BRINKS GILSON & LIONE
100 YEARS OF IP LAW

THINK FORWARD

Paying for Attorneys' Fees Whether you Win or Lose on Appeals from the PTAB

On June 23, 2017, the Federal Circuit held that a party appealing a decision from the Patent Trial and Appeal Board ("PTAB") by bringing a civil action against the Director of the United States Patent & Trademark Office ("USPTO") in district court under 35 U.S.C. § 145 must pay for the USPTO's attorneys' fees, regardless of whether the appeal is successful. In *Nantkwest, Inc. v. Matal*, the Federal Circuit held that the USPTO's attorneys' fees were considered "expenses" under the statute.

The patent application in *Nantkwest* was initially rejected during prosecution by an examiner, and the rejections were later affirmed by the PTAB. Instead of appealing to the Federal Circuit, the applicants brought a civil action against the Director of the USPTO in the United States District Court for the Eastern District of Virginia. After the district court affirmed the PTAB's decision, the Director filed a motion to recover expenses that included the USPTO's attorneys' fees. While the district court awarded other expenses to the Office, they refused to include the USPTO's attorneys' fees. The decision to withhold the USPTO attorneys' fees as part of the "expenses" was appealed to the Federal Circuit.

Under 35 U.S.C. § 145, a party wishing to appeal a decision from the PTAB has the option to appeal to the Federal Circuit or, alternatively, bring a civil action against the Office in federal district court. While appeals from the PTAB are most often filed with the Federal Circuit, parties that appeal by filing a civil action against the Office are afforded *de novo* review by the district court. *De novo* review can be advantageous as new evidence may be entered. The statute states in relevant part:

…

The court may adjudge that such applicant [to a civil action against the Director in the United States District Court for the Eastern District of Virginia] is entitled to receive a patent for his invention, as specified in any of his claims involved in the decision of the Patent Trial and Appeal Board, as the facts in the case may appear and such adjudication shall authorize the Director to issue such patent on compliance with the requirements of law. All the expenses of the proceedings shall be paid by the applicant.

Traditionally, the USPTO interpreted this statute to include expenses such as travel costs and expert fees, but not to include attorneys' fees. However, the USPTO recently changed its policy to include attorneys' fees in the calculation of "expenses" when defending an appeal to the district court. After practitioners questioned whether the USPTO was right to change its fee collection policy, the Federal Circuit in *Nantkwest* responded in the affirmative.

A major question in *Nantkwest* revolved around whether attorneys' fees should be included as "expenses," and particularly whether the salaried USPTO's attorneys counted under "expenses." The first step in addressing this question was to determine whether the American Rule, which provides that prevailing parties are ordinarily not entitled to collect attorneys' fees from the losing party, applies to 35 U.S.C. § 145. On this question, the Federal Circuit decided that even under the American Rule, the "[a]ll the expenses of the proceedings" provision in the statute means that the USPTO's attorneys' fees

are included as “expenses.”

To reach this conclusion, the Federal Circuit considered various definitions of an “expense.” For one, the patent applicant promoted the narrow definition that an “expense” could not include attorneys’ fees unless specifically called out in the statute. Even so, the Federal Circuit characterized the salary of the in-house USPTO’s attorneys as an expense to the USPTO, and did not require the express use of the word “attorneys’ fee” to be called out as an “expense” in the statute. The Federal Circuit noted that the allocation of attorneys’ fees as “expenses” under 35 U.S.C. § 145 cannot turn on the type of attorney defending the USPTO’s interests, as long as the attorneys are found to be devoting attorney time to the case. The attorneys’ fees in this case were determined to be the pro rata share of the USPTO’s attorneys’ salaries based on the number of hours worked on the appeal ($78,592.50).

The decision in *Nantkwest* upholds the USPTO’s recent policy change to include its attorneys’ fees in the calculation of “expenses” in all *de novo* appeals to district court. This applies to both patent and trademark cases appealed under 35 U.S.C. § 145 and 15 U.S.C. § 1071, respectively. In view of the court’s decision in *Nantkwest*, parties now have another factor to consider when developing their appeal strategy.

Contact Us

If you have any questions or wish to discuss how this Alert impacts your business, please contact one of our Brinks attorneys.