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UNITED STATES GENERAL ACCOUNTING OFFICE

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STATEMENT OF

THOMAS P. GIAMMO

ASSOCIATE DIRECTOR, INFORMATION MANAGEMENT & TECHNOLOGY DIVISION

UNITED STATES GENERAL ACCOUNTING OFFICE

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT INFORMATION, JUSTICE AND AGRICULTURE

COMMITTEE ON GOVERNMENT OPERATIONS

UNITED STATES HOUSE OF REPRESENTATIVES

ON

THE PATENT AND TRADEMARK OFFICE'S USE OF EXCHANGE AGREEMENTS TO AUTOMATE ITS TRADEMARK OPERATIONS

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss the automation of trademark operations at the Department of Commerce's Patent and Trademark Office (PTO). My statement is based on the findings, conclusions, and recommendations provided in our April 19, 1985, report to the Chairman of the House Committee on Government Operations entitled Patent and Trademark Office Needs to Better Manage Automation of Its Trademark Operations (GAO/IMTEC-85-8). I am directing my statement to the concerns of this hearing, specifically, PTO's use of non-monetary exchange agreements and the subsequent restriction of public usage of PTO's new automated search system. With your permission, I would like to submit this report for the record.

In reviewing PTO's trademark automation efforts, we primarily addressed several management issues. We focused on PTO's (1) analysis of user requirements, (2) 1982 trademark automation cost/benefit analysis, and (3) contracting practices and procedures for acquiring the automated trademark systems.

In these areas we found that PTO had encountered management problems in automating its trademark operations. For example, PTO had not (1) thoroughly analyzed or developed its requirements for three automated trademark systems, (2) adequately assessed the costs and benefits of trademark automation, (3) fully tested its trademark search system before accepting it from a private contractor, and (4) properly managed its exchange agreements.

Although we primarily concentrated on PTO's management of its automation program, our review did result in findings that are relevant to the issues of interest to this committee, particularly public access to trademark information held by PTO.

Specifically, we found that

--using exchange agreements with private-sector vendors (as authorized by Public Law 97-247), PTO "paid for" the preparation of a computerized data base version of its trademark information by committing to give the vendors free

copies of present and future versions of this information and by restricting the public's access to the data base;

--PTO later loosened these restrictions on public access but, in compensation to the vendors, agreed to collect a royalty fee from the public which it was to pass on to the vendors; and

--PTO did not treat the exchange agreements as subject to federal procurement laws and regulations, and thus avoided some procedures that might have resulted in a more beneficial arrangement.

Let me discuss these findings in greater detail. Trademarks are words and symbols that identify and distinguish products; they are used to indicate the origin of goods and services. Trademarks are registered with PTO primarily to help protect the owner's rights to the trademark. PTO trademark examiners compare the applied-for trademark against already-existing trademarks to

determine whether they are the same or confusingly similar. Historically, this has been accomplished by manually searching through PTO's paper files, which contain information on previously registered trademarks and on new applications for registration.

Others, in addition to PTO examiners, need access to PTO's information concerning trademarks (for example, those interested in applying for a new trademark or those interested in tracing a particular product). Any member of the public has been able to search the paper files free of charge. Public searchers include both interested individuals and those professional searchers acting on behalf of clients for a fee. Since 1982, PTO has issued approximately 35,000 permanent and temporary passes to the public for use of the search room.

In response to a congressional mandate that it develop a plan for the automation of its operations, PTO submitted an Automation Master Plan to Congress in 1982. As part of this plan, PTO was to acquire "automated" versions of its paper trademark search files to

serve as the data bases for a new automated search system. This automated search system was to have greater capability to perform trademark searches.

In carrying out its plan, PTO acquired computerized data base versions of trademark registration information through three non-monetary arrangements, known as exchange agreements, with private-sector vendors. Under the exchange agreements, the firms agreed to produce trademark data bases in machine-readable form for PTO. These data bases, which were to be installed by PTO as an integral part of its own automated search system, would be used by PTO and the public in researching trademark registrations. In return, PTO agreed to furnish the firms with copies of PTO's trademark registration information for the firms' own use and accepted restrictions on public access to the automated data base form of this information. The restrictions involved not permitting the public to use the advanced features of the PTO automated search system. One of the restrictions involved limiting public access to the automated system to a level of capability "comparable and

equivalent" to a manual search of paper files. Thus, the public was not to have been able to use the advanced automated techniques available to PTO examiners, such as automated searching by phonetics. In addition, under the agreements, PTO agreed to fix the price of its "Official Gazette-Trademarks" computer tapes, containing recent trademark transactions, to a figure seven times its previous price; this, in effect, inhibited public access to this form of trademark information.

In 1984, after a trademark industry outcry regarding these planned restrictions, PTO decided to ease one of the restrictions by providing the public with full access to its automated search system. Nevertheless, because of the contractual nature of the exchange agreements' public-use restrictions, PTO was required to renegotiate with the companies to obtain their approval for improved public access to PTO's automated system. Subsequent amendments to the agreements assigned the relaxation of this restriction an estimated present value of $3.18 million, which PTO was to collect from the public in the form of a $30-per-hour

"royalty fee." The royalty fee was then to be paid to companies. This $30 royalty fee was to be added to a $40 base fee, which PTO had decided to impose on the public for the "comparable and equivalent" use of the automated system--for a total fee of $70 per hour. As of September 1985, these fees had not been formally instituted. PTO stated at the same time that it intended further renegotiation of the exchange agreements.

The manner in which PTO has administered its exchange agreement authority has also created problems. On March 13, 1985, we issued a legal opinion on PTO's exchanges. We concluded that the exchanges were procurements of commercial automatic data processing (ADP) support services subject to the requirements of Public Law 89-306, the Brooks Act, and the Federal Procurement Regulation. PTO's official position, as stated in an April 10, 1985, letter to us was that PTO does not believe that exchanges are procurements under the Brooks Act. Also, in a May 2, 1985, letter to us, the Department of Commerce essentially concurred with PTO's position. Consequently, none of the exchange agreements were

developed with the procurement regulations in mind. Furthermore, in reviewing PTO's actions, we concluded that PTO did not obtain maximum practical competition on two of the three exchange agreements, as required by the Federal Procurement Regulation.

In summary, PTO did not adequately consider all future impacts of the exchange agreements on itself and the public. By allowing restrictions on public access in the original agreements, PTO's freedom to offer information on trademarks to the public was limited. An example of this is that it became necessary for PTO to negotiate a royalty fee to be paid by the public users for full use of PTO's automated system.

As part of the recommendations contained in our April 19 report, we recommended that the Secretary of Commerce direct the Acting Commissioner of Patents and Trademarks to make all reasonable efforts to expeditiously and economically acquire unrestricted ownership of the trademark data bases obtained through the exchange agreements. We also recommended that PTO establish

criteria for determining when future ADP resource exchange agreements should be used and develop procedures to ensure that these exchanges comply with applicable federal procurement regulations. Such criteria and procedures should also require that PTO thoroughly analyze the value of future agreements and fully assess their impact on PTO and the public. We added that, if PTO does not take steps to implement the above recommendation regarding exchange agreements, the Congress should consider withdrawing PTO's exchange agreement authority for ADP resource acquisitions.

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Mr. Chairman, this concludes my prepared remarks. I welcome any questions you may have.

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