USPTO must pay its own attorneys' fees

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On 27 July 2018 the Federal Circuit Court of Appeals *en banc* rejected the USPTO's attempt to obtain attorneys' fees after patent applicants appealed the rejection of an application in a *de novo* civil action. It reversed the earlier decision of a three-judge panel in *NantKwest, Inc v Matal* and expressly rejected the Fourth Circuit Court of Appeals' reasoning for allowing the USPTO to obtain attorneys' fees for appeals against trademark denials.

Background
When the USPTO rejects a patent application, the applicant can either:

- appeal to the Federal Circuit; or
- file a *de novo* civil action against the USPTO in the US District Court for the Eastern District of Virginia under Section 145 of the Patent Act.

The Federal Circuit appeal relies solely on the USPTO record and is therefore more streamlined than the district court, which provides for discovery and the introduction of new evidence.

Section 145 states that "all the expenses of the proceedings shall be paid by the applicant". US courts typically interpret 'expenses' to mean out-of-pocket costs and otherwise apply the 'American rule' to attorneys' fees. The American rule provides that each litigant pays its own attorneys' fees, whether they win or lose. It is considered a bedrock principle of US jurisprudence and may only be displaced by an express grant from Congress.

However, in 2013 the USPTO argued that 'expenses' more broadly includes its attorneys' fees, regardless of the case's outcome. Thus, even if a district court holds that the USPTO has wrongfully denied a patent applicant, the applicant may still owe sizeable attorneys' fees to the USPTO. The USPTO also applied this interpretation to the nearly identical statutory language regarding trademark appeals, which was upheld by the Fourth Circuit's 2015 decision in *Shammas v Focarino*.

Facts
NantKwest, Inc sought a patent relating to a cancer treatment method. The USPTO rejected the claims based on obviousness and NantKwest brought a suit in the District Court for the Eastern District of Virginia. The court granted summary judgment in favour of the USPTO, awarding it $33,000 for expert fees but denying its request for $78,000 in attorneys' fees. The court referred to the long-standing American rule, which dictates that parties must pay their own attorneys' fees unless a statute or agreement provides otherwise.

On appeal, the Federal Circuit panel held in a two-to-one decision that expenses include attorneys' fees, despite the heavy burden that this imposes on applicants even if they win. The dissent pointed to other sections in the Patent Act in which Congress had chosen to expressly award attorneys' fees and argued that 'expenses' lacked the specificity required to overcome the American rule. However, the Federal Circuit *sua sponte* vacated the *NantKwest* panel decision and ordered a rehearing *en banc*.

Decision
The Federal Circuit *en banc* majority viewed this as a straightforward application of the American rule. It rejected the USPTO's contention that the American rule did not apply because, as explained in *Shammas*, "the American Rule only governs the interpretation of statutes that shift fees from a prevailing party to a losing party". The Federal Circuit pointed to a history of Supreme Court decisions that applied the American rule broadly to any status that allows fee shifting, win or lose, as well as numerous other cases that applied the American rule to statutes that do not mention a prevailing party.

After holding that the American rule applied, the majority found that Section 145 of the Patent Act did not provide specific and explicit congressional directive for the award of attorneys' fees. The court pointed to the long history of Congress's usage of 'expenses' and 'attorneys' fees' in other statutes, demonstrating that the ordinary meaning of 'expenses' does not include attorneys' fees. In particular, the majority pointed to the existence of several other provisions in the Patent Act explicitly providing for attorneys' fees.

Four judges dissented, agreeing with the Fourth Circuit majority in *Shammas* and believing that "[a]ll the expenses' includes attorneys' fees".

Comment

The Federal Circuit's *en banc* ruling creates disparity between the circuits over the treatment of appeals from the USPTO under two different statutes using similar language. On the one hand, trademark applicants face the prospect of paying USPTO attorneys' fees, even if they prevail because the USPTO wrongly denied their trademark application. However, patent applicants seeking a *de novo* review of a USPTO patent application decision under Section 145 need not worry about USPTO attorneys' fees.

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