GIBSON DUNN

Supreme Court Holds That The PTO's Recovery Of "Expenses" Under The Patent Act Does Not Include Attorney's Fees

***Peter v. NantKwest, Inc.*,**
No. 18-801

Decided December 11, 2019

Today, the Supreme Court unanimously held that a provision in the Patent Act requiring the Patent and Trademark Office to recover all "expenses" from a patent applicant who challenges the denial of a patent application does not permit the recovery of attorney's fees.

Background:

Section 145 of the Patent Act allows a patent applicant to challenge an adverse decision of the Patent and Trademark Office ("PTO") in federal district court. The applicant, however, must pay the PTO "[a]ll the expenses of the proceedings" regardless whether the applicant prevails. 35 U.S.C. § 145. NantKwest sued the PTO Director under Section 145 to challenge the denial of its patent application. After the district court granted summary judgment to the PTO and the Federal Circuit affirmed, the PTO moved for reimbursement of "expenses" under Section 145. For the first time in the 170-year history of Section 145, the PTO sought reimbursement for the pro rata salaries of its in-house attorneys and a paralegal who worked on the case. The district court declined the PTO's request, holding that the word "expenses" in Section 145 is not clear enough to rebut the "American Rule"—the background principle that each party is responsible for its own attorney's fees. On appeal, the Federal Circuit initially concluded that the PTO was entitled to attorney's fees, but on rehearing en banc, affirmed the district court's decision and denied the PTO's fee request.

"[T]he term 'expenses' alone has never been considered to authorize an award of attorney's fees with sufficient clarity to overcome the American Rule presumption."

Justice Sotomayor,
writing for the unanimous Court

Gibson Dunn Named
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Issue:

Whether the Patent Act provision requiring a patent applicant to pay "[a]ll the expenses of the proceedings" incurred by the PTO in an action under 35 U.S.C. § 145 authorizes the PTO to recover the salaries of its in-house legal personnel.

Court's Holding:

No. The term "expenses of the proceedings" in Section 145 does not encompass the salaries of the PTO's in-house legal personnel because that language is not a clear enough indication of congressional intent to overcome the background American Rule presumption against fee shifting.

What It Means:

- The Court's ruling means that unsuccessful challengers under Section 145 of the Patent Act should not be required to pay the attorney's fees of PTO lawyers and legal staff, thus limiting the possible costs of litigating actions under Section 145. A statutory provision providing for the recovery of "expenses" alone generally does not authorize the recovery of attorney's fees.
- The Court's holding also likely prevents the PTO from collecting attorney's fees from applicants challenging the denial of trademark registration under 15 U.S.C. § 1071(b)—the Lanham Act's similarly worded analogue to Section 145.
- Beyond the Lanham Act, the collateral consequences of the Court's holding are likely to be limited. At oral argument, the PTO stated that it was aware of no other federal cost-shifting provision that uses the word "expenses" standing alone.
- More broadly, the Court's opinion reaffirms that the American Rule presumption against fee shifting applies to all statutes, even those (like Section 145) that require expenses or costs to be shifted to unsuccessful litigants.

Gibson Dunn's lawyers are available to assist in addressing any questions you may have regarding developments at the Supreme Court. Please feel free to contact the following practice leaders:

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