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Attorneys' Fees

Patent Office Denied Legal Fees in District Court Appeals (1)

The Patent and Trademark Office can't demand attorney fee reimbursement from patent applicants who challenge rejections in district court, a federal appeals court ruled in a closely watched case.

The decision makes it easier for patent applicants to challenge rejections. It's a setback for the Patent and Trademark Office in its bid to recover its attorneys' fees in district court challenges. The cases are expensive to handle, and the fees help defray the costs, the patent office argued.

Biotechnology company NantKwest Inc., which sued the PTO after its cancer treatment patent was rejected, doesn't have to pay the agency's legal fees just because the company opted to go to district court, the U.S. Court of Appeals for the Federal Circuit ruled July 27.

''The district court route is already quite difficult and expensive, compared to going to the Federal Circuit,'' Stephen T. Schreiner, a partner in Goodwin Procter LLP's patent group in Washington, told Bloomberg Law. ''If the applicant has to pay the PTO's attorneys' fees as well, the option would become unavailable, for practical purposes, for many applicants.''

Creating a Split The 7-4 ruling contradicts a 2015 decision by the U.S. Court of Appeals for the Fourth Circuit, and could invite Supreme Court intervention. In *Shammas v. Focarino*, the Fourth Circuit said trademark filers challenging a rejection in district court must pay for PTO lawyers' time spent on the case. The ruling was based on a provision in the trademark law that uses similar language to 35 U.S.C. 145, the statute at the heart of the NantKwest dispute.

Litigants generally pay their own attorneys' fees whether they win or lose, unless there's an explicit exception. The concept is known as the American Rule. Patent applicants who want to challenge rejections can go to either district court or the Federal Circuit. Applicants that go to district court has to to cover all expenses, including the agency's legal fees, regardless of the final outcome, the patent office said.

Patent applicants that go to district court can introduce new evidence, including live testimony. Appeals to the Federal Circuit use only the factual record from the patent office proceedings.

The case turns on the meaning of ''all the expenses of the proceedings shall be paid by the applicant,'' in Section 145.

NantKwest sued in district court after the patent office rejected its application related to using ''killer cells'' in treating cancer. On appeal, a Federal Circuit panel ruled in June 2017 that filers going to district court must pay the patent office's lawyer fees, because ''expenses'' in Section 145 is a ''specific and explicit'' reference to fees.

T Federal Circuit decided then to rehear the case before a full bench, even though the parties didn't request it.

Judge Kara F. Stoll of the Federal Circuit, writing for the majority, said the 2017 decision was wrong because Section 145 doesn't create a specific and explicit exception to the American Rule. It's not clear ''expenses'' includes lawyers' fees at all, she wrote, because in many statutes, Congress refers to both expenses and attorneys' fees as separate things.

In other statutes, Congress refers to expenses and explicitly says the term includes attorneys' fees, Stoll pointed out. These statutes show ''expenses'' didn't include attorneys' fees in all instances, she said.

Change in Policy The fact the patent office only recently started demanding attorneys' fees under Section 145 likely undermined its arguments, Charles L. Gholz, senior counsel with Oblon, McClelland, Maier & Neustadt LLP's patent group in Alexandria, Va., told Bloomberg Law.

During oral arguments, the patent office admitted it only started asking for attorneys' fees around 2011, even though Section 145 and its predecessors have been around for much longer.

Gholz wondered why the PTO waited more than 170 years to raise the issue if Section 145 clearly gave the patent office the right to recover attorneys' fees in district court challenges.

Chief Judge Sharon Prost, who wrote the 2017 panel decision, dissented to the latest ruling. She said the court should have interpreted Section 145's reference to ''all expenses'' plainly, which includes the salaries for the patent office lawyers. Using the word ''all'' shows Congress intended expenses to be broadly interpreted to cover the salaries, she said.

Expensive Option The decision preserves the right to challenge a patent office decision in district court.

''I think it's the right decision, from the standpoint of jurisprudence and precedent, and also from the standpoint of fairness to patent applicants,'' Schreiner said, while noting that most applicants go to the Federal Circuit instead.

District court level challenges are ''one percent'' cases where the applicant feels it needs to introduce new evidence because the factual record has a problem,

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Scott A. McKeown, a partner with Ropes & Gray LLP's patent practice in Washington, told Bloomberg Law.

If a case involves a typical rejection, such as for lack of novelty or obviousness, going to district court and adding testimonial evidence usually won't help, he said. Instead, patent applicants can introduce new evidence during examination at the patent office. Even after a final rejection, the inventor can make a request for continued examination to reopen the case, he said.

Judges Pauline Newman, Alan D. Lourie, Kimberly A. Moore, Kathleen M. O'Malley, Evan J. Wallach, and Richard G. Taranto joined Stoll's majority opinion. Judges Timothy B. Dyk, Jimmie V. Reyna, and Todd M. Hughes joined Prost's dissent. Judge Raymond T. Chen, who was previously a solicitor at the patent office, didn't take part.

Irell & Manella LLP represented NantKwest. The Civil Division of the Department of Justice represented Andrei Iancu, in his capacity as patent office director.

—With assistance from Susan Decker (Bloomberg)

The case is *NantKwest Inc. v. Iancu*, Fed. Cir., No. 16-1794, *en banc decision* 7/27/18.

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