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PERSPECTIVE

Will the US Supreme Court curtail the USPTO's fee grab?

By Bobby Ghajar and Marcus Peterson

In the coming months, the United States Supreme Court will decide whether the U.S. Patent and Trademark Office is entitled to collect attorney fees when an applicant challenges the USPTO's denial of a patent by initiating litigation in a district court. Under the current practice, the USPTO will seek compensation for its fees incurred in defending its decision in the district court under a statute allowing it to recover "all expenses of the proceedings" — even when its decision is overruled. The Supreme Court heard oral argument last month in the case of *Peter v. Nantkwest*, which will determine whether that practice is authorized by Congress. Given the statutory language, the importance of the so-called "American Rule" to the issue of fee shifting, and the public policy benefits of preventing government overreach, the Supreme Court is likely to conclude that the USPTO's attempt to recover attorney fees is impermissible.

When this case began, it seemed an unlikely candidate to create Supreme Court precedent. Initially, Nantkwest's predecessor-in-interest filed a patent application for a method for treating cancer. The USPTO denied the application, and Nantkwest appealed the decision to the District Court for the Eastern District of Virginia (instead of the U.S. Court of Appeals for the Federal Circuit), as permitted by 35 U.S.C. Section 145. The district court affirmed the USPTO's denial of the patent. The USPTO then requested all of its costs, expert fees and attorney fees under Section 145, which permits it to recover "all expenses of the proceedings." Although the district court awarded costs and expert witness fees, it denied the USPTO's request for over $78,000 in attorney fees, finding that they were not within the "expenses" included in Section 145.

The USPTO appealed the fee ruling to the Federal Circuit, which reversed the district, finding the USPTO was entitled to its attorney fees and that the "American Rule" (under which each party bears their own fees) was inapplicable. However, the Federal Circuit decided *sua sponte* to rehear the case *en banc* and overruled the panel. It reasoned that the American Rule forbids fee shifting absent a "specific and explicit" directive from Congress, and since the "all expenses of the proceeding" language does not specifically include attorney fees, the USPTO cannot recover them. The USPTO appealed to the Supreme Court, which granted cert.

The language "all expenses of the proceeding" in Section 145 was included to put all of the costs of appealing to the Eastern District of Virginia district court on the patent applicant. Under the Patent Act, an applicant has two means of appealing a refusal: It can appeal directly to the Federal Circuit, based on the record before the USPTO under Section 141, or it can appeal to the Eastern District of Virginia, giving it the ability to engage in discovery, motion practice, and trial under Section 145. Because of the added cost of an appeal to the Eastern District, the Patent Act requires applicants to pay for the expenses incurred in that proceeding — win or lose. Indeed, as it was originally enacted in 1839 (as Section 10 of the Patent Act), an applicant was required to pay "the whole of the expenses of the proceeding…whether the final decision shall be in his favor or otherwise." The USPTO has since relied on this provision to recover travel expenses to attend depositions, printing expenses, court reporter fees, and reasonable fees for expert witnesses. For more than 170 years, however, (until 2013) the USPTO did not use this provision to pursue attorney fees, a point that the solicitor general noted in oral argument was an "atmospherically bad fact."

Given the statutory language, the importance of the so-called "American Rule" to the issue of fee shifting, and the public policy benefits of preventing government overreach, the Supreme Court is likely to conclude that the USPTO's attempt to recover attorney fees is impermissible.

The Federal Circuit's *en banc* decision rested largely on the American Rule, which provides that litigants pay their own attorney fees, absent a "specific and explicit" directive from Congress. This is in contrast to the so-called "British Rule" that allows a prevailing party to recover attorney fees in most instances. As the Federal Circuit pointed out, the American Rule "traces its origins back to at least the late 1700s." In *Arcambel v. Wiseman*, the circuit court included $1,600 in counsel's fees as part of the damages. 3 U.S. (3 Dall.) 306, 306(1796). The assessment of attorney fees, the Supreme Court concluded, could not be allowed because the "general practice of the United States is in opposition to it; and even if that practice were not strictly correct in principle, it is entitled to the respect of the court, till it is changed, or modified, by statute." The Supreme Court has consistently upheld the American Rule, noting, for example, that ""[T] he law of the United States ... has always been that absent explicit congressional authorization, attorney fees are not a recoverable cost of litigation." *Runyon v. McCrary*, 427 U.S. 160, 185 (1976). Accordingly, the Federal Circuit found that the "all expenses" language of Section 145 did not explicitly include attorney fees, and that under the American Rule, the USPTO could not recover them.

During oral argument on Oct. 7, the justices seemed skeptical of the USPTO's position. Justice Ruth Bader Ginsberg asked whether there is "any other federal statute that provides for attorney fees on the basis of the word 'expenses' alone," to which the government had to admit there was not. Justice Neil Gorsuch inquired whether there is "anything that would inhibit the government from suggesting that other forms

of overhead might also be allocated to litigants? The electric bill? The sewage bill? Other things that were required in order to be able to litigate these cases," suggesting the extreme lengths to which the USPTO's interpretation might extend. As to the most criticized aspect of the USPTO's interpretation of the rule — that it could obtain attorney fees even when it loses — Justice Brett Kavanaugh asked, "What sense does it make to think that Congress wanted the winning party to turn around and pay the government's legal fees, given how unusual that is?"

The Supreme Court should affirm the Federal Circuit and find that the USPTO is not entitled to recover attorney fees under Section 145. Its decision need not rely on the American Rule; instead, it can determine that "expenses" does not mean attorneys' fees under the clear language of the statute. As Nantkwest observed, legal dictionaries from and around 1839 (when Section 10 was first written) defined "expenses" as "costs" that could be awarded to a prevailing party. According to Nantkwest, there are over 3,000 statutes that award "expenses" yet none of them include attorney fees. Even the USPTO itself did not interpret "expenses" to include attorneys' fees for over 170 years. Other provisions of the Patent Act allow for fee shifting by specifically mentioning attorney fees; if Congress intended Section 145 to allow for fee-shifting, it could, and presumably would, have said so. For these reasons, it is logical to conclude that Congress did not intend for Section 10 or Section 145 to cover the USPTO's attorney fees.

To the extent the statutory language is ambiguous, that is more reason to apply the American Rule, which prohibits fee shifting absent a "specific and explicit" directive from Congress. As the Federal Circuit held *en banc,* and the justices appeared to recognize in oral argument, an ambiguous reference to "expenses" is not a "specific and explicit" directive from Congress to award attorney fees.

From a policy perspective, the Supreme Court should likewise affirm for several reasons. First, it would be a significant deviation from the American Rule to allow the USPTO to recover fees even when it wrongly denies a patent and loses a trial in district court over patentability. Although the USPTO argues that it is unfair for patent application fees paid by other applicants to go towards district court litigation involving an unrelated party, it seems even more unfair to require that a prevailing patent applicant pay for an erroneous decision by the USPTO. Second, the purpose behind the American Rule is to promote access to courts, allowing a party to pursue claims in good faith without the risk of paying the other side's attorney fees if it loses. Given the already high cost of obtaining a patent, adding the salaries of USPTO employees called to represent the agency in a trial may be cost prohibitive, which would deny those applicants the ability to pursue a patent. This result is the exact opposite of what early American jurisprudence intended. Third, deciding that "expenses" includes attorney fees would likely have far-ranging implications for the thousands of *other* federal rules and statutes that allow for recovery of "expenses." That, in turn, could lead to litigation over language in other rules and statutes that have been understood and unchallenged for decades.

The Supreme Court should affirm the Federal Circuit, find that "expenses" does not include attorney fees unless they are referenced specifically, and prevent the USPTO from recent, and unprecedented, attempt to recover attorney fees. ■

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