1-1-1986

Law and Fact in Patent Litigation: Form Versus Function

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LAW AND FACT IN PATENT LITIGATION: FORM VERSUS FUNCTION

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INTRODUCTION

Recently, the Supreme Court sent *Dennison Mfg. v. Panduit Corp.* back to the Court of Appeals for the Federal Circuit (CAFC)[1]. It remanded with explicit directions that the lower court consider the extent to which Rule 52(a)[2] governs appellate review of determinations of obviousness.

On remand, the CAFC should attempt to relate the issue to the scope of review for other issues which arise in patent appeals. Neither the narrow nor the broad problem has ever gotten the attention which it deserves — particularly from the standpoint of the fundamental law/fact dichotomy.

It is by no means certain that obviousness determinations should be treated as questions of law. Nevertheless, there is ample evidence that courts seek to review findings of obviousness (or nonobviousness) more intensely than would be appropriate for questions of fact under the "clearly erroneous" or "substantial evidence" standards. If the courts are inclined to persist in more intense review of obviousness, this paper will argue that two other matters need to be considered: First, whether more liberal review should be extended to all questions concerning the validity of a patent, and, second, whether such review should be conducted under the "constitutional fact" doctrine. The former would ad-

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[1] 106 S.Ct. 1578.

[2] Fed.R.Civ.Proc. The rule provides that "[f]indings of fact shall not be set aside unless clearly erroneous, and due regard shall be given to the opportunity of the trial court to judge the credibility of the witnesses."

dress apparent inconsistencies in the current law, and the latter would allow appellate courts an expanded role (function) without unduly confusing terminology (form).

THE LAW/FACT DICHOTOMY

The most directly relevant precedent governing appellate review of patent litigation is quite cryptic. It is quoted in the per curiam decision which remands *Dennison* to the CAFC[3]. It consists of one sentence from the earlier Supreme Court decision in *Graham v. John Deere Co.*[4]: "While the ultimate question of patent validity is one of law, . . . the § 103 condition . . . lends itself to several basic factual inquiries."

However, what that sentence means is far from clear because the *Graham* court indicated neither its reasons nor its authority for denominating questions of patent validity, in general, or obviousness, specifically, as ones of "law" (as contrasted with "fact"). As will be shown below, without an analysis of those two matters, it is very difficult to determine either whether validity issues other than obviousness should be treated as ones of "law" or, in any case, what sort of treatment should accompany the label. It is to be hoped that, following the remand of *Dennison,* some progress will be made toward resolving those important problems.

While a great deal has been written on the law/fact dichotomy, a brief overview is nevertheless in order[5]. Because the terms, "law" and "fact" are used in a number of ways[6], it is necessary to define them in the context of the present discussion. When approached that way, the term, "fact," is more precisely called "adjudicative fact[7]," and the most accurate definition is operational. In short, a question of adjudicative fact is one of the kind traditionally regarded as appropriate for jury determination. Conversely, a question of "law" is anything which remains — including

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[3] *Id.*, at 1579.

[4] 383 U.S. 1, 17-18 (1966).

[5] The earliest paper on the narrow topic seems to be Note, *Nonobviousness in Patent Law: A Question of Law or Fact?*, 18 WM.&M.L.REV. 612 (1977); in it the author cites several more comprehensive articles. More recently, 12(4) AIPLA Q.J. (1985) was devoted entirely to the topic, both broadly and narrowly.

[6] *E.g.*, "law" versus "equity" or "fact" versus "opinion."

[7] *See* F.R.Evid. 201, advisory committee note.

questions of "legislative" fact, the latter being used, even by courts, in conjunction with values, to evolve general rules[8].

Unfortunately, the water is muddied when courts occasionally refer to factual issues being resolved as a "matter of law[9]." Yet, even there, the operational definition stands: if a proposition is sufficiently well established in the record that reasonable minds could not differ on the conclusions to be reached, it is one within the ultimate control of the trial judge, not the jury. Hence, with regard to the "law/fact" distinction, the roles of judge and jury are paramount.

Indeed, the dichotomy is an inherent part of the right to a jury trial (in circumstances where such a right exists); without it, that right would be a hollow one indeed[10]. Moreover, appellate judges are as bound as trial judges to adhere to its dicates. While appellate courts may be the ultimate arbiters of issues of law, answers to questions of fact which have been properly entrusted to a jury are entitled to exceptionally deferential treatment under the "substantial evidence" standard of review[11].

For somewhat different reasons, appellate deference to findings of fact is also extended where, as in *Dennison,* no jury was present at the trial level. However, there the "clearly erroneous" standard of review is used[12]. Not only is it less deferential, but, also, the depth of review tends to vary more than with the "substantial evidence" standard.

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[8] Indeed, the distinction rests on the same operational definition: questions of adjudicative fact are the kind traditionally entrusted to juries whereas legislative facts are not. The closest one can come to avoiding circularity is to look at whether a fact is critical only to the outcome of the specific dispute or goes to establishing the rights and duties of the classes of which the parties are merely members. *See generally, e.g.,* B. SCHWARTZ, ADMINISTRATIVE LAW, 213-16 (2d Ed. Little, Brown and Co., 1984).

[9] *See* Railroad Dynamics v. A. Stucki Co., 727 F.2d 1506 (CAFC 1984); Judge Markey, at 1513, appears to use the terms in the alternative. *Compare* their more traditional use, *e.g.,* in Garst v. General Motors Co., 484 P.2d 47 (Kan. 1971); at 63, both the majority and dissent are of interest in that regard.

[10] Thus, the Seventh Amendment commands that "no fact tried by a jury, shall be otherwise re-examined . . . than according to the common law."

Whether one is entitled to a jury trial in patent litigation, by virtue of the Constitution as contrasted with the statute, is another matter altogether. *See, e.g.,* NLRB v. Jones & Laughlin Steel Corp., 301 U.S. 1, 48-49, holding that one is not entitled to a jury trial in an action to award back pay under the National Labor Relations Act. *See also,* Constantino and Master, *The Seventh Amendment Right to a Jury Trial in Complex Civil Litigation . . . ,* 12 AIPLA L.Q. 279 (1985).

[11] *See, e.g.,* Coolley, *Patent Jury Issues . . . ,* 67 J.P.O.S. 3, 4-6 (1985).

[12] *See* note 2, *supra.*

On one end of the spectrum, demeanor evidence is afforded maximum deference — apparently for the simple reason that any reviewing body would be hard pressed to justify reversal on factual issues which could be resolved only by evaluating the relative credibility of live witnesses[13]. On the other end of the spectrum, much less deference may be afforded to inferences to be drawn from purely documentary evidence. Consider whether a three judge appellate panel is not equipped as well as or better than a single trial judge to assess, for example, the likely consumer impact of an allegedly deceptive advertisement — in the absense, of course, of arguably more probative survey data[14].

When all is said and done, it seems that appellate deference to the findings of judges sitting without juries rests more on efficiency and common sense than anything else. Nevertheless, the Supreme Court, as demonstrated in *Dennison,* and even more so in its 1982 *Inwood Laboratories* decision[15], tends to insist on more than token deference.

"CONSTITUTIONAL FACTS"

Notwithstanding all of the foregoing, and regardless of whether facts may have been initially decided with the aid of a jury, an argument can be made that courts should give above-average scrutiny to cases in which fundamental constitutional interests are at stake. Indeed, the Supreme Court held exactly that in *Bose Corp. v. Consumers Union of United States*[16]. While the decision concerned freedom of speech and product disparagement, not patents, it is still of interest.

In *Bose,* the court held that appellate courts are obligated to exercise independent judgment in determining whether a speaker should be liable to another for mistatements of fact (in this situation, as contrasted with "opinion[17]") concerning the other's products[18]. Further, a commen-

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[13] This is specifically flagged in the Rule; *id.* Indeed, the logic of this proposition extends to situations where the standard of review would otherwise be *de novo; see, e.g.,* First Fed. Savings & Loan Ass'n. v. Fed. Home Loan Bank Bd., 426 F.Supp. 454, 475 (W.D. Ark. 1974), *aff'd.* 570 F.2d 693 (8th Cir. 1978).

[14] *See, e.g.,* Bose Corp. v. Consumers Union United States, 466 U.S. 485, 500 (1984), *rehear. den.,* 467 U.S. 1267. *See also, e.g.,* Fur Information Fashion Council v. Timme, 501 F.2d 1048, 1050-51 (2d Cir. 1974).

[15] Inwood Laboratories v. Ives Laboratories, 456 U.S. 844, 855-56 (1982).

[16] Note 14, *supra.*

[17] *Id.,* 466 U.S., at 490; *see* particularly fn. 4.

[18] The question of whether the *New York Times* standard ought to be applied to a product was not before the court; *see* 466 U.S., at 492.

tator has argued that the reasoning of the decision will make it difficult to restrict the rule to first amendment cases[19]. For that reason, he is critical of the decision. Yet, he argues that *de novo* review of "constitutional facts" found by administrative agencies is nevertheless warranted[20].

It may be of some interest to consider whether findings which deal with patent validity do not fit in either case. At least when no new art is introduced in the litigation, a challenge to validity involves not only issues of constitutional interest (in view of Art. I Sec. 8) but also a collateral challenge to findings of the Patent and Trademark Office.

It is doubtful that the Supreme Court had occasion to consider the implications of a collateral challenge to factual findings of one of the oldest (if not the oldest) U.S. administrative agencies. Nevertheless, it may well have had *Bose* (consciously or unconsciously) in mind when it remanded *Dennison.*

If the CAFC, or ultimately the Supreme Court, believes that extraordinary review of facts in patent cases is warranted, consideration should be given to whether the "constitutional fact" doctrine might be usefully extended to appellate review of patent validity. While patent attorneys are fond of referring to the constitutional underpinnings of the patent system, it is a rare case which turns on them[21]. Moreover, it is doubtful that any Supreme Court decision involving validity ever did.

Even the 1850 case which is often regarded as the genesis of the non-obviousness requirement was not based on the Constitution[22]. On the contrary, and notwithstanding a dissent claiming otherwise[23], Justice Nelson did not admit to adding a new hurdle for patentees — much less

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[19] Monaghan, *Constitutional Fact Review,* 85 COLUM.L.REV. 229, 238 (1985).

[20] *Id.,* at 276.

[21] *See e.g.,* Sears, Roebuck & Co. v. Stiffel, 376 U.S. 225, 228-31 (1964). *See also* Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470, 479-93 (1974). Yet neither case is based on the patent clause; both rest on the supremacy clause. Indeed, in *Sears,* at 231, "limited times" for patents is discussed as reflecting *Congressional* policy!

[22] Hotchkiss v. Greenwood, 52 U.S. 248.

[23] 52 U.S., at 267; there, Justice Woodbury argued that the proper test was whether the invention was "new, and better and cheaper," not whether "an ordinary mechanic could have devised it."

one mandated by the Constitution. Indeed, he insisted that mere novelty, even coupled with market success, had long been inadequate to support a valid patent[24].

Thus, the first Supreme Court allusion to constitutional interests being involved in generating standards of patentability does not seem to have occurred until the 1950 *A&P* case[25] — almost exactly a century later. Moreover, it arose in the context of the court's addressing the scope of appellate review in patent cases.

In that case, the Supreme Court was skeptical of the merits of a patent which had been found valid by two lower courts. While the court had adopted a rule that it would not re-examine findings of fact consistently made by two lower courts, it nevertheless found the patent invalid. The majority maintained, however, that it was reversing because the wrong legal standard had been applied[26].

The most noteworthy aspect of the case, for present purposes, is a concurring opinion in which Justice Douglas was joined by Justice Black[27]. There, it was argued that the *A&P* majority would have been justified in reversing the facts notwithstanding the two-court rule. Justice Douglas reasoned that validity is a question of law because[28] "The standard of patentability is a constitutional standard; and the question of validity is a question of law." For authority he cited *Mahn v. Harwood*[29], an 1884 case in which the Supreme Court was reviewing a decision of the Commissioner of the Patent Office. However, *Mahn* merely points out that, while the Commissioner might be entitled to some deference on questions of fact, courts have no need to defer on questions of law[30] — hardly an earth-shaking proposition, then or now[31].

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[24] He even discussed, without citing, an earlier case in which he had been involved. As Justice Nelson describes it, that case was, indeed, very similar; in it, a patent on a button using a wooden rather than a more expensive bone foundation had been found invalid.

[25] Great Atlantic and Pacific Tea Co. v. Supermarket Equipment Corp., 340 U.S. 147.

[26] *Id.*, at 153-4.

[27] *Id.*, at 154.

[28] *Id.*, at 155; *fn. omitted.*

[29] 112 U.S. 354, 358.

[30] *Id.*

[31] However, one will occasionally confront circumstances where there is deference to administrative decisions on both facts and law. *See, e.g.*, Pittston Stevedoring Corp. v. Dellaventura, 554 F.2d 35, 49-50 (2d Cir. 1976); therein Judge Friendly discusses and attempts to rationalize two conflicting lines of authority.

Had the *Graham* court cited to Justice Douglas' opinion in *A&P*, it would have been helpful in understanding what was meant by calling validity a question of law[32]. Nevertheless, the explicit constitutional origins of the patent system, perhaps coupled with the fact that an evaluation of validity may involve collateral review of administrative action, could serve as a basis for *de novo* review of questions of fact. Whether the constitutional fact doctrine or anything else should be used to that end, however, is another question altogether. Before attending to it, a closer examination of obviousness may be useful.

IS OBVIOUSNESS A SPECIAL CASE?

Whatever the CAFC decides about the appropriate standard of review for obviousness, it ought also to discuss whether that standard should differ from that applied to other requirements for a valid patent — and, if so, why. While obviousness was the primary concern in *Graham,* the decision calls *validity* a question of law, and the characterization is not limited to the nonobviousness requirement — notwithstanding that non-obviousness was the primary issue in that and the companion cases. Nevertheless, obviousness has been singled out for special treatment in the CAFC, and it should attempt to justify that difference[33].

It might try to do so based on the origins of the nonobviousness requirement. Yet, even if non-obviousness had been found in *Hotchkiss*[34] to be constitutionally mandated, an implicit requirement would hardly be more important than the utility requirement, which is about as explicit as the Constitution gets[35]. Thus, even if the "constitutional fact" doctrine were to be seized upon to justify a higher level of appellate review, obviousness would not stand out.

The CAFC might also attempt to distinguish obviousness on the basis of its technical difficulty and the tendency of fact finders to see inventions as obvious through the use of hindsight[36]. It can be freely granted

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[32] Note 4, *supra.*

[33] For a discussion of which issues have been called "law" and which "fact," *see* Hofer, *The CAFC and Fact/Law Questions in Patent Cases . . .* , 12 AIPLA L.Q. 295 (1985). Indeed, everything except issues of obviousness and claim construction appear to be treated as questions of fact.

[34] Notes 22-24 and discussion, *supra.*

[35] The reference is to the word, "useful," in the term, "useful arts." Yet, even Brenner v. Manson was not decided on this basis; *see* 383 U.S. 519, 529, 535 (1966).

[36] *See, e.g.,* the CAFC decision in *Dennison,* 744 F.2d 1082, 1091-93 (1985).

that obviousness is the most technically difficult issue in patent litigation. Still, neither that nor the tendency to Monday-morning quarterback should any more justify extra-ordinary appellate review than it would justify withholding obviousness (or, for that matter, medical malpractice) from the jury altogether[37].

Perhaps the court can devise yet another reason. If not, it will be hard pressed to justify closer scrutiny of the record with respect to nonobviousness as compared with the other requisites to a valid patent.

THE BOTTOM LINE

The CAFC, of course, has full control of issues of patent law, subject only to legislative and Supreme Court oversight. When reviewing infringement litigation, whether there is a jury or not, it has the capacity, for example, to correct for the application of erroneous legal standards, to expand the application of principles, or to carve out exceptions to rules, as necessary[38].

It also has the power to correct clear errors in resolving issues of fact. Its power is even greater where no jury is involved and/or factual issues primarily turn on documentary evidence[39]. Yet, regardless of the standard of appellate review, it cannot second-guess the resolution of disputes which center on the relative credibility of witnesses, expert or otherwise. If a case turns on the latter, irrespective of other characterizations of the issue, it is very difficult to justify reversal[40].

If closer review of certain issues of fact seems justified notwithstanding, e.g., problems with demeanor evidence, perhaps on the basis of (often correct) judicial intuition, it behooves the CAFC to confront the issue squarely. It could turn out, on closer inspection, that such review is unwarranted or, if warranted, falls within a recognized exception. It is possible, too, that a new theory may need to be evolved to explain a new exception. The worst that could happen would be to fail to deal with the issue head on. That would leave trial courts and the bar guessing. It would also seem to encourage unduly the inefficient practice of reliti-

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[37] However, the answer to the question is by no means clear. *See, e.g.,* Constantino and Master, note 10, *supra.*

[38] *See generally,* L. CARTER, REASON IN LAW (2d Ed. Little, Brown & Co., 1984).

[39] *Bose,* note 14, *supra.*

[40] *See, e.g.,* the 1st Circuit decision in *Bose;* 692 F.2d 189, 195. *See also* note 13, *supra.* Nevertheless, credibility appears to have played a minor role in *Dennison; see* 774 F.2d, at 1090, fn. 14.

gating issues in a setting which would not have been appropriate for dealing with them in the first instance[41].

Should review more intensive than permitted under Rule 52(a) be somehow justified for one or more of the requirements for a valid patent, calling issues ones of "law" changes nothing and merely confuses the problem. Indeed, the "constitutional fact" doctrine would probably be a superior means to the end. It would highlight the need for intense appellate review of the record without concealing the essential nature of the issue; in short, it would serve the needs of both form and function[42].

Regardless of the outcome, everyone should appreciate an honest attempt to grapple with an issue which has been in limbo far too long. In *Dennison,* the CAFC has an opportunity to shape the very foundations of patent litigation. It is to be hoped that the court will see fit to rise to the occasion[43].

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[41] Again, this more than anything else seems to underlie Rule 52(a). *See also,* Preemption Devices v. Minn. Mining and Mfg. Co., 732 F.2d 903 (CAFC, 1984).

[42] However, it would seem to open the record as much to Supreme Court as to CAFC review. This may well have been what Justice Douglas had in mind in *A&P; see* notes 27-29 and discussion, *supra.*

[43] It would be fairly easy to evade the issue if the court were so inclined. Not only did credibility play a minor role in the bench trial (note 40, *supra*), but the CAFC could also ascribe reversal to purely legal errors. *See, e.g.,* 774 F.2d, at 1097, where it was held that the trial court had given too little weight to the presumption of validity.