ON THE PATENT LAW AMENDMENTS ACT OF 1979

The National Needlework Association, a trade association which represents 320 manufacturers and 600 retailers in the needlework industry, supports the Patent Law Amendments Act of 1979 S. 1679 H.R. 5075. We believe that the new law will reduce the number of invalid patents issued under the present law. These improperly issued patents limit competition and stifle artistic creativity in our industry.

Although few patents are issued in the needlework industry, because of the substantial number of applications for patents processed by the Patent Office, the applications are not fully researched. Applications for technique patents represent the bulk of applications from the needlework industry. Often these techniques are not new, but are simply minor variations of pre-existing techniques. In some instances, these techniques were used by a previous generation of needlework artists, but were abandoned by modern artists. In any event, an examination of books and magazines in the field conclusively would establish that the technique is not new and a patent should not be issued.

For example, in reviewing four technique patents issued in the 1970's, two researchers, writing in an industry trade journal, pointed out that not one of these four patent examiners mentioned or cited a single book or any prior art as a reference. This lack of an in-depth review of prior art raises a question about the validity of these patents in the minds of the researchers as to how "new and useful" the patents really are.

Under the present patent law, it is extremely costly to challenge an existing patent. According to Senator Birch Bayh, it costs approximately \$250,000 to challenge a patent. Hence, even when there is no doubt that an invalid patent

¹ But many related to the ambiguity of the question.

has been issued, it is often too costly for a small company or an artist to pursue the challenge.

The new law will remedy this inequity. A provision provides that any person may, at any time, within the period of enforceability of a patent, cite to the Office prior patents or publications which may have a bearing on the patentability of any claim of the patent, and that further, that any person may at any time within the period of enforceability of a patent request reexamination of the patent as to the patentability of any claim thereof in the light of any prior art cited under the provision of Section 302.

The new law will encourage members of the industries effected by the patents to assist the Patent Office by providing the Office with information from magazines, books, journals, etc. That, in turn, will assist the Patent Office in assessing the validity of patents, without increasing the cost of operations for the Patent Office. Hence, the new law will benefit both the government and industry.

THE PATENT OFFICE SOCIETY,
Arlington, Va., October 3, 1979.

Senator BIRCH BAYH,
U.S. Senate
Washington, D.C.

DEAR SENATOR BAYH: The Patent Office Society legislative committee thanks you for informing the Society of your introduction of S. 1679 entitled the Patent Law Amendment Act of 1979. The Patent Office Society legislative committee has studied and discussed S. 1679 and your cover letter dated August 6, 1979.

The Patent Office Society, in principle, approves of the re-examination of patents to enhance the credibility of patents and the patent system. However, the Society understands that the Administration plans to propose legislation based on the recommendations of the President's Advisory Committee on Industrial Innovation which will contain provisions similar to S. 1679. Therefore, the Patent Office Society will reserve taking a point-by-point position on your proposed legislation at this point in time.

The Society is however, concerned that the legislative changes in S. 1679 will result in an increased workload on the examining corps without a commensurate change in funding and staffing. As you are aware, from the Patent Office Society testimony on the FY 1980 budget, the Patent and Trademark Office appropriation is barely adequate for provision of the current level of services to the public even after you and your colleagues of the Senate Appropriations Committee voted more realistic funding levels than was proposed by the Administration. The modest fee mentioned in your cover letter is not seen as providing the PTO with the capability of evaluating validity of issued patents though it is agreed that the Office has the technical expertise to perform such a function. We all know that additional workload created under S. 1679 without significant additional funding and staffing would lower current production and quality.

The Patent Office Society would appreciate the opportunity to participate in any hearings on S. 1679. We thank you for your interest in and your support of the Patent System.

Sincerely yours,

C. FRED ROSENBAUM,
Chairman, Legislative Committee.

MILES LABORATORIES, INC.,
Elkhart, Ind., November 13, 1979.

Hon. BIRCH BAYH,
Senate Office Building,
Washington, D.C.

DEAR SENATOR BAYH: This letter is to thank you for taking the time to speak at the Patent Law Association of Chicago's Annual Judges Day Dinner on November 7th. More importantly, I would like to acknowledge the very important work you are doing in the attempt to strengthen the United States Patent Statutes. The Patent Bar has been on the defensive in trying to defeat poor legislation such as S. 2504, and it is gratifying to see a Congressional leader spearhead the offense.

It does not seem appropriate at this time to go into specifics on the Bills which you have introduced, lest it dilute the sole purpose of this letter which is to express appreciation. I would like to conclude by saying that listening to your talk, while sitting among a group of Chicago patent lawyers, made me proud to be a Hoosier. Thank again.

Sincerely,

JEROME L. JEFFERS.

MEYER, TILBERRY & BODY,
ATTORNEYS AT LAW,
Cleveland, Ohio, November 14, 1979.

Senator BIRCH BAYH,
Senate Office Building,
Washington, D.C.

MY DEAR SENATOR BAYH: Your announced intention to introduce legislation to create an independent Patent and Trademark Office has just come to my attention.

May I commend you for your efforts. The United States Patent and Trademark Office has long suffered from being a dependent branch of one of the executive branches of our federal government. It is high time that we recognize the importance of the Patent Office to the preservation of our patent system which has been a bulwark of the advancement of this nation to its dominant place amongst the world's nations.

By making the Patent and Trademark Office an independent agency similar to many of the other agencies of the government, such as the Federal Communications Commission, the Railway Board and others, it recognizes the importance of the patent system and gives it a chance to function independently without any outside influence.

If there is anything that I or any other member of this firm can do to help you, please feel free to call us.

Sincerely,

A. C. BODY.

THE EMBROIDERERS' GUILD OF AMERICA, INC.
New York, N.Y., November 26, 1979.

HON. BIRCH BAYH,
Subcommittee on the Constitution, Committee on the Judiciary, Russell Senate
Office Building, Washington, D.C.

DEAR SENATOR BAYH: The Board of Directors of the Embroiderers' Guild of America, Inc., on behalf of its 22,006 members across the country, would like to express its interest in your bill, S. 1679, the Patent Law Amendments Act. We are adding our voice to that of the National Standards Council of American Embroiderers. The latter organization has already forwarded to the Judiciary Committee a statement of its position on patents. The Embroiderer's Guild of America holds an identical position on this subject.

The ability to examine quickly and inexpensively the validity of patents is a subject of increasing concern to both of our organizations. Until recently, few persons had expressed an interest in patenting in the general area of needlework. Techniques were traditional and remained in the public domain. In recent years, four patents have been granted and, with the attendant publicity, it is anticipated that other applications are forthcoming. The patents already granted cause us unease about the caliber of related expertise in the Patent and Trademark Office, and apprehension that inadequate expertise will be brought to bear on future such applications.

The Embroiderers' Guild of America, as a nonprofit organization, does not have the resources presently required to challenge this unfortunate trend toward patenting needlework techniques. S. 1679 would simplify the procedure and reduce the costs of such a challenge. Every patent granted limits the use of a technique by our teachers, authors, member shopowners, and access by our members at large across the country.

It is our understanding that you are to chair a hearing of the Senate Judiciary Committee on this bill on November 30, 1979. I plan to attend that meeting as a

representative of the Board of Directors of the Guild. We intend to follow the progress of this bill, and wish you success in this endeavor.

Sincerely,

CELESTE BOLAND,
Member, Board of Directors.

THE PATENT LAW ASSOCIATION OF CHICAGO,
Chicago, Ill., November 26, 1979.

Re : Senate Bill S. 1679—Bayh
"Patent Law Amendments Act of 1979"

Senator BIRCH BAYH,
Chairman, Subcommittee on the Constitution of the Senate Judiciary Committee,
Washington, D.C.

DEAR SENATOR BAYH: On behalf of the Patent of the Patent Law Association of Chicago, I am writing to express the support of our organization in principle for the aforesaid bill which effectively incorporates statutory re-examination procedures for patents before the United States Patent and Trademark Office.

In addition to approving this bill in principle our Association also would like to offer a number of comments and observations concerning various specifics in the bill which might be addressed during forthcoming hearings which we understand are scheduled for consideration of this bill.

1. We believe that the re-examination should be strictly limited to consideration of the prior art patents or publications as specified in Section 301 of S. 1679 and recommend, therefore, that in Section 304 the phrase "any other prior art" should be clarified and limited to such prior patents or publications.

2. We believe that Section 302 should provide for notice to the patent owner as so provided in Section 303.

3. With reference to Section 304(c) we submit that it should be made clear that the determination by the Commissioner referred to therein shall have no substantive effect.

4. It should be provided in Section 306 that any person who has requested examination shall be a party to the proceedings.

5. Any person who has requested examination shall have the right to participate in a patent owner's appeal under Section 307, but shall have no independent right of appeal.

6. S. 1679 should provide for expedited appeals under Section 307 through the Federal Courts when the patent is in litigation.

We again wish to reiterate our general support for the principle behind your bill which, we are happy to say, appears to find favor with the vast majority of our members.

Very truly yours,

JOHN J. CHRYSTAL,
President.

NEW JERSEY PATENT LAW ASSOCIATION,
November 27, 1979.

Senator BIRCH BAYH,
U.S. Senate, Committee on the Judiciary, Subcommittee on the Constitution,
Washington, D.C.

DEAR SENATOR BAYH: The purpose of this letter is to communicate to you the recommendations of the New Jersey Patent Law Association relating to your bill S. 1679.

The New Jersey Patent Law Association is composed of approximately 400 professionals who live or work in the New Jersey area and who are involved in patent, trademark and other industrial property matters. Our membership includes both persons in corporate practice and private practitioners. They represent a large number of corporate clients in all of the various fields of technology. As you are probably aware, New Jersey is one of the leading centers for corporate research in many technical fields.

The Legislation Committee of our Association, under the direction of Mr. Albert P. Halluin, has conducted an in-depth analysis of S. 1679, and has reported its recommendations to the Board of Managers. The Board then carried

out a discussion of the bill within the Board and, subsequently, with the general membership of our business meeting on November 15.

On the basis of this study, we wish to report to you that our Association overwhelmingly supports the principle of re-examination of patents, as a principal means for upgrading the quality of United States patents.

The Association recommends adoption of S. 1679, with certain revisions, as follows:

Sections 306 and 308—If the patentee wishes to amend the claims of his patent, we believe he should comply with the requirements of 35 U.S.C., chapter 25.

Sections 307—The route of appeal should be clarified. We understand that a suitable clarification is under consideration.

Section 310—We suggest that this section be deleted in its entirety or substantially revised to provide that any stay of court proceedings be left to the discretion of the trial court. It is our view that circumstances in particular cases may affect the desirability of a stay, particularly where the court deems it appropriate to grant a preliminary injunction or temporary restraining order.

For your further information, we enclose the report of our Legislation Committee which addresses these concerns, as well as others.

We would be pleased to provide any additional assistance you may wish, for example, during the mark-up of the bill.

Very truly yours,

ALBERT P. HALLUIN,
Chairman, Legislation Committee.
ROBERT L. BAECHTOLD,
President.

Enclosure.

MEMORANDUM

NOVEMBER 15, 1979.

Re Legislation Committee, NJPLA 1979-1980.

To: Board of Managers, NJPLA.

From: Albert P. Halluin, Chairman, Legislation Committee.

The Legislation Committee has undertaken an in-depth study of S. 1679, otherwise known as the "Reexamination Bill", introduced by Senator Birch Bayh on August 3, 1979. A copy of the Bill is attached. The Bayh Bill provides for a form of post-issue examination, specifically it provides that at any time within the period of enforceability of a patent, any person may pursue a proceeding to reexamine the patent. Reexamination would be similar to the initial examination, i.e., with the objective of determining patentability, if any, and the scope thereof in view of known prior art. Action in the courts would be stayed pending the reexamination proceeding which would be conducted with special dispatch. No art can be relied upon in a civil action involving the issues of validity or infringement unless such had been cited to the Patent Office. Consequently, it would appear that the proceeding would have the effect of removing the issue of validity from determination by the courts. This would improve predictability in litigation.

The study of our Committee included a section-by-section analysis of the Bill whereby members of the Committee provided me with their written views as to: approval, disapproval, or approval with comments or amendments. Following receipt of the Committee members' comments, these comments were provided to each member for study. We held a meeting on November 14 wherein we reconciled these comments and arrived at a consensus of opinion regarding the Bill, in general, and proposed modifications/comments. The collective views of our Committee are as follows:

1. The Legislation Committee of NJPLA recommends to the Board of Managers that the NJPLA Board of Managers adopt the following resolutions: "The NJPLA Board of Managers favors in general the procedures set forth in S. 1679 (introduced by Senator Bayh on August 13, 1979) as now believed to offer a practical way, by legislation, of upgrading the quality of patents by reexamination".

2. The Legislation Committee has considered the following general issues in S. 1679.

(a) Anonymity of the citor or requestor in Section 302 and 303.

- (b) Potential harassment of the patentee.
- (c) Right of appeal by both parties (Section 304(c) and 307).
- (d) Right to amend issued patent Section 306).
- (e) Stay of Court Proceedings to permit Office review (Section 310).
- (f) Should other issues be considered during reexamination, e.g., fraud, public use or on sale, etc.
- (g) Estoppel effect on requestor in subsequent court proceedings.
- (h) Can the PTO adequately handle the reexamination without a sacrifice in quality of regular examination.
- (i) How frequently with this provision be used.
- (j) Procedural aspects: e.g., examiners who will handle reexamination cases.
- (k) Constitutionality of Commissioner cancelling claims.
- (l) Notification to "Requestor" throughout reexamination.

3. The Legislation Committee requests that the Board of Managers provide the Legislation Committee with its comments if it disapproves of the above resolution and permit the Legislation Committee to voice its views to the Senate.

4. The following substantive changes are recommended by the Legislation Committee.

(a) The Legislation History should reveal that the citation of prior art under Section 302 and the Request for examination be made in "good faith". The PTO rules could clarify this point.

(b) In Section 306, if patentee wishes to amend the claims of his patent, he must comply with the requirements of 35 USC, Chapter 25.

(c) In Section 307, the route of appeal should be clarified, e.g., should it be through 35 USC 134, 141 and/or 144.

(d) Delete the last paragraph of Section 309. See (e) below.

(e) Delete Section 310(a) in its entirety. The Courts hands should not be bound by legislation. Concern was voiced about an infringer deliberately delaying time at which an injunction would issue simply to allow him to search for prior art and proceed via the reexamination. Likewise for consistency in line 20 of Section 310 after "party to" insert—seek reexamination under Section 303—and delete the balance of the Section.

5. The Legislation Committee would like to express its views to Senator Bayh (as invited, see attached letter).

Respectfully submitted,

ALBERT P. HALLUIN,
Chairman, Legislation Committee.

INTERNATIONAL BUSINESS MACHINES CORP.,
Armonk, N.Y., January 17, 1980.

HON. SENATOR BIRCH BAYH,
*Russell Senate Office Building,
Washington, D.C.*

DEAR SENATOR BAYH: This letter is submitted for the record and in response to an invitation from Senator Kennedy to comment on your S. 1679 to establish a procedure for the reexamination of patents.

As Vice President, Commercial and Industry Relations, I am responsible for IBM's worldwide patent and licensing activities. This has made me aware of the importance, from the businessman's standpoint, of a sound patent system to both business and the economy. I have also been a member of the Advisory Committee on patents in the Department of Commerce. This committee was one of the first to focus on the use of reexamination procedures to improve the quality of the patent system and adopted a resolution in mid-1977 favoring reexamination. This resolution is the same in principle as the procedures proposed in S. 1679.

We think enactment of S. 1679, with the relatively minor changes noted below, is in the public interest. The quality of patent system work product will be enhanced by a reexamination process in which previously unconsidered material prior art can be considered by the Patent & Trademark Office (PTO) and which will encourage the public generally to assist the PTO in developing the best prior art. While reexamination is no substitute for a solid initial search and examination, it will provide greater certainty as to patent enforceability because of improved accuracy of invention definition and scope. Further, the compara-

tively fast, inexpensive reexamination process should often serve as a substitute for slow, expensive litigation.

The changes or amendments to the bill which we favor and urge be adopted are summarized as follows:

1. A provision on intervening rights similar to those now available under the patent law for reissue practice should be added. Such rights are necessary to protect those members of the public that make commitments and investments in reliance on a patent before it is reexamined and reissued.

2. We believe that your bill should include a provision requiring a patent owner to seek reexamination before filing an infringement suit whenever the owner is aware of material prior art that has not previously been considered by the PTO. Anything less seems contrary to the duty of candor that is currently a requirement of all patent applicants. Further, this imposes a duty on the patent owner similar to that imposed in the bill on a defendant who, without court approval, is not permitted to rely on uncited prior art in litigation unless a request for reexamination has been made.

3. We recommend that the PTO publicly announce that a patent will be reexamined and the file of the patent being reexamined be open to the public in the same manner as is the practice for a reissue patent application. This would permit any member of the public to submit prior art or other comments to the PTO. The public will benefit because optimum information will be made available to the Commissioner during the reexamination process.

4. It is realistic to permit anonymity for the citer of prior art. Your bill does this. However, anonymity should also be available to a reexamination requestor. Anything less may tend to discourage requests for examination thereby eliminating citation and consideration of at least some prior art. I don't think that anonymity will present any danger of harassment to a patent owner by unknown persons requesting reexamination since the reexamination decision making authority resides only in the Commissioner of the PTO.

5. We favor a reasonably high fee for reexamination to discourage frivolous requests and believe reexamination basically should be an *ex parte* proceeding between the applicant and the PTO. However, we also suggest that the requestor, if identified, receive a copy of every reexamination paper prepared by the PTO or the reexamination applicant to that the requestor may comment to the PTO about the content of such papers. This would be an incentive to the requesting party to come forward.

6. We recommend inclusion of a mandate that the entire reexamination proceeding before the PTO should be completed as soon as possible and, in any event, no longer than 14 months from the date the reexamination request is granted. It is important that reexamination be a speedy process and not become a vehicle of delay.

I sincerely appreciate being able to submit my comments to you with respect to this very important area of Federal Patent Policy. In addition, we are providing your staff with the necessary legislative language to accomplish the objectives outlined in this letter. If you or your staff wish to discuss this matter further, we will be happy to provide additional information and clarification as needed.

Sincerely,

WALLACE C. DOUB.

CHEMICAL MANUFACTURERS ASSOCIATION,
Washington, D.C., February 8, 1979.

HON. BIRCH BAYH,
Chairman, Subcommittee on the Constitution, Committee on the Judiciary, U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: Your subcommittee has under consideration S. 1679, the "Patent Law Amendments of 1979." On behalf of the Chemical Manufacturers Association (CMA), I request that this letter, in support of the principals outlined in S. 1679, be included in the record of your subcommittee's hearings on this legislation.

The Chemical Manufacturers Association is a nonprofit trade association having 190 United States company members representing more than 90% of the production capacity of basic industrial chemicals in this country.

We have noted, with interest, the many favorable comments which were made at hearings before your subcommittee on November 30. Seldom can we remember seeing such a distinguished group of authorities in this area almost uniformly supporting the objectives of a bill modifying the patent system. Very little can be added to the in-depth studies and comments which were presented.

We would recommend, however, that you give further study to the four areas which the American Patent Law Association suggested for possible improvement. Namely, (1) establish a maximum time period for reexamination; (2) provide for protection of any intervening rights of third parties; (3) make court stays discretionary rather than mandatory; and (4) make clear that reexamination may not be permitted to purge defective acts taking place during the prosecution of the patent sought to be reexamined.

Each of these areas will require carefully chosen, precise language in order that the desirable correction or modification of an issue patent does not open the door to correction of error due to inadequate or inept prosecution.

Finally, we wish to point out that the reexamination procedures established in this legislation will create a substantial increase in workload for the Office of Patents and Trademarks. Additional funding will be required, therefore, to meet staff increases and other expenses which result from this added workload.

Sincerely,

ROBERT A. ROLAND,
President.

AMERICAN CHEMICAL SOCIETY,
Washington, D.C., February 8, 1980.

Hon. BIRCH BAYH,
Chairman, Subcommittee on Constitution, Committee on the Judiciary, U.S.
Senate, Washington, D.C.

DEAR SENATOR BAYH: I have been authorized by the Board of Directors of the American Chemical Society to bring to your attention the views of the Society on S. 1679, the "Patent Law Amendments of 1979."

For many years, the American Chemical Society has closely followed the proposals in the Congress for modification of the patent laws. The Society has repeatedly expressed the view that in order to strengthen issued patents, an *inter partes* proceeding within the Patent and Trademark Office would be highly desirable. Our position is based on the conviction that if opposing parties were given the opportunity to participate in the examination process, the integrity of issued patents would be restored, and the presumption of validity, which has been so severely weakened as a result of *ex parte* examination of applications, would be strengthened.

Therefore, the ACS supports the principle of reexamination embodied in S. 1679. The Society strongly believes that there is a need for enlightened examination of presumptively valid patents which would take into consideration all available evidence. In this way, the ends of justice and the need for a strong patent system simultaneously be served.

The Society is aware that since our last statement on the issue of reexamination, June 2, 1975, to the Honorable John L. McClellan, then Chairman of the Senate Subcommittee on Patents, Trademarks and Copyrights, the Patent and Trademark Office has revised its internal rules to provide for protests and prior art citations by the public (37 CFR § 1.292), as well as to modify reissue practice (37 CFR 1.171-1.179). These changes have helped to "open up" the examination process to participation by those most interested in challenging a particular patent. As a result, the examiner is now more likely to have all relevant prior art and bars presented in an original protest or a reissue application.

A recent trend worthy of note is that the courts which have been asked to review the validity of patents in infringement actions are gradually coming, in the exercise of their discretion, to refer matters relating to validity to the Patent and Trademark Office. The Society views these actions as a clear recognition by the courts that the patent examiner possesses the expertise that should be brought to bear in assessing the merits of an invention in view of all evidence, including newly found evidence (especially in published form) which is presented by a party adversary to the patentee.

The ACS recommends that the procedures recently adopted by the Patent and Trademark Office, as well as the experiences of litigants, both during and after

the use of these new procedures, be drawn upon in the process of drafting the final language of S. 1679.

To acquaint you with the American Chemical Society, we are including here some background information on the Society. As you may know, the ACS is an individual member organization; chemical companies and other companies are not eligible for membership. Current membership in the Society is approximately 118,000 individual chemists and chemical engineers reflecting a broad spectrum of academic, governmental and industrial professional pursuits. About 60 percent of our members are employed by industry, about 25 percent by academic institutions, and about 15 percent by government and nonprofit institutions. A high proportion of the members are inventors, and the strength of the U.S. patent system is, therefore, of vital interest to the Society.

Sincerely yours,

JAMES D. D'IANNI,
President.

THE FLYING NEEDLE,
NATIONAL STANDARDS COUNCIL OF AMERICAN EMBROIDERERS,
Federal Way, Wash., November 21, 1979.

MR. JOE ALLEN,
*Subcommittee on the Constitution,
Russell Senate Office Building,
Washington, D.C.*

DEAR MR. ALLEN: Carol Frumhoff and I want to thank you for the letter from Senator Bayh regarding S. 1679. In it he requested an official opinion from the National Standards Council of American Embroiderers. The enclosed statement (paper No. 1) was voted and accepted by the board on November 8.

Also enclosed is a statement by the two authors (paper No. 2) and two "Patent Alert" articles. Patent Alert I (paper No. 3) concerns the threat of poorly researched patents to the field of needlework. Patent Alert II (paper No. 4) you might find especially interesting as it is an overview of our particular interest in the pending legislation. The last just became available today, and is being sent immediately so that these might be read by Senator Bayh and any others interested, before the hearings November 30.

The ongoing columns will be written by Carol Frumhoff (address below) and questions, comments or information should be sent to her. We are most appreciative of your interest.

Sincerely,

BEVERLY RUSH and CAROL FRUMHOFF.

PAPER NO. 1: POSITION PAPER BE: PATENTS ON NEEDLEWORK METHODS FROM THE
NATIONAL STANDARDS COUNCIL OF AMERICAN EMBROIDERERS

It is the position of the National Standards Council of American Embroiderers that if patents are to be granted in needlework methods that the following criteria be legally established:

1. *Adequate Research.*—That it be recognized that needlework techniques have been done in vast varieties for thousands of years. Examples can be seen in museums all over the world and are an active part of tradition of most cultures of the earth. It has been the subject of vast numbers of books, periodicals and publications of all kinds. Research for prior art must refer to these areas to be considered minimally adequate.

2. *Reexamination.*—Considering the complexity of research in needlework, it is imperative that anyone may request that a patent be reconsidered upon the submission of sufficient prior art missed in the original examination.

3. *Expertise.*—Expertise in other areas does not qualify one to recognize or conduct sufficient research in needlework. Guidelines for qualifications in needlework should be established and secrecy requirements of examination modified to allow for the use or inclusion of qualified opinion.

Expertise is indicated by experiences that reflect recognition by peers of merit in academic as well as needlework areas. 1. technical knowledge of stitches and techniques by their structure; 2. research ability that includes a wide familiarity with published information; 3. historical perspective that shows familiarity with other cultures, other eras. (Museum staff often surprisingly lack the first qualification, although strong in two and three.)

4. *Funding.*—An existing staff cannot function under an additional workload without the necessary funding. A budget must be realistically assessed and provided.

5. *PTO Responsibility.*—The Patent and Trademark Office has a serious responsibility to the American public to grant only patents that have been adequately researched and can be granted with certainty. If for any reason, good research cannot be conducted, then that lack of research should be cause for a denial of the granting of the patent.

DOROTHY L. WOODSOME,
NSCAE President.

PAPER NO. 2: RE: PRINTED MATERIAL CONCERNING PATENTS IN THE NEEDLEWORK FIELD

(By Carol Frumhoff and Bev Rush)

There are some 30 million people in the United States who do needlework of some kind. More than 30,000 of these are active in one organization or another in the field. Needlework represents 600 million dollars of annual business. Freedom of exploration within variations of traditional techniques is being jeopardized by poorly researched patents. The enclosed articles deal with this threat.

The first article to appear was "Tourniquets on Art?" in the November issue of the Flying Needle, published by the National Standards Council of American Embroiderers. This was followed by "Patent Alert: Contemporary Threat to the Future of Needlework" which was made available to participants of two conventions plus available by mail request to readers of the Counted Thread Magazine, published by the Counted Thread Society of America. Patent Alert will continue to appear as an update column in both the Flying Needle and Counted Thread Magazine. The Position Paper was prepared by the two authors and presented to the NSCAE Board, who adopted it as their official stand.

As a result of the research of existing patents, it is the opinion of the authors that:

1. Any research that does not account for the vast amount of printed literature of needlework cannot be considered complete.
2. The public will not heed laws that deny personal creative freedom in variations of methods of known traditional techniques.
3. Such patents are unenforceable in a non-industrial field because of the high cost of litigation through the present court system.

It is our hope that this opinion, the Position Paper, and other pertinent comments be made known to Senator Bayh and others on the committee for thorough consideration.

Future columns will be written by Carol Frumhoff and any questions or comments should be directed to her.

Most sincerely,

BEV RUSH and CAROL FRUMHOFF.

PAPER NO. 3--PATENT ALERT I: CONTEMPORARY THREAT TO THE FUTURE OF NEEDLEWORK

(By Carol Frumgoff with Bev Rush)

Four U.S. Patents have been issued in the field of needlework for variations of methods (techniques) in the prior art, thus establishing precedents for more such methods.

The inventors must believe their inventions are original, because every patent form includes an oath certifying that the inventor believes himself (herself) to be the first and original inventor (according to a pamphlet *General Information Concerning Patents* from the U.S. Department of Commerce and the Patent and Trademark Office). Each patent grants the owner the right to exclude all others from making, using, or selling the invention in the U.S. for 17 years from the date it is issued. Anyone doing any of the aforementioned without authorization during that time infringes on the patent.

Photocopied portions of the above mentioned patents, shown below, include enough information to provide clarification of content. A patent examiner's search for prior art (included) can cite references of domestic and/or foreign patents. References can also cite other publications printed anywhere in the world at least one year prior to the filing of an application for a patent. Yet these patents, and several others checked, do not cite even one copyrighted publication. Can any research be considered adequate to have granted these patents when a major area of prior art was totally neglected?

The November 1979 issue of *THE FLYING NEEDLE (FN)*, published by the National Standards Council of American Embroiderers, has an article *Touriquets On Art?* by Bev Rush and myself. It discusses the patent system and these four patents.

Mary Ann Butterfield, Editor of *FN* states: "It is difficult to define the line between business and art. Patent protection for business purposes is necessary today. There is a high judgment factor in locating the point at which art becomes business, so careful examination of the validity of patents is vital."

In an unprecedented move to increase public awareness, Editor Elizabeth Stears and Associate Editor Joan McBride of *COUNTED THREAD* magazine, published by the Counted Thread Society of America, have joined in this effort with *THE FLYING NEEDLE*. The December issue of *COUNTED THREAD* will include a Patent Alert announcement that readers can obtain copies of the information on these pages by sending a self-addressed, stamped, business size envelope to: *COUNTED THREAD*, 3305 S. Newport St., Denver, CO 80224. Both magazines will continue to publish Patent Alerts to inform the public when there is news about patents. Hopefully other publications will also help.

Coincidentally, while the November *FN* article was being written, similar work was progressing (for different reasons) toward proposing new Congressional legislation amending the following present requirements: (1) Infringement cases are heard only in federal courts; (2) a patent owner can bring action against anyone felt to be infringing, and that person (or company) can then challenge whether the patent should have been granted; (3) a suit can only be brought against an inventor by one who has directly or impliedly been accused of infringement. In other words, court action is necessary in order to challenge the validity of a patent, and only possible at the discretion of a patent owner.

CONT.

United States Patent [11]

[11]

4,098,216

Wright

[45]

Jul. 4, 1978

PATENT COVERS VARIATIONS OF AN UNEVEN (UNCOUNTED) DOUBLE RUNNING STITCH ON OPENWEAVE FABRIC.

[34] CANTYWORKING METHOD AND ARTICLE

[76] Inventor: V. Goss Wright, 2349 Garfield Dr. Indianapolis, Ind. 46203

[21] Appl. No.: 789,988

[22] Filed: Feb. 28, 1977

[31] Int. Cl. 2: D06C 3/00

[52] U.S. Cl.: 112/426; 112/244

[56] References Cited: 112/426; 425; 424; 246

[36] FOREIGN PATENT DOCUMENTS

521,349	1/1947	France	112/426
1,558,147	11/1968	France	112/426
628,319	10/1923	Pat. Rep. of Germany	112/426
14,425	6/1977	Switzerland	112/426
228,114	6/1953	United Kingdom	112/426

Primary Examiner—Alfred E. Goss
Attorney, Agent or Firm—Woodard, Woodard & Mangham

[57] ABSTRACT

A cantyworking method is disclosed herein which comprises a procedure by which the entire surface of an

open weave material is covered. The method entails the formation of several endways-alignment stitches in a line along the top of the open weave material, and several endways-alignment stitches in a line along the bottom of the open weave material and directly underlying the top stitches. The top and bottom stitches each extend between first and second holes in the open weave material. The first and second holes of at least two of the top stitches and of the bottom stitches include at least one hole in the open weave material lying therebetween, such that the stitches extend more than just between adjacent holes. The method is preferably performed by first weaving a strand of material through an open weave material in a first direction forming a line of alternately top and bottom stitches. The strand is then returned through the open weave material in the opposite direction, forming the remaining top and bottom stitches for the line. Many variations of the basic construction method are possible, and the method may be used in conjunction with other conventional stitching techniques.

15 Claims, 7 Drawing Figures

MCST NUMBERS ON DRAWINGS INDICATE NUMBERED LINES IN TEXT OF PATENT'S WHICH EXPLAIN WHAT PATENT COVERS.

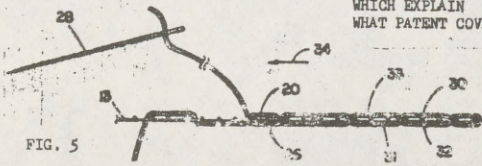


FIG. 5



CONTINUED

PATENT ALERT - cont.

United States Patent
Hower

(11) **3,779,190**
(41) **Dec. 18, 1973**

[52] **METHOD OF WORKING TARTAN OR GINGHAM ON CANVAS**
 [76] **Inventor:** Sara Hower, 101 Mancoskie Rd., Scott Township, Pa. 15220
 [22] **Filed:** June 14, 1972
 [21] **Appl. No.:** 262,483
 [52] **U.S. Cl.:** 112/262
 [51] **Int. Cl.:** D06b 95/00, D05b 97/00
 [50] **Field of Search:** 112/78, 118, 262, 112/266, 439

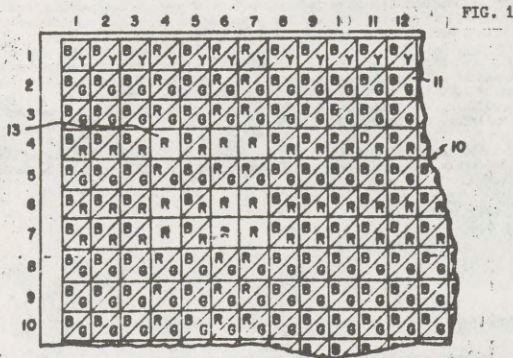
FOREIGN PATENTS OR APPLICATIONS
 146,268 5/1971 Austria 112/266
 73,339 1/1966 Germany 112/266

Primary Examiner—Werner H. Schroeder
Attorney—William H. Legsdon

[57] **ABSTRACT**
 A method of preparing a canvas for needlework, and of making a tartan or gingham pattern on canvas, comprises framing both horizontal and vertical rows of canvas to form an intersection of yarn which defines the combination of colors and the boundaries of the pattern. The yarn is secured to the canvas with yarn of the same color used in the thread to complete the pattern.

[56] **References Cited**
UNITED STATES PATENTS
 1,804,326 9/1932 Marral 112/266 X
 1,185,249 1/1916 Sothor 112/266 X

10 Claims, 4 Drawing Figures



DOUBLE TRAME IS PATENTED FOR STITCHING TARTAN OR GINGHAM PATTERNS ON CANVAS.



FIG. 4

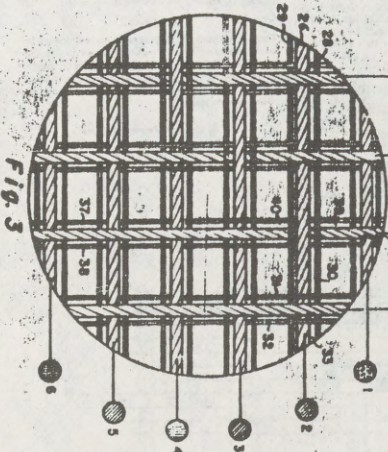


FIG. 5

CONTINUED

PATENTED BY THE U.S. PATENT OFFICE
 MAR 28 1973
 3,779,190

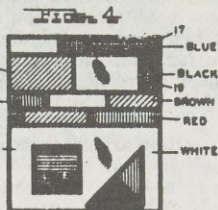
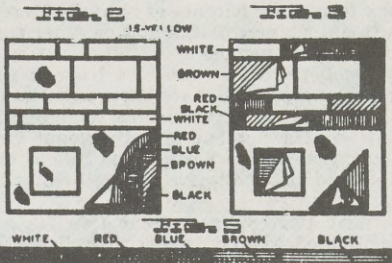
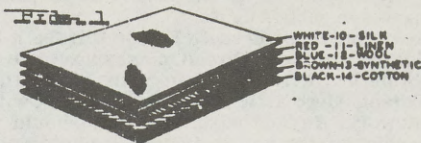
Jan. 4, 1966

M. J. ZERILLI

3,236,733

APPLIQUE ARTICLES AND METHOD OF MANUFACTURE

Filed April 29, 1964



INVENTOR
MIRTA J. ZERILLI

BY *M. J. Zerilli*
ATTORNEY

AFTER STITCHING THRU ALL LAYERS, SELECTED SECTIONS ARE CUT-AWAY TO REVEAL VARIOUS LAYERS. AN ABSTRACT DESCRIPTION IS NOT INCLUDED IN THE PATENT. PART OF THE TEXT IS SHOWN BELOW.

3,236,733

It will be noted in FIG. 3 that the applique design and individual panels are shown schematically to graphically illustrate the interposition of the panels and the color integration of the sewed design through the laminate. It will be understood that the laminate panels are highly remountable and that the design may be sewed accurately with expert design conformity without heating and employing small pieces of material. Moreover a relatively thick applique is achieved giving substance to the finished product which is highly ornamentally embellished by the individual panels, varied outlines, and contrasting materials, colors, and textures.

Although but a single embodiment of the invention has been shown and described in detail, it is obvious that many changes may be made in the size, shape, detail, and arrangement of the various elements of the invention within the scope of the appended claims.

I claim:
1. The process of making applique comprising:
sewing a plurality of layers of cloth in a laminate;
said cloth layers being of various selected colors, textures, and materials;
said laminate having a face side and a back side;
sewing through said laminate with thread in stitches;
said thread and stitches of said sewing being so arranged so as to form a visible design outline on said face side of said laminate;
said face side visible design being integrated through the substrate cloth layers below said face side; and
cutting out selected upper layers of the cloth at said

face side above said back side within selected portions of the sewed design to expose selected substrate layers of cloth to view as panels within said sewed design outline to visually present a design pattern at said face side composed of said sewed design, said exposed panels, and the remaining portions of said face layer.

2. An applique comprising:
a plurality of layers of cloth in a laminate;
said cloth layers being of various selected colors, textures, and materials;
said laminate having a back side and a face side;
and thread stitches sewed through said laminate forming a raised design outline through said cloth layers of said laminate visible at said face side;
selected portions of said face layer and substrate layers being removed within said sewed design outline to reveal within the sewed design outline selected portions of selected substrate layers as exposed panels together with remaining portions of said face layer.

Reference. Cited by the Examiner

UNITED STATES PATENTS

681,302 9/1930; Lee 161-40
1,355,177 10/1920; Bolter 112-420

FRANK J. COWEN, Primary Examiner.

JORDAN FRANKLIN, Examiner.

A. R. OUEST, Assistant Examiner.

PAPER No. 4—PATENT II: NATIONAL CONCERN OVER PROPOSED
PATENT LEGISLATION

(By Carol Frumhoff)

This is a new column to increase public awareness about needlework patents. Needleworkers can join together when our art is threatened. Thru the efforts of The Flying Needle (FN) needlework publications, organizations and industry are becoming aware of patents granted for variations of methods as found in the prior art. They are responding to the issue and to patent legislation which was proposed to Congress in early August.

In a move to increase public awareness Editor Elizabeth Stears and Associate Editor Joan McBride of Counted Thread magazine, published by the Counted Thread Society of America, agreed to join with FN in this effort. They have made available a Patent Alert article by this author, Contemporary Threat to the Future of Needlework. Anyone wishing a copy should write to the address given below. Some copies of the article including photocopies of clarifying text and selected drawings from four patents of special interest were available from the author at the National Standards Council of American Embroiderers (NSC) national seminar in Chicago, November 4-9, 1979.

Just before the November NSC meeting we learned that a Senate Judiciary Committee hearing on the proposed Senate bill was scheduled for November 30th. Nothing was scheduled at that time concerning the matching bill proposed to the House of Representatives. On October 31st President Carter announced a nine point program to ensure the country's continued role as one of the world leaders in creative innovation and productivity. Strengthening the patent system was the third point.

According to President Carter's statement this "is a result of a thorough 18-month analysis conducted by the Domestic Policy staff, by representatives from the private sector of our economy and also, in particular, by the Department of Commerce." At another press briefing the same day Jordan Baruch, Assistant Secretary of Commerce for Science and Technology said: "The President has already submitted legislation for a uniform court of patent appeals . . ." and "the President has examined the wide range of options available and has developed a uniform federal patent policy on which we will be seeking (more extensive) legislation."

FN became interested in patents on needlework after learning the details of four particular patents. The magazine published an article Tourniquets on Art? by Bev Rush and myself in the November issue explaining the patent system, patents of special interest, and present methods of patent search. When we later learned that patent legislation had been introduced to Congress, we sent copies of that article to several Congressmen including Senator Birch Bayh who had introduced the bill, and to Senator Edward M. Kennedy, chairman of the U.S. Senate Committee on the Judiciary. These were accompanied by a letter stating that this article represented the views of the authors and not necessarily those of NSC, the magazine publisher. In return a direct request came from Senator Kennedy for a statement from NSC. At the national seminar in Chicago the NSC Board of Directors approved a non-political position statement (see below) that was prepared and presented to them by Bev Rush and myself. A letter from Senator Bayh, who was scheduled to chair the hearing, assured us the statement would be included in the hearing record.

The Embroiderers' Guild of America, Inc. (EGA) was holding its national seminar in San Francisco concurrent with NSC. Thru the efforts of Elizabeth Stears, their Board of Directors planned to send a written statement and an official representative to the November 30th hearing. Barbara Johnston, a representative of the needlework industry attending the EGA seminar, was contacting industry people. The subject of patents should also be of interest to the home sewing industry partially because of machine embroidery.

Congressional and industrial concerns are responsible for the proposed legislation. Identical bills were introduced to Congress by Senator Birch Bayh (D-Ind.) and Representative M. Caldwell Butler (R-Va.). Senator Bayh's introductory remarks included that about 50 percent of all challenged patents are declared invalid because examiners have not considered all the relevant material—prior art—before granting them. Uncertainty over the worth of issued U.S. patents is a direct contributor to lagging innovation and productivity in America. Patent ex-

perts estimate that infringement cases frequently cost both parties more than \$250,000 apiece through the court system.

A patent examiner's search for prior art can cite references of domestic and/or foreign patents. They should also cite other publications that have been printed anywhere in the world at least one year prior to the filing of an application for a patent. Yet not one of the numerous needlework patents examined by us to date cites a single publication other than previous patents.

At the present time validity of patents can only be challenged in federal courts and only at the discretion of patent owners. The proposed legislation would allow any member of the public to inexpensively challenge validity of patents through a system of reexamination by the Patent and Trademark Office.

Please state your opinion on needlework patents and the proposed legislation "The Patent Law Amendments Act of 1979," S. 1679 and H.R. 5075 by writing to Senator Birch Bayh, Senate Office Building, Washington, D.C. 20510. The NSC position paper below might be used as a guide. Congress must act to ensure stringent laws which fulfill its responsibility to the public and provide freedom of all the arts and crafts.

For a copy of Patent Alert: Contemporary Threat to the Future of Needlework send a self-addressed, stamped, business size envelope to Counted Thread, 3305 S. Newport St., Denver, CO 80224.

NOTE.—Please add the enclosed NSC Position Paper with the signature and date.

CESARI AND MCKENNA,
Attorneys at Law,
Boston, Mass., January 8, 1980.

Re Patent Law Amendments Act, S. 1679.

Mr. JOSEPH ALLEN,

*U.S. Senate, Committee on the Judiciary, Subcommittee on the Constitution,
Russell Senate Office Building, Washington, D.C.*

DEAR MR. ALLEN: As I previously indicated in a letter to Senator Bayh and in a subsequent telephone conversation with you, the Patent Law and Patent and Trademark Office Affairs Committees of the Boston Patent Law Association wish to enter into the hearing record of S. 1679 a few remarks.

The two above-identified committees have met jointly several times in the past year to consider the subject of patent re-examination. First, we examined the proposal for establishing a re-examination procedure by way of the administrative rule-making process in the Patent and Trademark Office. When the rule-making proposal was withdrawn, we continued our discussions with a view toward the statutory proposal of S. 1679.

At the outset, we would like to note that open discussion of this topic by these committees has been a most interesting experience. There was a great deal of give and take between the participants in our discussions and the views of many of the participants changed significantly during the course of those discussions as we listened to each other and gradually refined our understanding of the problems. Most importantly, we learned that re-examination is a complex subject. If it is to be implemented, compromise is necessary and great care must be exercised to not create a whole new set of problems.

Initially, prior to considering the specifics of S. 1679, we addressed ourselves to identification of the ills of the present system which can and cannot be ameliorated by establishment of re-examination, and to the type of reexamination which would be most desirable, if any.

In this regard, we note that the need to examine a patent application is implicit in 35 U.S.C. §§ 102 and 103. Those statute sections establish the basic criteria for patentability and mandate that an invention may not be patented unless it represents an unobvious advancement of the state of the art. To determine if the invention is worthy of a patent, it must be compared with the state of the art (i.e., public knowledge) (1) as of the date the invention was made and (2) as of the date the patent application was filed. However, the measurement of the invention against the prior art, during the initial (or "basic") examination in the Patent and Trademark Office, is flawed. First, as the introductory comments to S. 1679 indicate, the search files of the Patent and Trademark Office, which are the principal resource by which patent examiners locate the prior art, have fallen into a deplorable state. As a result, examiner's often do not find significant relevant materials which should be available to them. Second, in fast mov-

ing areas of technology, it often is not possible for even the most diligent patent examiner to make a state of the art assessment regarding the relevant time frame until a number of years after the fact. Quite simply, a great deal of research is carried out in secret and does not become known publicly until years after it has been done; and even where research is not being maintained in secret, published reports of research and development activities lag behind the actual laboratory work by at least a couple of years. Third, even if the Examiner does discover the most relevant item(s) of prior art, he may not recognize its (their) importance when he conducts his initial examination.

Also, the basic *ex parte* nature of the examination process assures that prior public uses, sales and other non-printed evidence of public knowledge will rarely come to the attention of the examiner.

The first of the above-listed problems, the sorry state of the search files maintained for examiners and the public is, contrary to the remarks introducing S. 1679, unrelated to re-examination. S. 1679 would do *nothing* to improve the integrity or usefulness of those files. Indeed, it does not even address the problem of prior art ascertainment.

We nevertheless support re-examination, with reservations, as an attempt to address the second and third of the above-listed problems.

As to the effect of non-printed prior art, the majority of committee members felt that consideration (involving live testimony of witnesses, discovery etc.) is best left to the courts.

The foremost practical (non-legal) problem we see with re-examination is that great care must be exercised not to further tax the already inadequate PTO budget. If PTO resources are further strained, the basic examination will become even less reliable, which only aggravates the situation. The establishment of substantial re-examination fees does not itself accomplish this objective, since there is presently no provision permitting retention of those fees by the PTO; rather, they go into the general treasury. We believe that as a first step, a provision should be added to S. 1679 to require that re-examination fees be applied directly to the PTO budget. Further, we suggest that financing of the re-examination process be entirely separate from the financing of the remainder of the PTO operations, so that the true cost of re-examination can be ascertained over a trial period such as, for example, five years. The Commissioner could be directed by statute to set fees for re-examination with the objective of balancing the re-examination budget.

Another point not addressed by the bill is the identity of the person or persons responsible for conducting the re-examination. It is our opinion that this is a critical point which should not be left to rulemaking. Since the vast majority of re-examinations will involve patents which are the subject of infringement or licensing disputes, and since a court is likely to rely strongly on the results of a re-examination, the responsible personnel should be highly able, competently trained and selected with great care. Specifically, our members, drawing upon their experience in somewhat analogous reissue-protest proceedings, suggest that the original examiner should not be permitted to participate in a re-examination decision (other than as a witness, that is). Further, we suggest that re-examination be the responsibility of a three-man examiner's board. This avoids any tendency which an examiner may have either to attempt to justify his initial decision (granting the patent) or, conversely, to demonstrate lack of bias in favor of his original decision by bending over backward, against the interest of the patentee.

Turning now to the bill itself, various comments will be offered.

First, for consistency, the title of § 301 should refer to the Commissioner of Patents and Trademarks, not simply the Commissioner of Patents. Likewise, in the sentence immediately preceding the § 301 title, the term "Patent Office" should be changed to "Patent and Trademark Office".

Section 302 is generally satisfactory.

Section 303 introduces the requirement for payment of a fee for obtaining re-examination. We suggest that when the requester is the patentee, it is incongruous to require payment of, for example, a one-thousand dollar (\$1,000) re-examination fee when his initial application fee may have been as little as \$65. The patentee should be permitted to request re-examination for free, or at most a nominal fee, during (for example) the first five years of the life of the patent. The application fee can be correspondingly increased, if necessary.

Also, under Section 303 we would add a requirement that the request identify the real party in interest. Anonymity in citing prior art under § 302 is one thing, but anonymity in requesting re-examination is another; it can serve no useful purpose and may permit harassment. Further, the requester should be required to demonstrate standing (i.e., a sufficient interest in the patented technology or the patent itself to justify undertaking re-examination). This does not preclude any "vindicator of the public interest" who lacks standing from trying to persuade the Commissioner to act on his own initiative under § 304.

The most significant decision to make relative to § 303 is whether it is desirable to limit the PTO to consideration of patents and printed publications only. While many practitioners, including some of our committee members, feel that a full range of trial fact-finding techniques should be available, including live testimony before the PTO, we reject that suggestion as impractical and as so time-consuming and costly as to negate much of the possible value of reexamination. Public uses, etc. can still be considered by the federal courts, with all procedural safeguards available to the parties. However, since expert testimony regarding a patent or printed publication may be helpful to the examiner(s), § 303 should explicitly permit the use of affidavits or deposition transcripts, provided that the witness is made available to the other "party" for cross-examination.

Section 304 gave rise to considerable discussion. First, we recommend that the last sentence of § 304 (a) be stricken therefrom and that, instead, a new subsection (b) be added; the new paragraph would be to like effect, stating the Commissioner may order re-examination at any time on his own initiative, for good cause. The present paragraph (b) would then be renumbered as subparagraph (c) and the reference therein to paragraph (a) should be amended to include a reference to paragraph (b), as well. Similarly, present paragraph (c) would be renumbered as paragraph (d). Also, it should perhaps be explicitly stated that no fee would be required if the Commissioner orders re-examination sua sponte; this appears to be implied.

In Section 305, the introductory clause should be amended to be consistent with the above modifications to § 304.

In § 305, the term "special dispatch" in the last sentence lacks definition. Also, § 305 uses the term "patent owner" (also used in § 306), and elsewhere the term "patent owner" is used, whereas the term "patentee" already has a statutory definition which includes assignees. It is therefore suggested that the term "patentee" be used to the exclusion of such other undefined terms, unless they are clearly necessary.

Section 305 appears to limit re-examination to the claim or claims covered in the § 303 request for re-examination. We suggest, however, that once a decision has been made that re-examination is justified, the patentee should be permitted to have all claims or any designated claims re-examined without having to resort to separate reissue proceedings. Moreover, the patentee should be able to add to the list of claims under the examination at any appropriate stage of the proceeding. Suitable modification of Sections 305 and 306 will be necessary to incorporate these suggestions.

Regarding § 307, we note that while that section establishes a right of appeal, it does not indicate the forum for the appeal. We suggest (in particular if our suggestion of a three man re-examination board is followed) that appeal be directly to the federal courts as specified, for example, in 35 U.S.C. §§ 141-145. However, consideration should be given to the interplay with the stay situation provided in Section 310. That is, if an infringement action or declaratory judgment action in a district court was the genesis for the re-examination proceeding and such action is under a stay, then perhaps appeals should be limited to the Court of Customs and Patent Appeals or to the involved district court as well, excluding the separate possibility of the District Court for the District of Columbia. In any event, the ambiguity should be resolved by explicit reference to the available forum(s).

Proceeding to Section 309, we believe that in the first line thereof, the parenthetically noted word "printed" is unnecessary. Clarification is necessary of the last clause in that sentence, though, following the identifier "(b)". It is unclear what is meant by a patent or a publication being "unnecessary" for the court's adjudication of validity or infringement. We believe that within the limits of fairness, practicality and expediency, a court should be required to consider all

evidence or validity. Naturally, the weight of the evidence would be affected by whether it had been considered on re-examination.

If any of the foregoing comments result in amendment of S. 1679, we would be happy to assist the committee in formulating the precise language of such revisions.

Respectfully submitted,

BOSTON PATENT LAW ASSOCIATION,
Committees on Patent Law and Patent and Trademark Office Affairs.
 STEVEN J. HENRY,
Chairman, BPLA Patent and Trademark Office Affairs Committee.

HERCULES INC.,
 Wilmington, Del., February 5, 1980.

Re Patent Reexamination Legislation.

Mr. JOSEPH P. ALLEN,
Subcommittee on the Constitution, Committee on the Judiciary,
U.S. Senate, Washington, D.C.

DEAR MR. ALLEN: Mr. James A. Drobile, President of the Philadelphia Patent Law Association, indicated in his letter of December 31, 1979, that a survey of the membership of the Association was being conducted by way of a questionnaire.

The survey has been completed and, to avoid delay, Mr. Drobile has requested that I report the results thereof directly to you.

Consequently, attached is a copy of the questionnaire, on which the results of the survey have been marked.

The questionnaire was mailed to all of the members of the association, which number about 250. Sixty responses were received. This is a response rate of 24 percent.

A number of the members also responded with written remarks. The more lengthy remarks are attached. The others are summarized as follows.

With regard to question 1 and the principle of reexamination, one member wrote: "I'd prefer a more thorough examination initially rather than start the process all over after many years after a patent has issued."

In connection with question 2(e) which relates to S. 1679, section 305 and section 308 and the right of the patent owner to file a rebuttal, one member commented: I would prefer to keep proceedings ex parte after citation of art. Citator would not have right of "answer", but would have to rely on Patent Office to use its expertise in the reexamination. But, if this is to become "interparties", as proposed, then patentee should have last word.

Regarding question 5 relating to the principle of payment of a fee as a condition precedent to the exercise of the right to initiate reexamination proceedings, and that right being available to anyone, a member wrote that the fee should be "very substantial plus bond for costs and attorney fees if request is without merit".

As to question 7, one member who thought the fee should be nominal indicated that this meant it should be at least equal to ex parte appeal fees. Another member that had indicated the fee should be nominal then stated: "How about a flat fee of \$2,000? or enough to avoid frivolous actions—\$5,000?"

Still another member indicated that the fee should be nominal for the patentee (who has already paid fees to obtain the patent) and that for anyone else the fee should cover 50 percent of the cost of the proceedings up to the Board of Appeals.

Question 8 paragraphs (a)-(c) led one member to state: "Do not believe requestor should have a right of reply; but should be advised of PTO decision."

As to question 8(b) one member was of the view that the PTO should be required to serve on the patent owner a copy of the reply. As to question 8(e) one member emphasized that the right of amendment of the patent owner should be "to narrow the claims, reduce the scope only". Finally, as to question 8(f) four members indicated that an express provision protecting intervening rights was needed only if claims could be broadened.

Regarding questions 11 and 12 relating to stay of proceedings to obtain reexamination and to obtain reissue, one member indicated that such should be at the discretion of the court.

On question 15 relating to the need for express statutory authority for 37 CFR 1.291(b), the present PTO rule permitting citations of prior art and allowing entry of papers relating thereto in the official file of the patent, one member wrote: "I think a statute is unnecessary. But the practice is desirable and should be assured."

As to question 18 which is addressed to the matter of express statutory authority for 37 CFR § 1.291(b), and whether the statute should permit the citator to remain anonymous, a member qualified his yes vote by "only if citation limited to patents and printed publications—otherwise, no."

Question 19 provoked this comment:

"If general reexamination is adopted a la the Bayh bill, reissue rules should be changed back to where they were 3-'77. If general reexamination is not adopted, then rather than codifying 175(4) there should be legislative adoption of reexamination at request of patentee."

We regret our delay in forwarding the results of our survey to you. Unfortunately, it was just not possible to do this before January 31. However, your indulgence in permitting us to now submit the information is appreciated.

Thank you for the opportunity to supplement the record on patent reexamination legislation.

Respectfully,

GEORGE H. HOPKINS.

/91213

THE PHILADELPHIA PATENT LAW ASSOCIATION
PATENT REEXAMINATION
QUESTIONNAIRE

The following questions and remarks are in the context of the current patent reexamination legislation, Bayh S.1679, its companion Butler H.R. 5075, Nelson et al. S.1860, Title II Subtitle B and Smith-McDade H.R. 207 Title II Subtitle B. These bills call for amendment of 35 USC by adding a new Chapter (Chapter 30) addressed to reexamination.

1. Do you approve 32 or disapprove 7 of the principle of reexamination of patents by the PTO?
2. If your answer to Question 1 is affirmative, do you approve of Bayh S.1679 as is? Yes 9 No 34
if amended
 - (a) in §302 to require Commissioner to send to patent owner copy of any writing made part of official file of a patent, which cites patents and printed publications relating to patentability of a claim of the patent? Yes 30 No 7
 - (b) in §302 to delete right of citator of patents and printed publications made of record in patent file to remain anonymous? Yes 30 No 23
 - (c) to limit bases of reexamination to patents and printed publications? Yes 32 No 19
 - (d) in §303 to limit persons who may request reexamination to those having an interest directly affected if patent were to be enforced? Yes 24 No 28
 - (e) in §305 and pertinent part of §308 to permit patent owner the right to file a rebuttal within one month after service of a requestor's reply? Yes 47 No 4
 - (f) by replacing present language of §306 with language making clear that no provision in the reexamination chapter shall preclude a patent owner from applying for and obtaining at any time a reissue patent? Yes 46 No 4
 - (g) in §307 to specify appeal to Board of Appeals and, if decision is affirmed in whole or in part by the Board, appeal to CCPA, except when requestor is a party to a civil action in which validity or infringement of patent is an issue, in which event the patent owner may have decision reviewed by court in which the civil action is pending? Yes 42 No 5

- (h) in §310(a) to permit a motion for a stay of proceedings to be denied if the Court determines that a stay would be inequitable under the circumstances?
Yes 41 No 0
- (i) in §310(a) to exclude restraining order and preliminary injunction proceedings from the proceedings that can be stayed, and to permit during such stay the grant of a restraining order or preliminary injunction in circumstances in which it would be otherwise appropriate?
Yes 38 No 10

Answers to the following questions are needed to guide the Board with respect to future reexamination legislation and present legislation that may be amended. They should be answered regardless of your position on question 1.

3. Should the PTO reexamination of a patent be limited to patents and printed publications 27 and prior public use or sale 20 or be unlimited 20?
4. Should the right to initiate reexamination proceedings be available to anyone 31, or be limited to persons with standing (persons with interests directly affected if patent were to be enforced - this includes the patent owner as well as infringers or those accused of infringement.) 27?
5. If the right to initiate reexamination proceedings is available to anyone, should a condition to the exercise of the right be payment of a fee? Yes 50 No 3
6. If the right to initiate reexamination proceedings is limited to a person with standing, should exercise of the right be conditioned on payment of a fee? Yes 50 No 5
7. Should the fee be 20 nominal to discourage frivolous and ill founded initiation of proceedings, or cover (circle one) 10, 20, 30, 40, 50, 60, 70, 80, 90, 100% of the costs of the proceedings up to the Board of Appeals? H
8. The reexamination procedure of the current legislation follows this scheme:
- (1) Within ninety days after filing of a reexamination request Commissioner makes a determination as to whether a new question of patentability has been presented.
 - (2) If determination is affirmative, reexamination is ordered.
 - (3) Patent owner has not less than two months after filing of order to file argument in support of patentability. Copy of argument shall be served on any person who has requested reexamination.

0-0
0-2
0-0
0-1
0-4
0-1
0-1
0-0
0-1
0-4

- (4) Requestor of reexamination has right to file a reply within two months from service of patent owner's argument.
- (5) Patent owner has opportunity to amend claims, without broadening them, to distinguish subject matter from "prior art" made of record after grant of patent, or in response to an adverse decision in the reexamination proceedings.
- (6) When reexamination decision becomes final, Commissioner issues and publishes certificate canceling unpatentable claim, confirming patentability of claim, and incorporating in patent patentable amended claim.
- (a) Do you approve 50 or disapprove 7 in general this procedure?
- (b) Should requestor be required to serve on patent owner copy of reply? Yes 35 No 1
- (c) Should patent owner have right to file within one month after receiving copy of reply an answer to the same? Yes 52 No 4
- (d) Bearing in mind the reissue patent provisions of 35 USC, should patent owner have any right to amend claims during reexamination proceedings? Yes 53 No 5
- (e) Assuming that patent owner is to have a right to amend claims in reexamination proceedings, should patent owner have right to amend at any stage of reexamination proceedings up to appeal stage? Yes 50 No 9
- (f) Assuming that patent owner is to have a right to amend claims in reexamination proceedings, should there be an express provision in legislation, that protects intervening rights? Yes 38 No 15
9. In the event of an adverse decision of the Commissioner, should the patent owner have the right to
- 0 no appeal?
- 2 appeal to Board of Appeals only?
- 20 appeal to the Board of Appeals and then to C.C.P.A. (or proposed U.S. Court of Appeals for the Federal Circuit with exclusive appellant jurisdiction in appeals from District Courts in patent cases, and appeals from decisions of the Board of Appeals)?
- 34 appeal to the Board of Appeals and then either appeal to C.C.P.A. (or proposed new Federal Court of Appeals) or commence civil action in D.C. District Court?

appeal to the Board of Appeals and then either appeal to C.C.P.A. (or new Federal Court of Appeals) or

if validity or infringement of patent is not in issue in a civil action in a patent district court, commence civil action in D.C. District Court, but if validity or infringement of patent is in issue in a civil action in a district court, and requestor is a party to that civil action,

a trial de novo review by that court?

appellate review by that court?

← appeal to Board of Appeals only, except if validity or infringement of patent is in issue in a civil action in a patent district court, and requestor is party to that civil action,

a trial de novo review by that court, or

appellate review by that court.

← review only by federal district court in which validity or infringement of patent then or any time is in issue in a civil action, such review to be

in the nature of a trial de novo, or

appellate only.

10. Do you approve or disapprove prohibiting reliance

in any proceeding

only in a civil action in a federal court

on any

evidence of unpatentability

patent or printed publication

that was not cited in the Office during prosecution of the patent application, or was not actually considered in reexamination proceedings

unless the hearing officer determines that reexamination proceedings are unnecessary for his adjudication of the issue of validity or infringement?

without regard to the discretion of the hearing officer?

11. Should any party to a civil action, a subject of which is a patent,
- 11 have the automatic right to a stay of proceedings to make a search and to have a reexamination proceeding?
- 37 ^{have the right} to obtain, subject to the equities of the situation, a stay of proceedings to make a search and to have a reexamination proceeding?
12. Should the ~~party~~ ^{patent} owner in a civil action in a federal court in which the validity or infringement of a patent is in issue
- 3 have the automatic right to a stay of proceedings to apply for and obtain reissue of the patent?
- 37 ^{have the right} to obtain, subject to the equities of the situation, a stay of proceedings to apply for and obtain reissue of the patent?
13. Should a stay of proceedings to enable a search to be made to have reexamination or to apply for and obtain reissue of the patent operate to stay
- 11 all proceedings in the court?
- 42 all proceedings in the court, except temporary restraining order and preliminary injunction proceedings?
14. In a civil action in a federal court in which the validity or infringement of a patent is alleged in a complaint, should the party filing such complaint have the right to have the complaint dismissed without prejudice and without cost by filing and serving a notice at any time during the period of a stay granted to permit a search, reexamination, or reissue?
Yes 19 No 36
15. 37 CFR §1.291(b) provides for citations of prior art and papers related thereto to be entered in official file of patent, and provides for service of copies of the same on the patentee. Should there be express statutory authority for this?
Yes 38 No 19
16. If answer to question 15 is yes, should the prior art be limited to patents and printed publications? Yes 25 No 19
17. If answer to question 15 is yes, should the citation be accompanied by a statement that identifies the part(s) of the prior art considered pertinent, and the application of such to at least one claim of the patent? Yes 35 No 5
18. If answer to question 15 is yes, should citator be permitted to remain anonymous? Yes 13 No 27
19. Should 35 USC 251 be amended to provide legislative authority for the recent extension of reissue patent practice as reflected in 37 CFR §1.175(4)? Yes 43 No 10

19. Should 35 USC 251 be amended to provide legislative authority for the recent extension of reissue patent practice as reflected in 37 CFR §1.175(4)? Yes No

Why not call a spade a spade.
 Reexamination is just another euphemism
 for a nullity action or a cancellation action
 for an opposition proceeding.

In principle I see nothing wrong with having
 such an option and sometimes, I think
 the former practice of all questions of
 validity determined in such proceedings is not
 all bad — i.e. total reparation of the
 infringement & validity issues and trouble in
 different forums.

Some questions: What can be done to compel a person
 having knowledge of relevant information
 to come forward? Can an estoppel arise
 if he has reasonably delay in doing so?

In the past I have seen the oppositions
 & nullity proceedings used in Germany &
 Japan in a manner that was never
 intended — just as simple harassment and
 for these reasons I think a mandatory award
 of costs and attorney fees to a patentee who
 sustains his patent against a challenge would
 be a good idea.

19. Should 35 USC 251 be amended to provide legislative authority for the recent extension of reissue patent practice as reflected in 37 CFR §1.175(4)? Yes No ?

Remarks

I believe there should be a penalty for the filing of a request for reexamination where the person making the request knows or should know that there are no real grounds for a reexamination. Maybe a significant penalty would be to require the requester to pay all expenses, including legal fees, caused by the improper request.

APPENDIX

COMMENTS ON PATENT REEXAMINATION

If the purpose of re-examination is to ease the technological burden on the courts, or to help clarify the rights of a patentee, then the scope of the re-examination should be unrestricted. There are far too many instances in which public use or sale, and inequitable conduct, become key facts in litigation, so that the exclusion of these factors would simply reduce the benefits of re-examination.

Inasmuch as re-examination is inclusive of, and has the same function as, reissue proceedings, the two can be consolidated.

The citation of prior art should continue to be available to anyone including Examiners, without payment of a fee. The procedure can be made quite informal having the PTO to notify the patentee as by a notice in the O.G. The patentee can then inspect the file and decide whether to request re-examination.

A request for re-examination should be available to anyone, but pay the payment of a fee (e.g. \$50) that discourages frivolity. No art citation should be needed to support request.

Where the requestor is not the patentee, both he, and the patentee should have the right of appeal. Court review should only be by the CCPA inasmuch as it has well-rounded technologic experience, unlike most Federal District Court Judges. No trial de novo. Ultimate decisions or re-examination to be binding on patentee and on requestor, in any other proceeding.

Action on re-examination should begin with Board of Appeals, or a Board of Examiners, to thus reduce the possibility of having an individual examiner perpetuate an error or review a matter previously considered by Board of Appeals or CCPA.

STATEMENT OF THE AEROSPACE INDUSTRIES ASSOCIATION OF AMERICA, INC.

The Aerospace Industries Association of America, Inc. (AIA) is the national trade association representing the major manufacturers of aerospace products including aircraft, both manned and unmanned, spacecraft, satellites and missiles, as well as the components and power plants thereof.

Being at the leading edge of advancing technology, AIA member companies have through the combined years of their experience learned to appreciate the U.S. Patent System and its inherent incentives that have so significantly contributed to advancing the nation's technological base and improving the economy through innovation. In the light of this experience, this Association expressing the views of its members, has supported legislation and implementing regulations which serve to improve or advance the U.S. Patent System, including the procedures under which patents issue.

AIA has reviewed the provisions of S. 1679, introduced by Senator Birch Bayh for the purpose of establishing a procedure for the reexamination of existing U.S. patents. It is a consensus of our member companies that the reexamination procedures proposed by S. 1679 are not needed because existing laws and procedures are adequate. Further there is no evidence that the proposed procedure would contribute to a better Patent System by improving the validity of patents. Accordingly, AIA urges that S. 1679 not be passed.

○

Faint, illegible text at the top of the page, possibly a header or introductory paragraph.

Main body of faint, illegible text, appearing to be several paragraphs of a document.

