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Win or lose, you pay PTO attorneys' fees for challenging decisions in District Court

BY JUDITH GRUBNER OF ARNSTEIN & LEHR ON AUGUST 29, 2017

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When the U.S. Patent and Trademark Office ("PTO") rejects a patent application, the applicant has two options for judicial review. It can either appeal directly to the U.S. Court of Appeals for the Federal Circuit under 35 U.S.C. §141, or file a new ("de novo") civil action against the Director of the PTO in the U.S. District Court for the Eastern District of Virginia under §145. Unlike an appeal, a *de novo* proceeding entitles a rejected applicant to some procedural advantages, such as the ability to conduct discovery and to introduce new evidence, rather than relying solely on the record made before the PTO in prosecuting the patent application.

In order to prevent an abuse of this civil action pathway, §145 also expressly provides that "all the expenses of the proceeding" shall be paid by the applicant, "regardless of the outcome." Traditionally, courts have interpreted the word "expenses" to mean out-of-pocket costs the PTO incurs, such as printing, travel, and expert fees. However, in 2013, the PTO changed its position and began arguing that

"all expenses" included its attorneys' fees. The Federal Circuit has now held that "all expenses" also applies to the PTO's attorneys' fees, regardless of the outcome of the suit.

Nantkwest, Inc. owns a patent application directed to a method of treating cancer by administering natural killer cells. After the examiner rejected the application on obviousness grounds, Nantkwest brought suit against the PTO in the District Court. The court entered summary judgment for the PTO and awarded the PTO expert fees of about $33,000, but denied the PTO's motion for attorneys' fees of about $78,000, based on the "American Rule," which provides that litigants must pay their own attorneys' fees, win or lose, unless a statute or contract explicitly states otherwise. Both parties appealed.

On appeal, the Federal Circuit affirmed the district court's rejection of the patent application in light of two prior inventions that rendered the invention obvious, but reversed the denial of the PTO's request for attorneys' fees. The key issue was whether "all expenses" provided an explicit basis for ignoring the American Rule. In a 2-1 decision, the Federal Circuit held that the phrase "all expenses" in §145 was a specific statement supporting a fee award, even though Congress intentionally imposed a "heavy burden" on applicants by forcing them to bear the PTO's attorneys' fees even if they prevailed I the litigation. The Federal Circuit found support in the ordinary meaning and definition of "expenses" in legal dictionaries and treatises, defined as any expenditure of money, time, labor, or resources. In addition, the Federal Circuit relied on prior Supreme Court cases accepting many different terms as explicit support to overcome the American Rule. The Federal Circuit concluded that Congress is not limited to any particular terms or phrases such as "compensation," "fee," or "attorney" to satisfy the American Rule's specificity requirement. In addition, the Federal Circuit rejected Nantkwest's argument that §145 did not apply to salaried government attorneys, finding that §145 entitled the PTO to a prorated share of the compensation it paid its attorneys who worked on the matter, recognizing that their time and labor could have been devoted elsewhere.

Judge Stoll dissented. Relying on the fact that Congress has chosen to award attorneys' fees explicitly in other sections of the Patent Act, she argued that "all expenses" lacked the necessary specificity to overcome the American Rule, which is deeply rooted in U.S. legal tradition and supported by the public policy to protect litigants who might not otherwise be able to afford to sue. Judge Stoll concluded that by failing to mention "attorneys' fees" in § 145, Congress did not intent to include them in the definition of "all expenses." It is enough of a heavy burden to be responsible for the PTO's expert fees, court reporter fees, deposition travel expenses, and printing expenses, Judge Stoll concluded.

This decision mirrors the U.S. Court of Appeals for the Fourth Circuit's ruling in *Shammas v. Focarino*, 784 F.3d 219 (4th Cir. 2015), interpreting a similar Lanham Act provision, 15 U.S.C. § 1071, to include attorneys' fees for the PTO. Although the PTO attorneys are paid by government salaries so that the legal fees incurred may not be as large as those of attorneys in private firms, the *Nantkwest* and *Shammas* decisions still have the practical effect of reducing the desirability of the civil action option in a district court, especially for individual inventors or small companies. It is likely that the civil action route may become obsolete for such parties, absent some unique or extreme circumstances.

In the future, patent and trademark applicants will need to consider the higher potential costs of suing the PTO in district court rather than appealing directly to the Federal Circuit. As the civil action option that allows a full trial is now more costly, patent and trademark applicants must more fully develop the record during prosecution of a patent or trademark application, so that they are better prepared for a direct appeal to the Federal Circuit. That, in turn, will increase the costs of patent and trademark applications.

Source: ***Nantkwest, Inc. v. Matal, 16-1794, U.S. Court of Appeals for the Federal Circuit, June 23, 2017.***

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