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Supreme Court Rules USPTO Can Not Recover Attorney's Fees as "Expenses" in Patent Cases Appealed to District Court – Are Trademark Cases Next?

Peter v. NantKwest, Inc.

In a case with potentially significant implications for parties seeking to appeal trademark decisions by the Trademark Trial and Appeal Board (TTAB), the U.S. Supreme Court unanimously ruled that the Patent Trial and Appeal Board (PTAB) cannot recover the salaries of lawyers and paralegal employees of the U.S. Patent and Trademark Office (USPTO) as part of the "expenses of the proceedings" in district court actions seeking de novo review of USPTO decisions under Section 145 of the Patent Act. While the specific question before the Court was whether "expenses" in Patent Actions under Section 145 includes attorneys' fees, the Lanham Act, which governs federal trademark actions in the USPTO, includes an almost identical provision.

Section 145 of the Patent Act

Patent applicants have two options when faced with an adverse PTAB decision. Applicants can appeal to the U.S. Court of Appeals for the Federal Circuit, which reviews the challenged decision on the same administrative record that was before the USPTO. Under Section 145 of the Patent Act, applicants can seek de novo review of the decision, which includes the right to introduce new evidence through a civil action in U.S. district court. Because Section

145 proceedings can be—and often are—far more extensive and protracted than Federal Circuit appeals, Section 145 provides that "[a]ll the expenses of the proceedings shall be paid by the applicant."

In 2013, the USPTO instituted a policy that expanded its interpretation of expenses, in both patent and equivalent trademark cases, to include attorney fees—the pro rata share of the salaries of the USPTO lawyers and paralegals working on these cases. The circuit courts are split on the issue. The Fourth Circuit has ruled that the policy is a fair interpretation of the Patent Act, while the Federal Circuit has held that it violates the so-called American Rule—that, in the absence of a statute of contract providing otherwise, each party pays its own attorneys' fees.

Peter v. NantKwest, Inc.

After the USPTO denied its patent application related to immunotherapy to treat cancer, NantKwest commenced a Section 145 proceeding in the Eastern District of Virginia. The district court granted summary judgment to the USPTO, and the Federal Circuit affirmed. The USPTO moved for reimbursement of expenses from NantKwest, including the pro rata salaries of the government attorneys and paralegal who worked on the case. The district court denied the motion as to the salaries, concluding that the

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relevant Section 145 language was not clear enough to rebut the American Rule. A divided Federal Circuit panel reversed, concluding that the term “expenses” in Section 145 authorized an award of fees, but the en banc Federal Circuit sua sponte voted to rehear the case and reversed the panel. It held that the plain text and statutory history of Section 145, the judicial and congressional understanding of similar language, and overarching policy considerations did not evidence a specific and explicit directive from Congress to overcome the American Rule presumption and shift the attorneys’ fees.

The Supreme Court granted certiorari and affirmed the Federal Circuit’s conclusion that Section 145 does not overcome the presumption that the American Rule applies.

Writing for the unanimous Court, Justice Sonia Sotomayor began by rejecting the government’s argument that the American Rule presumption does not apply to Section 145 because it applies only to statutory awards of fees to prevailing parties, and Section 145 requires the patent appellant to pay all expenses—regardless of outcome. The Court noted that it has never indicated that any statute is exempt from the American Rule presumption, nor limited its inquiries to statutes awarding fees to the prevailing party. In fact, Justice Sotomayor cites to “a line of precedent” addressing statutes that deviate from the American Rule regarding fee awards to other than prevailing parties.

Justice Sotomayor also stated that to deviate from the American Rule, Congress must provide a “specific and explicit” indication of that intent, and that the plain language of Section 145 and its reference to “expenses” does not “invoke attorneys’ fees” with the requisite clarity. Acknowledging that various definitions of expenses could be broad enough to encompass attorneys’ fees, the Court found that the lack of language excepting attorneys’ fees is not enough to specifically or explicitly authorize the shifting of fees. The complete phrase “expenses of the proceeding”

also indicates classes of expenses in litigation “that would not have been commonly understood to include attorney’s fees” at the time Congress enacted the statute more than 170 years ago, and even the use of “all” to modify expenses isn’t enough to expand the category beyond what it would otherwise commonly encompass.

The Court also found that “in common statutory usage, the term ‘expenses’ alone has never been considered to authorize an award of attorney’s fees with sufficient clarity to overcome the American Rule presumption” and that the history of the Patent Act “reinforces that Congress did not intend to shift fees in [Section] 145 actions.” In fact, as Justice Sotomayor noted, “there is no evidence that the Patent Office, the [US]PTO’s predecessor, originally paid its personnel from sums collected from adverse parties in litigation, or that the Office initially even employed attorneys.” Finally, citing to other sections of the Patent Act, the Court noted that where Congress intended to provide for attorneys’ fees, it stated so explicitly.

The Lanham Act and Trademark Cases

While *NantKwest* involved the interpretation of the Patent Act, it is likely to impact trademark litigants, because Section 1071 of the Lanham Act is nearly identical to Section 145 with respect to allocation of fees. Section 1071 provides for two analogous avenues of review of adverse TTAB decisions and requires that litigants pay “all the expenses of the proceeding” in de novo review actions in district court. In its 2015 decision in *Shammas v. Focarino*, the Fourth Circuit interpreted Section 1071 to include the USPTO’s attorneys’ fees, concluding that “the imposition of all expenses on a plaintiff in an ex parte proceeding, regardless of whether he wins or loses, does not constitute fee-shifting that implicates the American Rule but rather an unconditional compensatory charge imposed on a dissatisfied applicant who elects to engage the PTO in a district court proceeding.”

The Supreme Court may take up the issue in a subsequent trademark case decided by the Fourth Circuit. The Court has already granted the USPTO's petition for certiorari in *Booking.com BV v. Iancu*, agreeing to review the Fourth Circuit's determination that travel website Booking.com is entitled to register "booking.com" as a federal trademark for its online hotel reservation services. (Read our alert on the Booking.com case [here](#).) In that case, the Fourth Circuit affirmed the lower-court decision and awarded the USPTO expenses—including attorneys' fees—despite the fact that Booking.com prevailed in its case. Booking.com filed a separate writ of certiorari on the fee issue, on which the Court has yet to rule.

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