Federal Circuit Denies PTO Attorneys' Fees

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On July 27, 2018, the Federal Circuit ruled that a patent applicant's obligation to pay the U.S. Patent and Trademark Office's (PTO) "expenses" for district court proceedings to review patent application rejections does not include the PTO's attorneys' fees. The decision is a significant divergence from the U.S. Court of Appeals for the Fourth Circuit's ruling in *Shammas v. Focarino*, 784 F.3d 219 (4th Cir. 2015), which compelled trademark applicants to pay the PTO's attorneys' fees under a parallel provision in the Lanham Act.

Background

When a PTO examiner rejects a patent application, the decision is reviewable by the Patent Trial and Appeal Board (the Board). If the Board affirms the examiner's rejection, the applicant has two options: (1) under Section 141 of the Patent Act, the applicant may appeal to the U.S. Court of Appeals for the Federal Circuit; or (2) under Section 145, the applicant may file a civil action against the director of the PTO in the U.S. District Court for the Eastern District of Virginia. If the applicant chooses *de novo* district court review, the patent applicant is permitted to conduct discovery, call witnesses and supplement the record that was before the Board. In contrast, if the applicant pursues an appeal to the Federal Circuit, the applicant is limited to having its case review on the record that was presented to the Board. Because a *de novo* district court proceeding is a more time-consuming process that allows for expansive discovery, the statute also provides that applicants must pay "[a]ll the expenses of the proceedings," regardless of the outcome.

On December 20, 2013, NantKwest filed a Section 145 civil action in the Eastern District of Virginia seeking review of the Board's decision rejecting its patent claims for a method of treating cancer by administering natural killer cells. After the conclusion of the case, the PTO filed a motion seeking "expenses of the proceeding" pursuant to Section 145. As part of these "expenses" the PTO also included "personnel expenses" of the PTO attorneys and paralegals staffed on the case, calculated by prorating each employee's yearly salary based on the number of hours devoted to the district court proceeding.

The district court denied the PTO's motion in part, specifically declining the portion of the request that was identified as attorneys' fees. On appeal, the Federal Circuit reversed. A majority of the panel found that attorneys' fees are included in the term "expenses" in Section 145, citing repeatedly to the Fourth Circuit's opinion in *Shammas*. However, on August 31, 2017, the Federal Circuit *sua sponte* vacated the panel opinion, reinstated NantKwest's appeal, and ordered an *en banc* hearing on the sole issue of whether the panel had correctly determined that Section 145 authorizes an award of the PTO's attorneys' fees.

The Federal Circuit's *En Banc* Decision

In a 7-4 decision, the Federal Circuit sitting *en banc* affirmed the district court and held that Section 145 does not compel applicants to pay the PTO's attorneys' fees. Judge Kara Farnandez Stoll, writing for the majority, explained that the American Rule prohibits courts from shifting attorneys' fees from one party to another absent a "specific and explicit" order from Congress. The court found that the phrase "[a]ll the expenses of the proceedings" does not meet the American Rule's stringent standard of a specific directive from Congress.

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The court rejected the PTO's interpretation that the American Rule only applies where the statute shifts fees from a prevailing party to a losing party. In doing so, the majority strongly criticized the Fourth Circuit's decision in *Shammas*, stating that the decision "cannot be squared with the Supreme Court's line of non-prevailing party precedent applying the American Rule." The majority cited to several Supreme Court cases that have applied the American Rule to provisions that do not require shifting fees from a prevailing party.

The majority also determined that Section 145 did not have the requisite congressional authorization to displace the American Rule. The court found that the phrase "all the expenses of the proceedings" is at best ambiguous as to attorneys' fees, falling far short of the Supreme Court's strict standard of specific and explicit authorization to shift fees. The court determined that neither dictionary definitions nor Congress' various uses of the terms "expenses" could support the interpretation that expenses include attorneys' fees. Specifically, the court noted that Congress has drafted numerous statutes authorizing the award of both "expenses" and "attorneys' fees." In Section 145, Congress provided for recovery of "expenses," not attorneys' fees, but did provide for attorneys' fees in other sections of the Patent Act. The majority determined that "when Congress includes particular language in one section of a statute but omits it in another section of the same Act, it is generally presumed that Congress acts intentionally and purposely in the disparate inclusion or exclusion."

In dissent, Chief Judge Sharon Prost followed the Fourth Circuit's decision in *Shammas* in arguing that the term "all the expenses" includes attorneys' fees. Chief Judge Prost's opinion further chided the majority for creating "an unfortunate and unnecessary conflict between the circuits," referring to *Shammas*. Although *Shammas* was interpreted under the Lanham Act's fee-shifting provision, the language as used in the two statutes is identical. The dissent also noted that the majority did not dispute that "expenses" is broad enough to encompass attorneys' fees, and highlighted that the Patent Act of 1836 originally included the salaries of PTO officers and clerks as "expenses." Notably, the dissent distinguished between the use of outside counsel and internal attorneys in determining attorneys' fees. Chief Judge Prost indicated that the PTO did not seek reimbursement for the fees of outside counsel, but rather it used its own salaried employees that do not bill individual hours for their work or collect fees from whom they represent. Thus, the dissent concluded, "In this context, the overhead associated with the PTO attorneys' work is more aptly characterized as an "expense" to the PTO than what is traditionally considered to be "attorneys' fees."

Looking Ahead for Patent *and* Trademark Applicants

For patent applicants, this decision has eased the burden of seeking district court review of a Board rejection, and provided clarity on the degree of expenses an applicant can expect to incur in association with such a review. Section 145 already disincentivizes district court review by requiring applicants to pay the PTO's expenses. But given the high and often uncertain costs of attorneys' fees, forcing applicants to pay these additional costs would likely eliminate this option for all but the wealthiest applicants. After this decision, more applicants will have the opportunity to utilize the expansive discovery process allowed under Section 145 that is not available under the alternative appeals procedure provided by Section 141.

However, this decision also creates a circuit split that may ultimately be resolved by the Supreme Court. If the Supreme Court eventually rules on this issue, it will likely also implicate the procedure for review of trademark applications as addressed in *Shammas*. Accordingly, while for now both patent and trademark applicants have a clear understanding of whether attorneys' fees may be recovered after district court review, an eventual Supreme Court decision may be needed to bring these two now-disparate situations in line with one another.