Attorneys' Fees Denied to the U.S. Government in Patent Cases May Also be Denied in Trademark Cases

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The U.S. Supreme Court unanimously refused to permit the U.S. Patent and Trademark Office ("USPTO") to recover its attorneys' fees as "expenses" under a provision of the Patent Act, in a decision likely to affect a similar provision of the Trademark Act.

Two Routes to Appeal

A patent applicant who is dissatisfied with an adverse decision by the USPTO's Patent Trial and Appeal Board ("PTAB") has two mutually exclusive options to seek a review of that decision:

1. Appeal to the United States Court of Appeals for the Federal Circuit under Section 141 of the Patent Act, 35 U.S.C. § 141. The Federal Circuit will review the case on the record that was before the USPTO.

2. File a civil action in U.S. District Court for the Eastern District of Virginia against the Director of the USPTO under Section 145 of the Patent Act, 35 U.S.C. 145. This approach permits the applicant to present new evidence, and the district court makes a fresh determination based on this expanded record. The district's court's decision may be further appealed to the Federal Circuit.

Regarding district court review, Section 145 of the Patent Act provides that "All of the expenses of the proceedings shall be paid by the Applicant." For the first time in over 170 years, since the predecessor of § 145 was enacted in 1839, the USPTO in this case took the position that "expenses" included its attorneys' fees.

Background of Patent Case

The PTAB had affirmed the denial of NantKwest Inc.'s patent application directed to a method for treating cancer. NantKwest filed a civil action in the Eastern District of Virginia against the USPTO Director under Section 145 of the Patent Act. The district court granted summary judgment in favor the USPTO, and NantKwest appealed to the Federal Circuit, which affirmed.

The USPTO then moved in the Virginia district court for reimbursement of its expenses under § 145, including a portion of the salaries of USPTO attorneys and a paralegal who worked on the case, totaling $78,000. The district court denied the USPTO's fee application, but that decision was reversed on appeal by a panel of the Federal Circuit, with one judge dissenting. The Federal Circuit judges, without a motion, voted to have the question of attorneys' fees reheard by the full court. In an opinion written by the dissenting panel judge, the full Federal Circuit reversed the panel's decision 7-4, affirming the district court's denial of attorneys' fees. The USPTO petitioned the U.S. Supreme Court to hear this case, and it affirmed the full Federal Circuit's denial of attorneys' fees.

The Supreme Court Patent Decision

The Supreme Court held that the USPTO's efforts to collect attorneys' fees under the language of § 145 violated the "American Rule," which is a presumption that, absent a statute or contract providing otherwise, each party pays its own attorneys' fees, win or lose. The Court held that the plain language of §145 ("[a]ll the expenses of the proceeding shall be paid by the applicant") was insufficient to overcome this presumption.

In the unanimous opinion signed by Justice Sotomayor, the Court firmly rejected the USPTO's argument that the American Rule applies only to payment of the loser's attorneys' fees. The Court similarly was unpersuaded by the argument raised by the dissenting Federal Circuit judges, who characterized § 145 proceedings "as an intermediate step in obtaining a patent and the payment of legal fees as a portion of the application costs."

The Supreme Court's decision firmly held that the USPTO cannot recover its attorneys' fees as part of "expenses" under Section 145 of the Patent Act, whether it wins or loses.

Trademark Implications

Although this ruling concerned only patent cases, it seems likely to affect trademark cases as well. Section 21 of the Trademark Act (known as the Lanham Act), 15 U.S.C. § 1071, provides for similar alternative procedures for applicants unhappy with USPTO Trademark Trial and Appeal Board ("TTAB") decisions: (1) appeal to the Federal Circuit, or (2) bring a new civil action in the Virginia district court. The reasons a trademark applicant may choose one route or the other are similar to those in the patent context—a Federal Circuit appeal concerns solely whether the decision is supported by substantial evidence in the existing record, but a district court action allows new evidence to be introduced and considered afresh.

Section 21 of the Trademark Act, 15 U.S.C § 1071(b)(3), contains very similar language to that in the Patent Act regarding expenses: "unless the court finds the expense to be unreasonable, all the expenses of the proceeding shall be paid by the party bringing the case, whether the final decision is in favor of such party or not." This reference to "expenses" in the Trademark Act mirrors the reference to "expenses" in the Patent Act.

Accordingly, it seems likely that the *NantKwest* patent holding will be extended to trademark cases, which will prevent the USPTO from seeking to recover its attorneys' fees in a civil action brought in the Virginia district court for review of a TTAB decision.

Takeaways

The specter of having to pay the government's attorney fees, whether the district court action was successful or unsuccessful, was surely a deterrent to many parties wishing to challenge USPTO patent determinations in district court.

The Supreme Court has now clarified that the USPTO may recover only its "expenses," which may include court reporter fees and expert witness fees, but **do not** include attorneys' fees. This may encourage a patent applicant to take advantage of the district court route in order to supplement the record and receive a fresh determination about its application.

Likewise, dissatisfied trademark applicants may have the same choice without fear of having to pay the USPTO's attorneys' fees.

Peter v. NantKwest, Inc., No. 18-801, 589 U.S. __ (December 11, 2019).

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