

Supreme Court Issues Unanimous Ruling Denying PTO Attorneys' Fees for Section 145 Actions

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On December 11, 2019, in *Peter v. NantKwest, Inc.*, 589 U.S. ___ (2019), the U.S. Supreme Court issued a unanimous decision holding that the U.S. Patent and Trademark Office (PTO) cannot recover the salaries of its legal personnel as “expenses” for District Court reviews of patent application rejections under Section 145 of the Patent Act. This ruling diverges significantly from, and likely supersedes, the Fourth Circuit’s ruling in *Shammas v. Focarino*, 784 F.3d 219 (4th Cir. 2015), which held that trademark applicants were required to pay the PTO’s attorneys’ fees as “expenses” for District Court proceedings reviewing rejections of trademark applications under a parallel provision in the Lanham Act.¹

Background

When a PTO examiner rejects a patent application, the decision is reviewable by the Patent Trial and Appeal Board (PTAB). If the PTAB affirms the examiner’s rejection, the applicant has two options: (1) under Section 141 of the Patent Act, the applicant may appeal directly 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. Unlike in a direct appeal to the Federal Circuit, a Section 145 District Court proceeding permits the applicant to supplement the factual record via discovery and witness testimony. However, Section 145 expressly provides that applicants must pay “[a]ll the expenses of the proceedings,” regardless of whether the civil action is ultimately successful in overturning the PTAB’s determination.

On December 20, 2013, NantKwest filed a Section 145 action seeking review of the PTAB’s decision rejecting its patent claims for a method of treating cancer. After the District Court affirmed the rejection of the application, and the Federal Circuit affirmed on subsequent appeal, the PTO filed a motion seeking reimbursement of the “expenses of the proceeding” pursuant to the statute. Among the requested “expenses” were “personnel expenses” — *i.e.*, the “fees” for the PTO’s own staff attorneys and paralegals, as calculated by prorating each employee’s yearly salary based on the number of hours devoted to this particular proceeding.

The District Court denied the PTO’s motion to recover its legal fees as “expenses” of the proceeding. On appeal, however, a majority of a Federal Circuit panel reversed, finding the term “expenses” covered the salaries of the PTO’s staff attorneys involved in the matter. The dissent argued that Section 145 must be analyzed against the backdrop of the “American Rule,” *i.e.*, the presumption that each litigant bears its own attorney’s fees unless there is express statutory authorization to the contrary. On August 31, 2017, the Federal Circuit voted *sua sponte* to rehear the case and reversed the panel decision. The dissenting panel jurist, writing for the majority, held that Section 145 cannot overcome the American Rule presumption against fee-shifting and that the reference to “expenses” does not contemplate attorney’s fees.

The Supreme Court’s Decision

In a unanimous decision authored by Justice Sonia Sotomayor, the U.S. Supreme Court affirmed the Federal Circuit’s most recent decision, determining that Section

¹ On behalf of the International Trademark Association, Skadden attorneys — including certain of the authors of this client alert — filed *amicus curiae* briefs in both *NantKwest* and *Shammas*, supporting the now-prevailing position that attorneys’ fees do not qualify as “expenses” under the relevant provisions of the Patent Act and Lanham Act.

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145 does not entitle the PTO to attorney's fees as part of the "expenses" paid by the patent applicant.

The Court explained that, as an initial matter, its "basic point of reference" when considering the award of attorney's fees is the bedrock principle known as the 'American Rule.'" The Court made clear that the American Rule applies not only to provisions purportedly permitting an award of attorney's fees for the prevailing party, but also to any provision that requires one party to pay the opposing party's legal fees.

The Court then rejected the proposition that the language of Section 145 indicated a congressional intent to depart from the American Rule. The Court found that "the reference to 'expenses' in § 145 does not invoke attorney's fees with the kind of 'clarity we have required to deviate from the American Rule.'" Although the colloquial understanding of "expenses" could encompass attorney's fees, the reference to "expenses of the proceeding" conveyed the concept of *expensae litis* ("expenses of the litigation"), which has long referred to a class of litigation expenses that excludes attorney's fees. In addition, the Court reviewed numerous other statutes where attorney's fees awards are intended to be a subset of "expenses," concluding that those fees are expressly identified in the statutory language.

Finally, the Court held that the Patent Act's history also illustrated that Congress did not intend to overcome the American Rule presumption and authorize fee-shifting for Section 145 actions. The Court noted that, until extremely recently, the PTO had never sought reimbursement of its personnel's salaries as part of expenses in the 170-year history of Section 145. The Court also contrasted Section 145 to other provisions in the Patent Act that expressly permit a court to award attorney's fees

as further evidence that Congress did not intend Section 145 to be a fee-shifting provision.

Looking Ahead for Patent and Trademark Applicants

For patent applicants, this decision has provided clarity on the degree of expenses an applicant can expect to incur in association with a *de novo* District Court review of a registration denial. Given the high and often uncertain costs of attorneys' fees, requiring payment of these additional costs would have risked eliminating the District Court review option for all but a small portion of patent applicants. Accordingly, the *NantKwest* decision will ensure a greater opportunity for patent applicants to supplement the factual record and seek District Court relief in challenging PTAB rejections.

The ruling also makes the option of a District Court review (and supplementation of the factual record) of rejections of trademark applications by the Trademark Trial and Appeal Board (TTAB) more viable. Section 21(b) of the Lanham Act parallels Section 145 of the Patent Act, creating a similar District Court review proceeding and using the same statutory language requiring payment by the applicant of "all the expenses of the proceeding." In 2015, the Fourth Circuit ruled in *Shammas v. Focarino*, 784 F.3d 219 (4th Cir. 2015), that Section 21(b) required an applicant to pay attorneys' fees as part of those "expenses," rejecting the application of the American Rule just as the Federal Circuit did in its initial reversal in *NantKwest*. But given the virtually identical language used in the Patent Act and Lanham Act, the *Shammas* result likely will no longer stand, and trademark applicants seeking to challenge the TTAB's refusal to register a trademark in District Court will not have the further disincentive of having to reimburse the PTO's personnel's salaries.