

DICKINSON V. ZURKO

By *Christian A. Chu*

Imagine being the defendant in a multi-million dollar infringement lawsuit where the patent-in-suit likely violates the standards of patentability. Imagine further that the patent examiner has considered all the relevant prior art, but still allowed the litigated claims. Imagine now that the court must defer to the patent examiner's factual findings and summarily deny the defendant's claim of invalidity. This is a possibility that the Supreme Court's decision in *Dickinson v. Zurko*¹ has created.

In *Zurko*, the Supreme Court enhanced the uniformity of the administrative landscape by requiring the Court of Appeals for the Federal Circuit to apply the Administrative Procedure Act's standards of review. *Zurko* achieved the Court's desired result because the outcome of some appeals from the PTO will change. Unfortunately, a broad reading of *Zurko* may compel a district court to defer to a patent examiner's factual findings in a patent infringement suit. Although some litigants have already attempted to use *Zurko* to that end, constitutional provisions and proper judicial construction can prevent this case from reaching that undesired result.

I. BACKGROUND

A. The APA Provides Horizontal Uniformity in Administrative Law

The Administrative Procedure Act ("APA")² governs and imposes procedural uniformity on federal agencies.³ Congress enacted the APA in 1946 in response to protests against "shocking injustices" and intimations of judicial "abdication."⁴ To curb those alleged administrative excesses

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1. 119 S. Ct. 1816 (1999).

2. 5 U.S.C. §§ 551-559, 701-706, 1305, 3105, 3344, 6362, 7562 (1994).

3. See 1 KENNETH CULP DAVIS & RICHARD J. PIERCE, ADMINISTRATIVE LAW TREATISE § 1.1, at 2 (3d ed. 1994).

4. See *Universal Camera Corp. v. NLRB*, 340 U.S. 474, 479 (1951) ("Protests against 'shocking injustices' and intimations of judicial 'abdication' with which some courts granted enforcement of the Board's order stimulated pressures for legislative relief from alleged administrative excesses."); see also H.R. REP. NO. 76-1149, at 2 (1939) ("[T]here is no gainsaying the fact that with competency and long tenure of office we also secure [agency] employees who tend in some cases to become contemptuous of both the Congress and the courts; disregardful of the rights of the governed; and for lack of sufficient legal control over them a few develop Messiah complexes.").

and deficiencies, Congress provided for a clearer and broader judicial review of administrative agencies by instituting specific standards of review.⁵ The APA established a minimum set of procedural requirements that agencies must meet and that courts must uniformly enforce.⁶

As codified in 5 U.S.C. § 706, the APA's framework mandates that "the reviewing court shall decide all relevant questions of law."⁷ With regard to factual determinations, the APA instructs a reviewing court to

hold unlawful and set aside agency action, findings and conclusions found to be—

(A) arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with law; . . . [or]

(E) unsupported by substantial evidence in a case subject to sections 556 or 557 of this title or otherwise reviewed on the record of an agency hearing provided by statute. . . .⁸

Under section 706(2)(A), a reviewing court applies the "arbitrary and capricious" standard when the agency makes factual determinations in an informal setting or where the agency's organic statute does not require a hearing "on the record."⁹ Under this very deferential standard, a reviewing court must uphold the agency's determinations unless the agency has relied on inappropriate factors, entirely failed to consider an important aspect of the problem, or made a finding that is implausible or entirely unsupported by the evidence.¹⁰ In contrast, the less deferential "substantial evidence" standard of section 706(2)(E) applies to any factual finding that an agency adopts in a formal, on-the-record adjudication.¹¹ Under this

5. See *Universal Camera*, 340 U.S. at 484 (explaining that the committee reports from both houses indicated that "courts are to exact higher standards 'in the exercise of their independent judgment'").

6. See Brian C. Whipps, Note, *Substantial Evidence Supporting the Clearly Erroneous Standard of Review: The PTO Faces Off Against the Federal Circuit*, 24 WM. MITCHELL L. REV. 1127, 1143-46 (1998).

7. 5 U.S.C. § 706 (1994).

8. *Id.* § 706(2).

9. See *Camp v. Pitts*, 411 U.S. 138, 140-43 (1973) (applying the "arbitrary and capricious" standard because "neither the National Bank Act nor the APA requires the Comptroller to hold a hearing or to make a formal findings on the hearing record when passing on applications for new banking authorities."); see also *Citizens to Preserve Overton Park, Inc. v. Volpe*, 401 U.S. 402, 414-17 (1971) (explaining and applying the "arbitrary and capricious" standard to the facts of the case).

10. See *Motor Vehicle Mfrs. Ass'n v. State Farm Mut. Auto. Ins. Co.*, 463 U.S. 29, 43 (1983).

11. See 1 DAVIS & PIERCE, *supra* note 3, § 11.2, at 176.

standard, the reviewing court must consider the whole record¹² and affirm an agency's factual determinations that are supported by "such relevant evidence as a reasonable mind might accept as adequate to support a conclusion."¹³ The reviewing court thus assesses the reasonableness of a decision by seeking support for the agency's findings in the record of a trial-like hearing.¹⁴

By enacting the APA, Congress mandated the use of particular standards in the judicial review of agency actions.¹⁵ In the years following the enactment of the APA, the Supreme Court clarified and delineated the scope of these review standards.¹⁶ To avoid weakening the statute, the Court rarely applied the APA's "saving clause," contained in 5 U.S.C. § 559, that provides that the APA "do[es] not limit or repeal additional requirements imposed by statute or otherwise recognized by law."¹⁷ Rather, the Court limited the standards of judicial review for agency actions to those provided by the APA and struck any standard inconsistent with the statute.¹⁸ Thus, the combination of legislative action and judicial interpretation created a horizontal uniformity among the courts and in the field of administrative law.

12. See *Universal Camera Corp. v. NLRB*, 340 U.S. 474, 488 (1951).

13. *Consolidated Edison Co. v. NLRB*, 305 U.S. 197, 229 (1938).

14. See *Association of Data Processing Serv. Orgs., Inc. v. Board of Governors of the Fed. Reserve Sys.*, 745 F.2d 677, 684 (D.C. Cir. 1984) ("The distinctive function of paragraph (E)—what it achieves that paragraph (A) does not—is to require substantial evidence to be found within the record of closed-record proceedings to which it exclusively applies.").

15. See 5 U.S.C. § 706 (1994).

16. See, e.g., *Universal Camera*, 340 U.S. at 490-91 (providing the appropriate scope of judicial review for the National Labor Relations Board); *Consolo v. Federal Maritime Comm'n*, 383 U.S. 607, 619-26 (1966) (reversing the lower court's misapplication of the "substantial evidence" standard and applying that standard to the facts of the case).

17. 5 U.S.C. § 559 (1994). *United States v. Florida East Coast Railway*, 410 U.S. 224, 238 (1973), stands as the only case in which the Supreme Court has considered this saving clause. In *Florida East Coast Railway*, the Court had to determine whether a more demanding procedure contained in the Interstate Commerce Commission's organic act survived the enactment of the APA. Although the Court adopted the APA's less demanding process, its reasoning implicitly endorsed the viability and application of the "saving clause." See *id.* at 238-43.

18. See, e.g., *American Paper Inst. v. American Elec. Power Serv. Corp.*, 461 U.S. 402, 412 n.7 (1983) ("In the absence of a specific command in [a statute] to employ a particular standard of review, the [agency action] must be reviewed solely under the . . . standard prescribed by the Administrative Procedure Act. . . .").

B. The Federal Circuit's Use of the "Clearly Erroneous" Standard Contradicted the APA

Although the Court of Appeals for the Federal Circuit ("Federal Circuit") reviews most agencies within its appellate jurisdiction under the APA's standards,¹⁹ the court has consistently relied on the "clearly erroneous" standard to review factual determinations made by the Board of Patent Appeals and Interferences ("Board").²⁰ Under the "clearly erroneous" standard, a reviewing court may reverse a finding if, on the entire record, the reviewing court is "left with the definite and firm conviction that a mistake has been committed."²¹ The phrasing of this standard, however, belies its broader scope. Compared to the APA's standards, the "clearly erroneous" test grants the reviewing court greater leeway to correct a mistake that it believes has occurred below and requires less deference to the lower tribunal's conclusions.²² This standard allows the appellate court to review factual findings based on its own reasoning, while the APA requires the court to review a case based on the agency's reasoning.²³ Nevertheless, the "clearly erroneous" standard remains more deferential than the *de novo* standard under which the Federal Circuit reviews questions of law.²⁴

The Federal Circuit has justified its use of the "clearly erroneous" standard by pointing to the alternative appellate pathways available to an applicant dissatisfied with the Board's decision. During the prosecution of a patent application, an applicant who has received a second or a final re-

19. See Craig Allen Nard, *Deference, Defiance, and the Useful Arts*, 56 OHIO ST. L.J. 1415, 1471 (1995) ("The use of the 'clearly erroneous' standard is even more puzzling considering that the Federal Circuit employs the deferential [APA standards] when reviewing the fact findings of other agencies, namely (1) the Boards of Contract Appeals (BCA); (2) Merit System Protection Board (MSPB); and (3) International Trade Commission (ITC).").

20. See, e.g., *Holmwood v. Sugavanam*, 948 F.2d 1236, 1238, (Fed. Cir. 1991) ("This court reviews the Board's factual findings under a clearly erroneous standard."). The "clearly erroneous" standard is the test prescribed by the Federal Rules of Civil Procedure for review of a trial court's factual findings. See FED. R. CIV. P. 52(a).

21. *United States v. United States Gypsum Co.*, 333 U.S. 364, 395 (1948).

22. See *SSIH Equip. S.A. v. United States Int'l Trade Comm'n*, 718 F.2d 365, 382 (Fed. Cir. 1983) (Nies, J., concurring) ("A 'substantial evidence' standard restricts an appellate court to a greater degree than 'clearly erroneous' review.").

23. See *Ethyl Corp. v. EPA*, 541 F.2d 1, 35 n.74 (D.C. Cir. 1976) ("[U]nder the 'clearly erroneous' review a court may substitute its judgment for that of the trial court and upset findings that are not unreasonable.").

24. Under the *de novo* standard, the reviewing court does not defer at all to the lower court or agency's ruling in question. See ROBERT L. HARMON, *PATENTS AND THE FEDERAL CIRCUIT* 852 (4th ed. 1998).

jection by a patent examiner may appeal to the Board, which is part of the Patent and Trademark Office (“PTO”).²⁵ If the Board affirms the examiner’s rejection, a dissatisfied applicant may seek judicial review of that decision through one of two alternative avenues.²⁶ An applicant may appeal directly to the Federal Circuit where appellate review is limited to the administrative record before the Board.²⁷ Alternatively, the applicant may seek a *de novo* review of the Board’s decision by filing a civil action against the PTO Commissioner in the District Court for the District of Columbia, with a subsequent appeal available to the Federal Circuit.²⁸ To avoid inconsistent outcomes between “direct” and “indirect” appeals of the Board’s decisions and to minimize forum shopping, the Federal Circuit has reviewed appeals from both of these avenues under the “clearly erroneous” standard.²⁹

Although logical, the “clearly erroneous” standard of review contravenes the mandate of the APA. Review of agency actions under the “clearly erroneous” test is less deferential and broader than either the APA’s “substantial evidence” or the “arbitrary and capricious” standards.³⁰ Nonetheless, until 1995, the Federal Circuit used the “clearly erroneous” test without any challenge.

C. The PTO Challenges the Federal Circuit’s Use of the “Clearly Erroneous” Standard

Claiming that it deserved greater deference, the PTO decided to challenge the Federal Circuit’s use of the “clearly erroneous” standard. Starting with *In re Brana*,³¹ the PTO urged the court to abandon its less deferential standard and to adopt the APA’s framework.³² The court, however, avoided the issue by explaining that its decision did not turn on the stan-

25. See 35 U.S.C. § 134 (1994); 37 C.F.R. § 1.191 (1999).

26. See 35 U.S.C. § 141 (1994).

27. See 28 U.S.C. § 1295(a)(4)(A) (1994); 35 U.S.C. § 143-144 (1994).

28. See 35 U.S.C. § 145 (1994); see also *Hoover Co. v. Coe*, 325 U.S. 79, 82-83 (1945).

29. See *In re Lueders*, 111 F.3d 1569, 1577 (Fed. Cir. 1998) (“If we were to adopt the standard urged by the PTO, then we would be forced to give heightened deference to the factual findings of the Board in such a case while giving lower deference to the findings by the district court. We might thereby be compelled to hold the same patent both invalid and not invalid over the same prior art simply because of the differing standards of review.”).

30. See *SSIH Equip. S.A. v. United States Int’l Trade Comm’n*, 718 F.2d 365, 382 (Fed. Cir. 1983) (Nies, J., concurring) (“A ‘substantial evidence’ standard restricts an appellate court to a greater degree than ‘clearly erroneous’ review.”).

31. 51 F.3d 1560 (Fed. Cir. 1995).

32. See *id.* at 1568.

dard of review.³³ Undeterred, the PTO raised the issue again in *In re Napier*.³⁴ There, the court declined to decide the level of deference that it should grant the Board since the court could affirm the Board's decision under the less deferential standard of "clear error."³⁵ Subsequently, in *In re Kemps*,³⁶ the PTO adopted a more aggressive stand by using the "arbitrary and capricious" standard throughout its appellate brief.³⁷ Although it affirmed the Board's rejection in that case, the Federal Circuit chastised the PTO for using the wrong standard and stated that only an en banc court could overrule the "clearly erroneous" line of precedents.³⁸ Soon afterward, when the PTO requested an en banc review of the reversal in *In re MacDermid, Inc.*,³⁹ the court explained that an en banc rehearing is appropriate only when the resolution of the issue is determinative in the case at hand.⁴⁰

The situation escalated quickly thereafter. In *In re Lueders*,⁴¹ a three-judge panel unequivocally reaffirmed the propriety of the "clearly erroneous" standard in its review of Board decisions.⁴² To resolve the issue of deference once and for all, the Federal Circuit granted an en banc rehearing in *In re Zurko*.⁴³

II. CASE SUMMARY

A. The Federal Circuit Decision

Mary Zurko and her colleagues applied for a patent on a method to improve a computer system's security.⁴⁴ The patent examiner denied the application, stating that Zurko's method was obvious in light of the prior art.⁴⁵ After the Board sustained the examiner's rejection, Zurko sought review by the Federal Circuit.⁴⁶ The appellate panel reversed, finding that

33. *See id.*

34. 55 F.3d 610 (Fed. Cir. 1995).

35. *See id.* at 614.

36. 97 F.3d 1427 (Fed. Cir. 1996).

37. *See id.* at 1430.

38. *See id.* at 1431.

39. 111 F.3d 890 (Fed. Cir. 1997).

40. *See id.* at 890.

41. 111 F.3d 1569 (Fed. Cir. 1997).

42. *See id.* at 1574.

43. 116 F.3d 874, 874 (Fed. Cir. 1997).

44. *See In re Zurko*, 111 F.3d 887, 888 (Fed. Cir. 1997).

45. *See id.*

46. *See id.* at 887.

the Board's factual determination was "clearly erroneous."⁴⁷ Hoping to resolve the controversy over the appropriate standard of review, the Federal Circuit granted the PTO's petition for a rehearing en banc.⁴⁸

Upon rehearing, the en banc court unanimously concluded that the appellate panel had legally and properly used the less deferential "clearly erroneous" standard.⁴⁹ The Federal Circuit found that its use of the "clearly erroneous" standard in appeals from the Board was authorized by the APA's "saving clause" contained in 5 U.S.C. § 559.⁵⁰ After reviewing the APA's legislative history, the court explained that Congress added section 559 to the APA to preserve the judicial review standards applied to PTO decisions at that time.⁵¹ As shown in decisions from the Court of Customs and Patent Appeals ("CCPA") prior to 1946, such review of the PTO's findings relied on common law standards that, although articulated differently, were less deferential than the APA's standards.⁵² Because those tests were in use by the courts at the time of the APA's passage and exceeded the APA's standards, they amounted to an "additional requirement" within the ambit of section 559.⁵³ The court further buttressed its conclusion by declaring that the PTO failed to provide convincing reasons for the court to depart from the principle of stare decisis and to disturb public reliance on the court's consistent use of the "clearly erroneous" standard.⁵⁴ In addition, the court reasoned that the less deferential standard of review would promote better fact-finding by the PTO.⁵⁵

B. The Supreme Court Decision

On writ of certiorari, the Supreme Court, by a six to three vote, reversed the en banc judgment and held that the Federal Circuit must use the APA's standards to review the PTO's fact-findings.⁵⁶

The Court's opinion, written by Justice Breyer, first addressed the Federal Circuit's claim of exception under section 559. The Court read section 559 as requiring that any exception to the APA's review standard be clearly stated, lest the APA's purpose of bringing uniformity to the ju-

47. *See id.* at 889-90.

48. *See In re Zurko*, 116 F.3d 874, 874 (Fed. Cir. 1997).

49. *See In re Zurko*, 142 F.3d 1447 (Fed. Cir. 1998) (en banc).

50. *See id.* at 1450-57.

51. *See id.* at 1450-52.

52. *See id.* at 1453-57.

53. *See id.* at 1457.

54. *See id.* at 1457-58.

55. *See id.* at 1458.

56. *See Dickinson v. Zurko*, 119 S.Ct. 1816, 1818 (1999).

dicial review of agency decisions be frustrated.⁵⁷ In this case, the Supreme Court found that no such clear exception existed because none of the cases cited by the Federal Circuit as embodying the pre-APA review standards supported the idea of a preexisting less deferential standard.⁵⁸ The Court reached this conclusion because the specific meanings given to the standards used in the cases cited by the Federal Circuit were not firmly established before the adoption of the APA and prone to divergent use by the courts.⁵⁹ The pattern in those cases indicated that the courts deferred to the PTO's expertise, thus suggesting the use of the more deferential standards.⁶⁰ Having considered the CCPA's explanations, the origins of the review standards, and the different wording of the CCPA's standards, the Court concluded that the Federal Circuit's less deferential standard did not amount to "an additional requirement" under 5 U.S.C. § 559.⁶¹

The Court then turned to the other arguments made in favor of the Federal Circuit's decision. Addressing the argument that any change to the less deferential review standard would disturb the public's reliance, the Court decided that the creation of an exception under section 559 would be more disruptive, since such a precedent would invite other agencies and courts to depart from the APA's uniform requirement.⁶² The Court downplayed the practical effect of a change in the Federal Circuit's standard by pointing to the Court's inability to find another case where the outcome depended upon the standard used.⁶³ Next, the Court dismissed as unimportant the argument that its ruling would force the Federal Circuit to use different review standards depending on whether a litigant appealed the Board's decision directly or indirectly.⁶⁴ The Court did not believe that litigants would take the more costly indirect route through the district court in order to obtain a less deferential judicial review of the PTO's determination.⁶⁵ Finally, rejecting the argument that a less deferential standard would promote better agency fact-findings, the Court found no rea-

57. *See id.* at 1819.

58. *See id.*

59. *See id.* at 1819-20.

60. *See id.* at 1821-22.

61. *See id.*

62. *See id.* at 1823.

63. *See id.*

64. *See id.* at 1824.

65. *See id.* The Court, however, allowed the Federal Circuit to adjust the review standard when the Federal Circuit hears an appeal of a case in which a district court judge merely reviewed the PTO's fact-finding. *See id.*

son for subjecting the PTO to a standard different from those applied to other agencies.⁶⁶

Chief Justice Rehnquist, joined by Justices Kennedy and Ginsburg, dissented. They argued that, because section 559 embodied Congress's intent to bring uniformity to and to raise the standard of judicial review over agencies, the case turned on whether the CCPA used that less deferential "clearly erroneous" standard before Congress passed the APA.⁶⁷ In making that determination, the dissent urged the Court to defer to the Federal Circuit rather than to the PTO.⁶⁸ In addition, the dissent disagreed with the majority's interpretation that section 559 included a "clear statement" requirement.⁶⁹ Finally, the three dissenting justices adopted the Federal Circuit's rationale as part of their dissent.⁷⁰

III. DISCUSSION

In *Zurko*, the Supreme Court aimed to preserve the uniformity of the American administrative state. *Zurko* places the PTO on par with other agencies and may change the outcome of some appeals from the Board. However, the Court's broad language could extend the scope of this case to patent infringement lawsuits and could require a district court to defer to a patent examiner's factual determinations. Although some litigants have attempted to leverage *Zurko* to this extent, *Zurko* does not affect prior art unconsidered by the PTO and cannot apply to infringement trials in light of the constitutional guarantees of due process and jury trial.

A. The Court Preserved the Administrative Horizontal Uniformity Provided by the APA

The Court in *Zurko* focused on maintaining the horizontal uniformity established by the APA. As the Court has acknowledged, Congress enacted the APA to standardize judicial review of agency action⁷¹ and to "bring uniformity to a field full of variation and diversity."⁷² Any divergence from this uniformity would undermine the congressional policy that gave rise to the APA.⁷³ The Court recognized that, if it affirmed the Fed-

66. *See id.*

67. *See id.* at 1827 (Rehnquist, C.J., dissenting).

68. *See id.*

69. *See id.*

70. *See id.* ("[We] therefore dissent for the reasons given by the Court of Appeals.").

71. *See Universal Camera Corp. v. NLRB*, 340 U.S. 474, 484 (1951).

72. *Dickinson v. Zurko*, 119 S.Ct. 1816, 1819 (1999).

73. *See id.* ("It would frustrate that purpose to permit divergence on the basis of a requirement 'recognized' only as ambiguous.").

eral Circuit's decision, agencies predating the APA could fall within the section 559 exception and diverge from the APA's norm.⁷⁴ Pockets of exceptions would slowly appear in the uniform administrative landscape and inevitably return our government to the confusion that existed before the enactment of the APA. The Court foresaw these possibilities and rejected them.

Unwilling to create such confusion, the Court compelled the outcome of this case by framing the tests that it used. In addition to the presumption that the APA applies unless an "additional requirement" exists under section 559, the Court imposed a heightened requirement that such proof must be clear.⁷⁵ This added burden required the respondents to prove that the CCPA's pre-APA cases actually used the "clearly erroneous" standard; equivalent wordings were unacceptable.⁷⁶ As the dissent criticized, neither the statutory text nor Congress' intent justified this requirement.⁷⁷ By reading that requirement into the text of section 559, the majority imposed such stringency on the standard of proof as to render the respondents' burden almost impossible to meet.

Nonetheless, the Court's position reaffirmed the basic policies underlying administrative law. Within the exercise of their responsibilities, the PTO and other agencies develop a specialized expertise that is enhanced by recruiting specialists in the agency's field.⁷⁸ Moreover, the administrative process gives an agency great flexibility in addressing complex problems and in tailoring adequate *ex ante* solutions to such problems.⁷⁹ The courts, the legislature and the executive branch lack the expertise, flexibil-

74. *See Zurko*, 119 S.Ct. at 1823 ("The Federal Circuit standard would require us to create a § 559 precedent that itself could prove disruptive by too readily permitting other agencies to depart from the uniform APA requirement.").

75. *See id.* at 1819 ("[A] reviewing court must apply the APA's court/agency review standards in the absence of an exception. . . . [W]e believe that respondents must show more than a possibility of a heightened standard, and indeed more than even a bare preponderance of evidence in their favor. Existence of the additional requirement must be clear.").

76. *See id.* at 1819-20 (recognizing that, when the CCPA decided the cited cases in the 1930's and 1940's, courts properly distinguished the "clearly erroneous" and "substantial evidence" standards, but refusing to accept equivalent phrases such as "clearly wrong" or "clear case of error" that were present in 23 out of the 89 CCPA cases).

77. *See id.* at 1827 ("If Congress had meant [§ 559] to mean 'clearly recognized by law,' it certainly could have said so, but did not. I also reject the notion that § 559 . . . should be read to impose a nontextual clear statement rule for the antecedent common law requirements that the APA supplemented.").

78. *See* BERNARD SCHWARTZ, ADMINISTRATIVE LAW 31 (3d ed. 1991).

79. *See id.* at 38.

ity, and ability to respond to problems in the way that an agency can.⁸⁰ Although the decision to prevent the balkanization of the administrative landscape is understandable, the Court's ruling may send ripples through the field of patent law.

B. *Zurko* Will Have Limited Effects on Appeals from the Board

In deciding *Zurko*, the Court believed that a change in the review standard would have no practical effect.⁸¹ The Court clearly erred because it overlooked a specific problem—the Board's failure to make adequate factual determinations—that causes the Federal Circuit to reverse certain Board decisions. The facts in *Zurko* illustrate the difficulty presented by cases plagued with this problem. In *Zurko*, the PTO rejected the application because the prior art rendered the invention obvious.⁸² Reversing the Board's decision, the Federal Circuit explained that the Board failed to make factual findings pointing to any teaching in the prior art that would either supply the claims or provide a suggestion to combine the references.⁸³ Given a gap in the Board's factual findings, a change in review standards would affect the Federal Circuit's disposition of this case. Under the "clearly erroneous" test, the court would scrutinize the record using its own reasoning and substitutes its determinations where the Board failed to make a necessary factual finding.⁸⁴ Under the "substantial evidence" standard, the court would defer to the Board because the court must presume that the Board's conclusion is valid if there is evidence in the record to reasonably support the decision.⁸⁵ If the "arbitrary and capricious" standard applies,⁸⁶ the court must defer to the Board unless some egregious

80. See *Zurko*, 119 S.Ct. at 1822 ("[T]he PTO is an expert body [and] can better deal with the technically complex subject matter. . . . These reasons are reasons that courts and commentators have long invoked to justify deference to agency fact-finding.").

81. See *id.* at 1823 ("[W]e believe the Circuit overstates the difference that a change of standard will mean in practice. . . . [W]e have failed to uncover a single instance in which a reviewing court conceded that use of one standard rather than the other would in fact have produced a different outcome.").

82. See *In re Zurko*, 111 F.3d 887, 888 (Fed. Cir. 1997).

83. See *id.* at 889 ("[T]o say that the missing step comes from the nature of the problem to be solved begs the question because the Board has failed to show that this problem had been previously identified anywhere in the prior art.").

84. See *Ethyl Corp. v. EPA*, 541 F.2d 1, 35 n.74 (D.C. Cir. 1976).

85. See *Consolidated Edison Co. v. NLRB*, 305 U.S. 197, 229 (1938).

86. The Supreme Court left undecided which APA standard should apply to reviews of the Board's decisions. See *Dickinson v. Zurko*, 119 S.Ct. 1816, 1821 (1999) ("[I]t apparently remains disputed to this day (a dispute we need not settle today) precisely which APA standard—'substantial evidence' or 'arbitrary, capricious, abuse of discretion'—would apply to court review of PTO factfinding.").

events occurred.⁸⁷ Therefore, if *Zurko* were decided under the APA's standards, the Federal Circuit would affirm the Board's determinations rather than reverse it. Since other appeals also suffer from this problem,⁸⁸ the Federal Circuit may now be required to affirm the Board's decisions more often than it did before *Zurko*.

In the wake of *Zurko*, the Federal Circuit has shown a greater willingness to affirm the Board's decisions under the APA standards as long as the Board provides sufficient factual findings to support its decisions.⁸⁹ It is doubtful that *Zurko* will dramatically increase the Federal Circuit's affirmance rate of Board's decisions, however, as the court has sided with the Board in about 80% of pre-*Zurko* appeals from the PTO.⁹⁰ This high affirmance rate barely leaves any room for improvement, and any increase in that rate will likely be incremental.

In spite of *Zurko*, the Federal Circuit should not affirm the Board's decision in all cases. As an alternative to affirming close but vague cases such as *Zurko*, the Federal Circuit could choose to remand a case to the Board for clarification rather than to affirm it. As an accepted practice in administrative law,⁹¹ a remand would encourage the Board to more carefully scrutinize and support, with evidence and findings, the factual bases of its decisions.⁹² In light of *Zurko*, the Federal Circuit has already adopted

87. See *Camp v. Pitts*, 411 U.S. 138, 142 (1973).

88. See, e.g., *In re Rouffet*, 149 F.3d 1350, 1357 (Fed. Cir. 1998) (reversing the Board's decision because the Board failed to provide specific motivations to combine the relevant prior art); *In re Dembiczak*, 175 F.3d 994, 1000 (Fed. Cir. 1999) ("Because we do not discern any finding by the Board that there was a suggestion, teaching, or motivation to combine the prior art references cited against the pending claims, the Board's conclusion of obviousness, as a matter of law, cannot stand.").

89. See *In re Greene*, No. 99-1317, 1999 WL 1103363, at *3-4 (Fed. Cir. Dec. 06, 1999) (unpublished disposition) ("The Board made determinations about the state of the prior art, the ordinary skill in the art and what [the prior art] taught or suggested. . . . This court must give deference to the findings of fact made by the Board and can only overturn those findings if they are not based on substantial evidence.").

90. See Donald R. Dunner et al., *A Statistical Look of the Federal Circuit's Patent Decisions: 1982-1994*, 5 FED. CIRCUIT B.J. 151, 155 (1995) ("[T]he court has affirmed the PTO's determination of unpatentability about 80% of the time.").

91. Where an agency fails to explain the reasons underlying its decision, a court may remand the administrative action with the instruction that the agency reveals enough of its reasoning to permit meaningful judicial review. See, e.g., *Schaffer Transp. Co. v. United States*, 355 U.S. 83, 90-93 (1957) (remanding an Interstate Commerce Commission's determination to the agency because the ITC failed to make adequate factual findings to support its decision).

92. See Susan Brown, *No Joy in Mudville*, IP WORLDWIDE, Oct. 1999, at 15.

this approach in a trademark appeal.⁹³ In the end, any increase in the affirmance rate of Board appeals resulting from *Zurko* will depend on whether the Board can expressly provide reasonable factual findings to support its decisions.

C. The Possible Consequences of *Zurko* on the District Courts' Review of Patent Validity

1. *Zurko may require deference to the PTO's factual determinations of validity in patent infringement lawsuits*

When a patent holder brings an infringement lawsuit, the alleged infringer may challenge the validity of the patent-in-suit as a defense.⁹⁴ In contesting a patent's validity, the infringer asks the court to examine whether the PTO properly allowed the disputed claims.⁹⁵ To succeed, the infringer must overcome the statutory presumption of validity by clear and convincing evidence.⁹⁶ This statutory presumption operates only as a procedural device allocating burdens of proof,⁹⁷ and lacks any substantive or evidentiary value.⁹⁸ The courts have read into the presumption a degree of deference owed to the patent examiner when the alleged infringer can only advance prior art already considered by the PTO as evidence of invalid-

93. See *Casa Vinicola Gerardo Cesari S.R.L. v. Miguel Torres S.A.*, No. 99-1295, 1999 WL 1136827, at *1 (Fed. Cir. Dec. 7, 1999) (unpublished disposition) ("Because the Board did not consider the [confusing nature of the trademark] and did not sufficiently explain its conclusion . . . we vacate the Board decision and remand the case for further proceedings.").

94. See 35 U.S.C. § 282(2) (1994) ("The following shall be defenses in any action involving the validity or infringement of a patent and shall be pleaded: . . . (2) Invalidity of the patent. . .").

95. The PTO's factual determinations relate to issues of utility, anticipation, best mode, written description, and the factual underpinnings of non-obviousness inquiries. See Craig Allen Nard, *supra* note 19, at 1472.

96. See 35 U.S.C. § 282 (1994) ("A patent shall be presumed valid."); *Bausch & Lomb, Inc. v. Barnes-Hind/Hydrocurve, Inc.*, 796 F.2d 443, 446 (Fed. Cir. 1986) ("The burden is on the party asserting invalidity to prove it with facts supported by clear and convincing evidence.").

97. See *Stratoflex, Inc. v. Aeroquip Corp.*, 713 F.2d 1530, 1534 (Fed. Cir. 1983) ("The presumption, like all legal presumptions, is a procedural device, not substantive law. . . . [T]he party asserting invalidity not only has the procedural burden of proceeding first and establishing a prima-facie case, but the burden of persuasion on the merits remains with that party until final decision.").

98. See *SSIH Equip. S.A. v. United States Int'l Trade Comm'n*, 718 F.2d 365, 375 (Fed. Cir. 1983) ("The presumption of validity afforded by 35 U.S.C. § 282 does not have independent evidentiary value.").

ity.⁹⁹ Despite this deference, courts must still scrutinize the record independently.¹⁰⁰ In sum, this deference is only a procedural device that can strengthen the presumption of validity, but that does not dispose of a case.

Zurko may now render this deference determinative under certain circumstances. As the Supreme Court declared, "a reviewing court must apply the APA's court/agency review standards in the absence of an exception."¹⁰¹ By precluding any common law exception to 5 U.S.C. § 706,¹⁰² this broad language may compel the district courts to apply the APA's standards when they review the validity of a patent in the course of an infringement litigation. Accordingly, a trial court should not disturb the patent examiner's determinations of facts unless those findings either lack the support of "substantial evidence" in the record or are "arbitrary and capricious."¹⁰³ As long as the criteria of these review standards are satisfied, the examiner's determinations would become dispositive. As it sheds its procedural veneer and becomes substantive, this deference could render the challenge of invalidity very difficult to win and could thus strengthen the patent owner's property rights.

2. *The requirement of enhanced deference is more than a theory: a recent development*

Zurko's implication for invalidity challenges should not be dismissed as purely theoretical, since a litigant has already made this argument in a patent infringement lawsuit. In *United States Filter Corp. v. Ionics, Inc.*,¹⁰⁴ an alleged infringer argued that *Zurko* required the district court to review

99. See, e.g., *American Hoist & Derrick Co. v. Sowa & Sons, Inc.*, 725 F.2d 1350, 1359 (Fed. Cir. 1984) ("When no prior art other than that which was considered by the PTO examiner is relied on by the attacker, he has the added burden of overcoming the deference that is due to a qualified government agency presumed to have properly done its job. . . .").

100. See, e.g., *Badalamenti v. Dunham's, Inc.*, 680 F. Supp. 256, 260 (E.D. Mich. 1988), *aff'd*, 862 F.2d 322 (Fed. Cir. 1988) ("[W]hile the court is to give 'appropriate consideration and due weight' to the PTO's decision, its decision is not controlling nor is it binding on the court. . . . On the basis of the evidence before the courts, the courts can and do decide differently from the PTO examiner.").

101. *Dickinson v. Zurko*, 119 S.Ct. 1816, 1819 (1999).

102. See discussion *supra* Part III.A.

103. The Supreme Court left undecided which APA standard applies to a court's review of PTO's factfindings. See *Zurko*, 119 S.Ct. at 1821. Arguably, such deference may only apply to a litigation where the defendant fails to introduce new evidence that the patent examiner did not consider. See, e.g., *American Hoist*, 725 F.2d at 1359-60 ("When an attacker . . . produces prior art or other evidence not considered in the PTO, there is, however, no reason to defer to the PTO so far as its effect on validity is concerned.").

104. 68 F. Supp. 2d 48 (D. Mass. 1999).

the PTO's findings of validity under the "substantial evidence" standard.¹⁰⁵ In its motion for summary judgment to invalidate the patent-infringement, the infringer claimed—erroneously¹⁰⁶—that *Zurko* permitted the court to set aside the PTO's findings if they were unsupported by substantial evidence.¹⁰⁷ The court disposed of that argument by pointing to the different procedural postures in the two cases.¹⁰⁸ The court acknowledged that it owed proper deference to the patent examiner's factual determinations of the evidence on which the examiner relied.¹⁰⁹ However, this deference does not cover new evidence that the PTO did not consider.¹¹⁰ In light of the new evidence introduced by the parties to support or oppose this motion, the court denied the defendant's summary judgment motion.¹¹¹ Albeit misguided, the infringer's reliance on *Zurko* indicates that litigants have not missed the import of the case on invalidity issues and have not hesitated to use it. Cases where litigants, especially plaintiffs, rely on *Zurko* to advance their arguments will undoubtedly arise in the near future.

D. *Zurko* Should Not Apply to Invalidity Findings by District Courts

Zurko dealt with an appellate review of the Board's factual determinations. Extending *Zurko*'s holding to invalidity cases would require a broad and loose reading of the case. Arguably, some language in *Zurko* supports

105. *See id.* at 52.

106. The accused infringer in *Ionics* erred in its use of the "substantial evidence" standard for two reasons. First, *Dickinson v. Zurko* left undecided whether the "substantial evidence" or the "arbitrary or capricious" standard applies in review of PTO factual determinations. *See In re International Flavors & Fragrances, Inc.*, 183 F.3d 1361, 1365 (Fed. Cir. 1999). Second, the defendant misunderstood the proper application of this standard. If the "substantial evidence" standard applied, it would require the court to review the agency "on [the agency's] own reasoning." *In re Zurko*, 142 F.3d 1447, 1449 (Fed. Cir. 1998) (*en banc*). Hence, a reviewing court must accept the PTO's determinations as long as they are supported by probative evidence of a substantial nature. *See id.* The court may not substitute its own reasoning for that of the agency. Because this test contemplates proper deference to the agency's expertise, the reviewing court may not set aside the PTO's findings as easily as the *Ionics* defendant hoped.

107. *See Ionics*, 68 F. Supp. 2d at 52.

108. The court attempted to differentiate *Zurko* by explaining that the procedural posture it faced involved the possibility of a court/court review by the Federal Circuit while *Zurko* focused on a court/agency posture. *See id.*

109. *See id.* ("I owe deference to the finding made by the patent officer with regard to that patent's validity.")

110. *See id.* at 53 ("I must review the admissible evidence proffered to this court . . . giving deference only to those findings made by the patent examiner with regard to the evidence before him or presumed to be before him. . . .")

111. *See id.* at 68.

its application to invalidity questions.¹¹² However, precedent indicates that *Zurko's* requirement of deference does not extend to prior art unconsidered by the PTO. In addition, constitutional barriers, emanating from the Seventh and the Fifth Amendment, stand against such application. As a result of these constitutional guarantees and the inapplicability to previously unconsidered prior art, *Zurko* cannot affect all invalidity issues that arise in a patent infringement lawsuit.

1. *The introduction of new prior art brings the litigation outside of Zurko's scope*

As the *Ionics* court acknowledged, the introduction of new prior art frees the trial court from the required deference to the examiner's factual findings.¹¹³ *Zurko* would require deference to the PTO's factual determinations, but leaves untouched the effect of prior art that the PTO has not considered.¹¹⁴ This opens a substantial loophole to *Zurko's* requirements because the Federal Circuit ruled long ago that a court owes no deference to the PTO's validity determinations where the alleged infringer introduces unconsidered prior art to sustain its section 282 burden of proof.¹¹⁵ The unconsidered prior art would thus be unencumbered by *Zurko's* dispositive requirements. Although the infringer's challenge would remain limited to these unconsidered references, litigants would undoubtedly take advantage of this loophole given the apparent ready availability of "new" prior art.¹¹⁶

2. *The Seventh Amendment limits the scope of Zurko*

Even when no new prior art is introduced, *Zurko* should not apply to infringement suits tried by a jury. The Seventh Amendment preserves the right to a jury trial as it existed under the English common law when the Amendment was adopted.¹¹⁷ Since juries tried issues of patent validity at

112. See *Dickinson v. Zurko*, 119 S.Ct. 1816, 1819 (1999) ("[A] reviewing court must apply the APA's court/agency review standards in the absence of an exception.").

113. See *supra* note 108 and accompanying text.

114. See discussion *supra* Part III.C.1.

115. See *American Hoist & Derrick Co. v. Sowa & Sons, Inc.*, 725 F.2d 1350, 1359-60 (Fed. Cir. 1984) ("When an attacker, in sustaining the burden imposed by § 282, produces prior art or other evidence not considered in the PTO, there is, however, no reason to defer to the PTO so far as its effect on validity is concerned. Indeed, new prior art not before the PTO may so clearly invalidate a patent that the burden is fully sustained merely by proving its existence and applying the proper law. . . .").

116. See *Connell v. Sears, Roebuck & Co.*, 722 F.2d 1542, 1549 (Fed. Cir. 1983) ("There is virtually always 'pertinent' and 'relevant' art apparently unconsidered in the PTO and available to a patent challenger.").

117. See *Baltimore & Carolina Line, Inc. v. Redman*, 295 U.S. 654, 657 (1935).

common law,¹¹⁸ the Federal Circuit has long held that the Seventh Amendment covers issues of patent validity that may arise in a suit for patent infringement.¹¹⁹

Zurko's requirement of substantial deference to the PTO, if applicable to juries, would violate the Seventh Amendment. A jury instruction to review the PTO's findings under the APA's standards would limit the jury's role to a mere scrutiny of whether substantial evidence supports the examiner's findings or whether those determinations appear "arbitrary and capricious."¹²⁰ By limiting the jury to this procedural inquiry, *Zurko* would effectively substitute the examiner's ex parte determination for the jury's findings and preclude the jury from properly performing its core fact-finding function in light of an adversarial presentation. As applied to validity issues, *Zurko* would strip from the alleged infringer the crucial protection conferred by the jury's role and subject her to a potentially arbitrary determination by the PTO.¹²¹ Courts should not and cannot enforce such a rule that contravenes the Constitution.

3. *Procedural due process prevents Zurko from applying to bench trials*

The Seventh Amendment's protection would not, however, extend to a bench trial, where a judge sits as the trier of facts.¹²² Arguably, *Zurko*'s

118. See *Markman v. Westview Instruments, Inc.*, 52 F.3d 967, 1013 (Fed. Cir. 1995) (en banc) (Newman, J., dissenting) ("These relationships were well established by the date of the Seventh Amendment. Issues of patent infringement and validity were tried only to a jury, in the courts of King's Bench, Common Pleas, or Assize. Commonly, the patentee would seek an injunction against infringement, the defendant would assert invalidity, and the matter would be directed to a court of law for trial.") *aff'd*, 517 U.S. 376 (1996).

119. See *Patlex Corp. v. Mossinghoff*, 758 F.2d 594, 603 (Fed. Cir. 1985) ("The right to a jury trial on issues of patent validity that may arise in a suit for patent infringement is protected by the Seventh Amendment."); see also *Swofford v. B & W, Inc.*, 336 F.2d 406, 411 (5th Cir. 1964), *cert. denied*, 379 U.S. 962 (1965).

120. See *supra* Part I.A., for a discussion of how courts apply these standards.

121. See Mark A. Lemley, *An Empirical Study of the Twenty-Year Patent Term*, 22 *AIPLA Q.J.* 369, 417 (1994) ("One of the most startling facts to a lay person about the current patent prosecution system is that it is virtually impossible for an Examiner to finally reject an application. . . . Further, since patent Examiners have a limited amount of time to spend on each application, and since they are rewarded based on the number of files they finish processing, there is an obvious incentive for Examiners to allow rather than reject questionable applications in order to get the application off their desk.")

122. See *In re City of Philadelphia Litigation*, 158 F.3d 723, 727 (3d Cir. 1998) (acknowledging and applying "the well established rule that a party's participation in a bench trial without objection waives any Seventh Amendment right to a jury trial that the party may have had.")

requirement of substantive deference to the PTO would then bind the court.¹²³ A positive result from this inquiry would compel the court to defer and accept the examiner's factual determinations without independently reviewing whether the patent is indeed valid.

However, the Fifth Amendment's procedural due process requirement would prevent such an outcome. The Fifth Amendment's provisions¹²⁴ do not ban all government interference with these enumerated rights. Rather, they demand that the federal government must act with procedural fairness if it infringes on these rights,¹²⁵ and prevents the government from imposing subjective criteria in its determination of each individual's rights.¹²⁶ The notion that an injured party enjoys a right to receive notice and an opportunity to be heard before being deprived of "property" or "liberty" stands at the core of procedural due process.¹²⁷

By compelling deference to the examiner's findings and denying the courts the opportunity to independently determine a patent's validity, *Zurko* would substitute an ex parte finding for the result of a traditional adversarial proceeding. The ex parte process of patent examination, however, lacks proper constitutional safeguards since the public neither receives notice of the ongoing ex parte proceeding nor has the opportunity to challenge the claims' validity before the PTO issues the patent.¹²⁸ To bind an accused infringer, through the "backdoor" of deference, to results the infringer had no opportunity to contest would undermine the accused in-

123. If the litigants proffer no new evidence, the judge should inquire whether the patent examiner's allowance of the patent has substantial support in the evidence on the record or followed proper procedures.

124. The Fifth Amendment guarantees that "[n]o person shall . . . be deprived of life, liberty, or property, without due process of law. . . ." U.S. CONST. amend. V.

125. *See, e.g., Mathews v. Eldridge*, 424 U.S. 319, 332-34 (1976) (finding that due process did not require the Social Security Administration to hold an evidentiary hearing when it denied plaintiff's disability benefits as long as the agency's procedure for denial was fair.).

126. *See, e.g., Wisconsin v. Constantineau*, 400 U.S. 433, 437 (1971) (relying on procedural due process to overturn a statute that may create "oppressive results" and leave a defendant at the mercy of "an official's caprice").

127. *See, e.g., Goldberg v. Kelly*, 397 U.S. 254, 263-66 (1970) (requiring notice and an evidentiary hearing before welfare benefits could be terminated).

128. The PTO keeps the content of the patent application confidential from the public. *See* DONALD S. CHISUM, CHISUM ON PATENTS § 11.02[4] (1997). Congress recently amended the Patent Act, however, to require publication of patent applications after eighteen months unless the application is only filed in the United States. *See* American Inventors Protection Act of 1999, Pub. L. No. 106-113, § 1000(a)(9), 113 Stat. 1501, 36 (Consolidated Appropriations Act, 2000, enacting S. 1948, 106th Cong., § 4502 (1999)) (to be codified at 35 U.S.C. § 122).

fringer's due process rights.¹²⁹ Since *Zurko's* application to infringement cases would lead to a violation of due process, it should not apply to bench trials.

4. *Zurko should never apply to any patent infringement litigation*

The potential effect of *Zurko* on patent infringement litigation appeared ominous.¹³⁰ An invalidity challenge would become meaningless if *Zurko* prevented the trial court from addressing the merits of that challenge.¹³¹ On closer scrutiny, that menace is but a strawman. The loophole created by prior art unconsidered by the patent examiner would circumscribe *Zurko's* scope to trials involving references already considered by the PTO.¹³² Even within these boundaries, constitutional guarantees emanating from the Seventh and Fifth Amendment would prevent *Zurko* from binding either the jury or the judge to the APA's procedural process in the context of an invalidity challenge.¹³³ In sum, *Zurko* could never apply to any infringement litigation.

IV. CONCLUSION

The policy choice that the Supreme Court made in preserving the APA's uniformity held the potential to change the outcomes of appeals from the Board and to nullify the defense of invalidity in patent infringement cases. However, a closer look at these problems indicates that *Zurko's* effects will be limited. In appeals from the Board, the new APA standards will not affect the outcome of cases as long as the Board properly provides its reasoning and supports it with reasonable evidence. In infringement cases, the combination of the "previously unconsidered prior art" loophole and the Seventh and Fifth Amendment constitutional guarantees will prevent the deference owed to a patent examiner's factual findings from overcoming an infringer's invalidity defense. When the dust settles, *Zurko* will be remembered more for its bark than its bite.

129. See *Columbia Broad. Sys., Inc. v. Zenith Radio Corp.*, 391 F. Supp. 780, 785 (N.D. Ill. 1975), *aff'd* 537 F.2d 896 (7th Cir. 1976) ("One cannot be bound by a judgment in personam in a litigation in which he is not designated as a party or to which he has not been made a party through service, substituted service or the class action mechanism.").

130. See *supra* Part III.C.1.

131. See *id.*

132. See *supra* Part III.D.1.

133. See *supra* Part III.D.2-3.

