Cooley

Supreme Court Rejects USPTO's Attempt to Extract Legal Fees for District Court Appeals

December 12, 2019

On December 11, 2019, the US Supreme Court issued a unanimous order in *Peter v. NantKwest,* holding that a statute allowing the USPTO to recover "expenses" for appeals of patent refusals to a district court does not allow the USPTO to recover attorneys' fees. While the statute allowing the recovery of "expenses" existed for many decades, it was not until 2013 that the USPTO began to interpret "expenses" to include attorneys' fees – whether the USPTO won or lost. Following the American Rule for legal fee-shifting, the Supreme Court decided that the statute's reference to "expenses" was not clear enough to demonstrate congressional intent to set aside the American Rule and allow the USPTO to recover attorneys' fees under the statute.

Background

NantKwest is a clinical-stage immunotherapy company. In 2001, NantKwest's predecessor-in-interest filed a patent application for a method for treating cancer. After years of examination, the USPTO denied the application on obviousness grounds and NantKwest appealed the decision to the District Court for the Eastern District of Virginia, as permitted by 35 U.S.C. §145. Under the Patent Act, an applicant can appeal a refusal directly to the Federal Circuit, based on the record before the USPTO under §141, or it can appeal the decision to the Eastern District of Virginia under §145, giving it the ability to engage in discovery, motion practice and trial. Because of the additional expense of an appeal to the Eastern District, the Patent Act requires applicants to pay for "the whole expenses of the proceeding" – win or lose. 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 150 years,the USPTO did not use this provision to pursue its attorneys' fees, until 2013.

In the instant case, after the district court affirmed the USPTO's denial of NantKwest's patent, the USPTO requested all of its costs, expert fees and attorneys' fees under §145. The district court awarded costs and expert witness fees, but denied the USPTO's request for over $78,000 in attorneys' fees, finding that they were not within the "expenses" included in §145 given that the so-called American Rule includes a presumption that litigants pay their own attorneys' fees.

The USPTO appealed the fee ruling to the Federal Circuit, which reversed the district court, finding the USPTO was entitled to its attorneys' fees and that the American Rule was inapplicable. The Federal Circuit later 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 "all expenses of the proceeding" language does not specifically include attorneys' fees, the USPTO cannot recover them. The USPTO appealed to the Supreme Court.

Supreme Court's ruling

In a unanimous decision, the Supreme Court affirmed the Federal Circuit's *en banc* decision. Justice Sotomayor, writing for the court, noted that the American Rule is a "bedrock principle" that each litigant "pays his own attorneys' fees, win or lose, unless a statute or contract provides otherwise." The Supreme Court flatly rejected the USPTO's position that the American Rule applies only in situations where the prevailing party can recover fees, citing to a "line of precedents" addressing situations in which the

American Rule does not limit attorneys' fees only to the prevailing party.

The Supreme Court also explained that §145's reference to "expenses" does not "invoke attorneys' fees with the kind of clarity we have required to deviate from the American Rule." Justice Sotomayor cited law dictionaries from the 1800s that included definitions of "expenses of the litigation" without reference to attorneys' fees; the "record of statutory usage" in which "expenses" and "attorneys' fees" appear together in various fee-shifting statutes, suggesting they are separate; and the history of the Patent Act itself.

Key takeaways

This decision impacts not only patent applicants, but trademark applicants as well, as the USPTO had attempted to recover attorneys' fees for similar trademark appeals. Even though the Supreme Court decision did not include the corollary trademark statute, the same rationale should apply. In light of the Supreme Court's ruling, the USPTO cannot recover attorneys' fees when a patent or trademark applicant appeals a refusal to the district court, whether it wins or loses. However, the USPTO remains entitled to expenses such as travel, copying costs and reasonable expert witness fees.

This decision preserves one of the original aims of the American Rule – to maintain access to the courts by not allowing the specter of attorneys' fees to dissuade a party from seeking redress. Patent and trademark applicants need not worry that a decision to seek review of a USPTO refusal in the district court will expose them to the USPTO's attorneys' fees, regardless of the outcome.

The decision is *Peter v. NantKwest, Inc.*, No. 18-801 (U.S. Dec. 11, 2019).

Key Contacts

Bobby Ghajar Santa Monica	bghajar@cooley.com +1 310 883 6404
