Justices hear debate over which side should pay PTO's attorney fees

By Patrick H.J. Hughes

The U.S. Supreme Court heard arguments Oct. 7 on whether biotech firm NantKwest Inc. should pay the attorney fees the U.S. Patent and Trademark Office incurred while defending an examiner's rejection of the firm's patent application.

Peter v. NantKwest Inc., No. 18-801, 2019 WL 5087138, oral argument held (U.S. Oct. 7, 2019).

NantKwest argued that each side in the case should pay its own attorney fees under the "American rule," which has applied in suits against the PTO since the mid-1800s.

Deputy Solicitor General Malcolm L. Stewart, representing the government, said requiring patent applicants suing under Section 145 of the Patent Act, 35 U.S.C.A. § 145, to pay the PTO's attorney fees is "consistent with the overall statutory scheme."

Section 145 says those with rejected patent applications can file a suit against the PTO, but "all the expenses of the proceedings shall be paid by the applicant."

'UNSYMPATHETIC' TO THE PTO

Attorneys not involved in the case offered their impressions of the justices' reactions to the arguments.

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Jason Wilcox, an attorney at Kirkland & Ellis, said it appeared that "the justices can't get past how different that language looks compared to a typical fee-shifting provision."

The term "expenses" in Section 145 cannot reasonably include attorney fees, MacMull said. "If it did, the USPTO would have demanded its fees from day one and not sat on its hands for the last 170 years," he said.

Jason Wilcox, IP partner at Kirkland & Ellis' Washington, D.C., office, said it appeared that "the justices can't get past how different that language looks compared to a typical fee-shifting provision."

"Even Justice [Samuel] Alito, who was the most sympathetic to the government's position, found it troubling that for almost 170 years the government didn't read the word 'expenses' to include its attorney fees," Wilcox said.

Wilcox observed that the government ultimately conceded that losing this case would result in an increase in the price of a patent application by about $1.60 and that, after the argument, "such an increase looks more likely."

Brian Michalek, an IP partner at Saul Ewing Arnstein & Lehr in Chicago, said, "The court's primary focus on the government's attorney was most telling as the majority of the questioning was targeted to uncovering why the government had waited so long to start claiming its attorney fees as part of the statutory 'expenses' and what the metes and bounds of 'expenses' actually were."

Justice Neil Gorsuch in particular was "skeptical of the government's position," Michalek said. "Judge Gorsuch questioned what would prevent the government from counting other types of overhead — such as the electric bill or sewage bill — from being lumped into the 'expenses' definition."

In contrast, Michalek said, the justices' questions for NantKwest's attorney Morgan Chu, from Irell & Manella, were "fairly straightforward."

"Justice Alito did question Nantkwest's counsel on the fact that the USPTO attorneys in this context were technically paid — not by the government — but by third parties from the filing fees that were paid in association with patent applications, and thus was a situation that did not typically fit under the American rule," Michalek said.

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DIVERGING FROM THE AMERICAN RULE?

The PTO warned the Supreme Court in the certiorari petition the agency filed in December that patent application fees would rise if courts apply the American rule.

The petition followed the PTO's 7-4 loss to NantKwest before the full U.S. Court of Appeals for the Federal Circuit. *NantKwest Inc. v. Iancu*, 898 F.3d 1177 (Fed. Cir. 2018).

The majority in the en banc ruling said "adopting the PTO's interpretation would create a particularly unusual divergence from the American rule."

During the oral argument, however, Stewart said collecting fees to cover the cost to the PTO for patent applications was not unusual.

"The PTO is under a congressional mandate to ensure that its aggregate receipts match up with its aggregate expenditures," the deputy solicitor general said.

Justice Gorsuch said it was helpful that the PTO was already collecting fees to cover costs, but noted that it had been 170 years since any attorney fee-shifting and asked, "How did the government just figure this out?"

"We don't have a good explanation for why we weren't doing it before," Stewart said.

Chu, arguing on behalf of NantKwest, noted the 170 years that PTO officials never questioned the meaning of the word "expenses" in Section 145.

"Just in ordinary English, though, 'expenses' would encompass attorneys' fees, wouldn't it?" Justice Brett Kavanaugh asked.

Chu admitted the word could encompass attorney fees, but such an interpretation "would ignore the American rule for 200 years." WJ

Attorneys:
Petitioner: Malcolm L. Stewart, U.S. Department of Justice, Washington, DC

Respondent: Morgan Chu, Irell & Manella, Los Angeles, CA

Related Filings:
Reply brief: 2019 WL 446540
Opposition brief: 2019 WL 292090
Petition for cert.: 2018 WL 6788571
Federal Circuit en banc opinion: 898 F.3d 1177
Federal Circuit opinion: 860 F.3d 1352
District Court opinion: 162 F. Supp. 3d 540

See Document Section A (P. 21) for the brief.