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Legal Sidebar

To Fee or Not to Fee: Supreme Court to Consider Attorneys' Fees in Patent Disputes

Kevin T. Richards
Legislative Attorney

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When a court case is over, who pays the attorneys? Under the "American Rule," the presumption in the United States is that each side will pay its own attorneys' fees. (The opposite presumption—that the losing party will pay the attorneys' fees of the prevailing party—is referred to as the "British Rule.") That presumption of the American Rule can be rebutted, however, if Congress passes a statute that "specific[ally] and explicit[ly]" indicates that one party must pay the other's fees.

In *Peter v. NantKwest*, the Supreme Court is poised to decide whether the statute governing certain patent proceedings shifts to one party the cost of paying all attorneys' fees. Specifically, when the United States Patent and Trademark Office (PTO) rejects a patent application, 35 U.S.C. § 145 allows the applicant to seek review of that decision in the United States District Court for the Eastern District of Virginia (EDVA). The statute states that "[a]ll the expenses of the [district court] proceedings shall be paid by the applicant." The PTO contends that "all the expenses" means that the applicant must pay the PTO's attorneys' fees—in other words, the prorated salaries of the PTO employees involved in the case. In *NantKwest*, the U.S. Court of Appeals for the Federal Circuit (Federal Circuit) rejected the PTO's argument and held that "all the expenses" does not include PTO employee salaries. In another case, however, the U.S. Court of Appeals for the Fourth Circuit (Fourth Circuit) read nearly identical language in 15 U.S.C. § 1071(b)(3), the trademark analogue to section 145, as allowing the PTO to recover its attorneys' fees. In *NantKwest*, the Supreme Court is expected to resolve disagreement between the Federal and Fourth Circuits, in a case that could significantly affect access to the courts for those who have their patent or trademark applications rejected.

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Legal Background

The American Rule

The American Rule that "[e]ach litigant pays his own attorney's fees, win or lose, unless a statute or contract provides otherwise," is a "bedrock principle" of jurisprudence in the United States, dating "back to at least the 18th century." The Supreme Court has cited at least two reasons for the American Rule. First, because the outcome of litigation can be uncertain, litigants with fewer financial resources may be "unjustly discouraged from instituting actions to vindicate their rights" if they would risk paying the other side's fees. Second, the "time, expenses, and difficulties of proof" in litigating the amount of fees would be a significant burden on the court and the parties.

The Supreme Court has also explained that only "explicit statutory authority" can overcome the presumption that the American Rule applies. While recognizing that the language may "take various forms," the Court has identified language authorizing award of "a reasonable attorney's fee," "fees," or "litigation costs" as sufficient to overcome the presumption. According to the Supreme Court, the attorneys' fees provision of the Equal Access to Justice Act is "a good example of the clarity . . . required to deviate from the American Rule." That section provides that "a court shall award to a prevailing party other than the United States fees and other expenses . . . incurred by that party . . . ." The Supreme Court has explained that Congress might choose to award fees either to "encourage private litigation" or to deter frivolous litigation.

Section 145 Actions

After an applicant files a patent application, a PTO examiner reviews the application for compliance with the relevant legal requirements. If the examiner denies the application, the applicant can appeal to the PTO's administrative board.

If the PTO board rejects the applicant's administrative appeal, the applicant has two options. The first option is to appeal the rejection to the Federal Circuit under 35 U.S.C. § 141. If she does, the applicant may not offer any new evidence on appeal. Instead, the Federal Circuit reviews the decision based on the record before the PTO and will defer to the PTO's factual findings if those findings are supported by substantial evidence.

The second option is a section 145 proceeding in EDVA. In a section 145 proceeding, the applicant may present new evidence—including forms of evidence, like oral testimony, generally not accepted at the PTO. In determining whether to grant the applicant's patent, in contrast to review by the Federal Circuit under section 141, EDVA will perform its own review of the evidence, without any deference to the PTO's findings. If an applicant uses the section 145 proceeding, however, "[a]ll the expenses of the proceedings shall be paid by the applicant." Section 145 proceedings are relatively uncommon; the PTO estimated that four to five total section 145 proceedings occurred from 2016-18. Although section 145 itself was introduced as a part of the U.S. Patent Act of 1952, its language is drawn from legislation enacted in 1870.

The Divide in the Lower Courts

"Expenses" includes Fees

In a 2015 case, *Shammas v. Focarino*, the Fourth Circuit analyzed nearly identical language ("all the expenses of the proceeding") used in 15 U.S.C. § 1071(b)(3), the trademark analogue to section 145. The

Fourth Circuit held that this language is "an unconditional compensatory charge" that allows the PTO to recover the salaries of the attorneys and paralegals involved in the case. The Fourth Circuit determined that "in ordinary parlance, 'expenses' is sufficiently broad" to include attorneys' fees and paralegal fees. The court further reasoned that by modifying "expenses" with the term "all," Congress intended that "the common meaning of the term 'expenses' should not be limited." The Fourth Circuit concluded that the American Rule's analysis only applies where the fees award "turns on whether a party seeking fees has prevailed to at least some degree." Because section 1071(b)(3) requires the applicant to pay the expenses of the proceeding *regardless* of outcome, the Fourth Circuit held that the American Rule's presumption does not apply—in other words, under section 1071(b)(3), there is no presumption that each side pays its own fees.

Judge Robert King dissented, arguing that the American Rule applies and that the "expenses" statutory language is not sufficiently explicit to overcome the presumption. Moreover, Judge King reasoned that other trademark provisions explicitly authorize the award of "reasonable attorney's fees," suggesting that Congress would have specifically included attorneys' fees if it intended to do so.

"Expenses" does not include fees

NantKwest involves a patent application by Dr. Hans Klingemann on a method for treating cancer. Dr. Klingemann assigned the application to NantKwest, the PTO rejected the application, and NantKwest filed a section 145 action challenging that determination. The district court granted and the Federal Circuit affirmed summary judgment in favor of the PTO on the merits.

The Supreme Court case arises from the attorneys' fees motion filed after the Federal Circuit affirmed the merits. The PTO filed a motion in the district court for reimbursement of $111,696.39 as "expenses of the proceedings." The total included attorneys' fees of $78,592.50, based on the pro rata salary of two PTO attorneys and one PTO paralegal who worked on the case. The district court denied the motion as to the attorneys' fees.

A divided panel of the Federal Circuit reversed, determining in a manner similar to the Fourth Circuit that even assuming that the American-Rule presumption applies, "expenses" is sufficiently explicit to include attorneys' fees. Judge Kara Stoll dissented, arguing that the word "expenses" was not sufficiently specific to overcome the American Rule.

The full Federal Circuit then vacated the panel decision and reheard the case *en banc*, affirming the district court in an opinion by Judge Stoll. The court began by holding that the American Rule's presumption applies, rejecting the Fourth Circuit's analysis in *Shammas* on the basis that "the Supreme Court has consistently applied the [American R]ule broadly to any statute that allows fee shifting to either party, win or lose." Having determined that the American Rule applies, the court then concluded that "all the expenses of the proceeding" did not specifically and explicitly depart from the rule. The court reasoned that the definition of "expenses" at the time that the statutory language was originally written did not include attorneys' fees, and that Congress has "drafted numerous statutes authorizing the award of both 'expenses' and 'attorneys' fees.'" Moreover, the court observed that many statutes list expenses and fees as separately recoverable, recognizing that while other statutes includes fees as a type of expense, those statutes explicitly allow the recovery of fees. If "expenses" necessarily included fees, the Federal Circuit concluded, the language specifically allowing fees to be recovered would be superfluous. The court further explained that other provisions of the Patent Act also specifically allowed for an award of attorneys' fees; that Congress did not include such language in section 145 indicates that it did not intend for fees to be included. The court noted that "[f]or more than 170 years . . . the PTO never sought—and no court ever awarded—attorneys' fees under § 145 or its predecessor."

The PTO petitioned for review by the Supreme Court, which the Court granted on March 4, 2019. Thus, in *NantKwest* the Supreme Court is set to resolve whether "expenses" includes the PTO's attorneys' fees.

Arguments at the Court

The PTO's arguments at the Supreme Court largely track the Fourth Circuit's reasoning in *Shammas*. The PTO contends that attorneys' fees fall within the ordinary meaning of "expenses," and that it makes sense as a policy matter for the costs of section 145 proceedings to fall on the applicants who use those proceedings. Moreover, the PTO argues that section 145 does not implicate the American Rule presumption because it requires the applicant to pay the PTO's fees regardless of outcome. Even if section 145 does trigger the American Rule, the PTO argues, "expenses" is sufficiently specific to overcome the presumption.

NantKwest responds that the American Rule presumption applies "whenever a litigant seeks to have another pay his attorneys' fees," and therefore applies to section 145 proceedings. "All the expenses" is insufficient to overcome the presumption, NantKwest alleges, because other statutes and decisions have used that phrase differently. NantKwest further contends that the PTO's policy arguments regarding allocation of the costs of section 145 proceedings cannot overcome the clear statutory language.

Implications for Congress

The central question in *NantKwest* is one of congressional intent: whether Congress intended for section 145 applicants to pay for the PTO's attorneys' fees. Accordingly, the decision in *NantKwest* may raise questions regarding whether the law is being enforced as Congress intended. Should Congress disagree with the outcome in *NantKwest*, it could choose to statutorily abrogate the decision by clearly indicating whether the opposing party should pay PTO's attorneys' fees in section 145 actions.

NantKwest also may be an important case regarding access to the legal system. As the Federal Circuit explained, one of the reasons for the American Rule is to prevent litigants of lesser means from being discouraged from vindicating their rights. As one amicus at the Supreme Court has argued, if the PTO is allowed to recover attorneys' fees "very few parties, especially those of limited means, will elect to incur the extraordinary financial burden of paying the PTO's attorneys' salaries as well as its own." The American Bar Association (ABA), in another amicus brief, contends that allowing the PTO to recover fees "would erect an insurmountable roadblock to justice for many patent applicants." The purpose of fee-shifting statutes, the ABA argues, is to "*increase* access to justice, rather than limit it." In one recent case that the ABA cites to support their argument, the PTO asked EDVA to require applicants to post a $40,000 bond before allowing the section 145 action to begin. Under this view, *NantKwest* raises important issues regarding access to the courts for poorer litigants.

NantKwest also may also result in an increased financial burden on patent applicants who do not use section 145. The PTO argues that requiring an applicant to pay the PTO's attorneys' fees means that those costs are not borne by other patent applicants. Thus, if applicants who use section 145 proceedings are not required to pay the PTO's fees, then the PTO will need to recover those costs through other means—for example, the fees that it charges applicants who do not use those proceedings.

The R Street Institute (R Street), the sole amicus supporting the PTO, does not agree that *NantKwest* raises court-access issues. Instead, R Street contends that an applicant can obtain the purported benefits of a section 145 action through ordinary prosecution at the PTO. Moreover, R Street argues that section 145 actions are most commonly used by well-financed applicants, particularly pharmaceutical companies, who would not be significantly affected by paying the PTO's attorneys' fees. Under that view, allowing the PTO to recover its fees would not affect the ability for poorer litigants to access the courts.

NantKwest is to be argued on October 7, 2019.