ARE Patent Law Alert:
The US Supreme Court Holds that the USPTO Cannot Be Reimbursed for Salaries of Its Legal Personnel in Appeals Under Â§ 145 of the Patent Act

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Supreme Court of the United States unanimously held in *Peter v. NantKwest, Inc.* that the term "expenses" in 35 U.S.C. § 145 does not include attorney's fees, and that the United States Patent and Trademark Office ("USPTO") cannot recover the salaries of its attorneys and paralegals in appeals brought under that section of the Patent Act. 589 U.S. ___, slip op. (2019).

As background, an adverse decision of the USPTO may be challenged via mutually exclusive pathways created by the Patent Act. "Unlike § 141, § 145 permits the application to present new evidence…not presented to the PTO.'" *NantKwest*, 589 U.S., at ___ (slip op. at 2). A challenge pursuant to § 145 may result in a drawn-out litigation, as there is no limit on an applicant's ability to introduce new evidence. Thus, the Patent Act "requires applicants who avail themselves of §145 to pay '[a]ll the expenses of the proceedings.'" *Id*. Today's ruling clarifies that the phrase "[a]ll expenses" does not mean that parties appealing patent rulings under this provision must also pay pro-rata portions of the salaries of the USPTO attorneys and paralegals involved in such appeals. Accordingly, such appeals will now be considerably more affordable.

The American Rule Applies to All Statutes

When considering the award of attorney's fees, a fundamental principle, known as the "American Rule," states that "each litigant pays his own attorney's fees, win or lose, unless a statute or contract provides otherwise." *Id*. at 3-4. The Government argued that "[b]ecause the American Rule presumption is most often overcome when a statute awards fees to a 'prevailing party,'…the presumption applies only to prevailing-party statutes." *Id*. Thus, the Government reasoned that because Section 145 requires a party to pay all expenses, regardless of the outcome, the presumption doesn't apply.

However, the Supreme Court held that this view is incorrect. The Court pointed to its

decision in *Sebelius v. Cloer*, 569 U.S. 369 (2013), which confirmed that the presumption against fee shifting applies to ***all*** statutes, whether or not they explicitly award fees to prevailing parties.

Congress Did Not Intend to Depart from the American Rule

In determining that the American Rule did, in fact, apply to Section 145, the Court examined whether Congress intended to depart from the American Rule. There must be a sufficient "specific and explicit" indication of Congress' intent in order to overcome the presumption; the absence of a specific reference to attorney's fees is not enough. *Id*.

First, the Court looked to the text of the statute, specifically analyzing the meaning of the term "expenses." *Id*. "Reading the term 'expenses' alongside neighboring words in the statute…supports a conclusion excluding legal fees from the scope of §145." *Id*. at 7. Traditionally, attorney's fees have not been included in the class of expenses referred to in the phrase "expenses of the proceeding," suggesting that the use of "expenses" would not have been understood to include attorney's fees at the time of the statute's enactment. *Id*. Thus, the Court held, Section 145's plain text does not overcome the American Rule's presumption against fee shifting to permit the USPTO to recover attorney's fees.

The Court then looked to "the record of statutory usage" to demonstrate that the term "expenses" alone does not include attorney's fees. *Id*. at 8. "That 'expenses' and 'attorney's fees' appear in tandem across various statutes shifting litigation costs indicates that Congress understands the two terms to be distinct and not inclusive of each other." *Id*. Thus, the common statutory usage of the term "expenses" alone has "never been considered to authorize an award of attorney's fees with sufficient clarity to overcome the American Rule presumption." *Id*.

Finally, the Court pointed to the history of the Patent Act. Citing a number of sections under Title 35, the Court reasoned that "when Congress intended to provide for attorney's fees in the Patent Act, it stated so explicitly." *Id*. at 9. Thus, since Congress did not make its intent similarly clear in Section 145, the statute does not authorize the PTO to recover its attorney's fees.

Involvement & Going Forward

In June 2019, the New York Intellectual Property Law Association ("NYIPLA"), represented by Amster, Rothstein & Ebenstein and others, submitted an amicus brief in this case advocating for the position taken by the Supreme Court here.

In May 2019, the NYIPLA also filed an amicus brief in the Supreme Court in *Booking.com B.V. v. United States Patent and Trademark Office*, No. 18-1309, to address the similar issue of whether a trademark applicant must pay the PTO's attorney's fees as "expenses" pursuant to 15 U.S.C. § 1071(b)(3). The Supreme Court has indicated that it will consider this case at its conference of December 13, 2019. We suspect the Court will take that opportunity to grant the Petition for Certiorari, vacate the Fourth Circuit's contrary decision, and remand the case for further consideration in accordance with today's decision in *NantKwest*.

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