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PERSPECTIVE

# US Supreme Court hears argument on whether Patent Office can collect employees' salaries in defending district court actions

**By Charles R. Macedo, Christopher Lisiewski and Chandler Sturm**

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People stand in line outside the Supreme Court on the first day of its new term, in Washington, Oct. 7, 2019.

The latest term of the U.S. Supreme Court began with the high court answering the peculiar question of whether the government can recoup the salaries of its staff attorneys and paralegals from an adversary in a district court proceeding challenging an adverse decision by the U.S. Patent and Trademark Office in federal court — even when the adversary wins the challenge. S*ee Peters v. Nantkwest, Inc.*, 18-801 (argued Oct. 7).

One of the primary arguments advanced to challenge the government's position is that the so-called American Rule requires that: "Each litigant pays his own attorney's fees, win or lose, unless a statute or contract provides otherwise." *Hardt v. Reliance Standard Life Ins. Co.*, 560 U.S. 242, 252-53 (2010). As recognized in *Hardt*, this "bedrock" principle traces its roots back to the founding of the republic (*see, e.g., Arcambel v. Wiseman*, 3 U.S. (3 Dall.) 306 (1796)), and should not be departed from lightly.

The role of the American Rule in this case was repeatedly emphasized during oral argument. For example, in his questioning, Justice Brett Kavanaugh made the undisputed point with the government that it was an "unusual" situation and a "radical departure" from the American Rule to provide for an award of attorney fees against the prevailing party. Justice Stephen Breyer agreed with the point that "in every case where a party wanted attorneys' fees under a statute, this Court always has applied the American Rule." In addition, Justice Elena Kagan sought to confirm from the government (which reluctantly seemed to have been provided) the applicability of the American Rule to this statute, and thus the applicability of the presumptions associated with the American Rule, which require a heavy burden to shift responsibility for a party's fees.

The government asserts its authority to obtain such recoupment lies in Section 145 of the Patent Act (35 U.S.C.), and the corresponding provision of the Lanham Act (15 U.S.C. Section 1071(b)(3)), that "all the expenses of the proceedings shall be paid by the applicant." 35 U.S.C. Section 145; cf. 15 U.S.C. Section 1071(b)(3). At oral argument, Deputy Solicitor General Malcolm Stewart, arguing on behalf of the government, confirmed that "the government's position on those two statutes will rise or fall together." Justice Kavanaugh again confirmed this point with Stewart.

Both provisions date back more than a century to the first half of the 1800s. See, e.g., Patent Act of 1839, ch. 88, Section 10, 5 Stat. 353-355 (1839) (currently codified at 35 U.S.C. Section 145); Trademark Act of 1905, ch. 592, Sections 9, 22, 33 Stat. 727, 729 (1905) (currently codified at 15 U.S.C. Section 1071(b)(3)). Yet, as candidly admitted at oral argument, it was not until 2013 that the government began seeking recoupment for its employees' salaries as "expenses." Thus, Justices Neil Gorsuch and Ruth Bader Ginsburg probed the government on its change of position, questioning if the government was right in its interpretation of "expenses," and whether the failure of the government to seek such recoupment for 170 years was a violation of the mandatory language of the statute.

Justice Breyer also focused on the government's seemingly inconsistent views of originally seeking recoupment from the 1830s-1860s, and then not seeking recoupment from the 1860s to 1990s. He also noted that neither he (nor respondent) found any authority saying whether it was acceptable or not for the government to have such a radical change of position as happened here.

Stewart attempted to justify this change of position based on the government having responsibility to pay the fees during the second period, and Congress' subsequently mandating that the Patent Office be self-sufficient today. He pointed out that under U.S. v. Fausto, 484 U.S. 439 (1988), the implications of an existing statutory provision may be clarified

by newly enacted provisions, as he argued was done with the later mandate for the Patent Office to be self-funding. Justice Sonia Sotomayor rejected this distinction because the Patent Office already recovers such fees and expenses in the context of patent application fees, which Justice Ginsburg pointed out was only $1.60 per application. Nonetheless, Justice Breyer also pointed out that the government's justification does not support its statutory interpretation, as the requirement of self-funding did not exist for over 100 years, and thus could not be implied into the statutory language as the government now seeks to do. Oddly, after making this argument, Stewart argued that the motivation for the new practice was "really more one of equity than of financial necessity." Justice Samuel Alito, picking up on the equity point, rephrased the question as to "whether you pay or other people who are not involved in this litigation at all pay." He then emphasized what he thought was a question of fairness.

In response to questions by Justice Ginsburg, Stewart conceded that the government was not aware of any other federal statute that provides for attorney fees based on the word "expenses" alone. Justice Ginsburg also questioned whether "expenses" must necessarily include attorney fees. Morgan Chu, arguing for the respondent, pointed out that "today there are 3,274 federal statutory provisions that use the word 'expenses' without any reference to attorneys' fees or counsel fees," thus noting the risk associated with approval of the government's position being abused in several other cases. Further questioning by Justice Sotomayor focused on what type of language was necessary to demonstrate an explicit attempt to overturn the American Rule. Justice Kavanaugh seemed to struggle with the fact that the ordinary meaning of "expenses" would seem to include "attorneys' fees," but the American Rule suggested that more would be required to award them.

Justice Gorsuch also observed that the government's position offered no limit on what type of "expenses" could be included in future requests, such as an electric bill, sewage bill, or other overhead expenses. Likewise, Chief Justice John Roberts tested the boundaries of the government's definition of "expenses" questioning whether Stewart's time for arguing to the court was also being charged to its opponent. Stewart offered to limit the charges to the Patent Office's own personnel, rather than Department of Justice personnel, and to limit the charges to the proceeding at the district court and not any subsequent appeals.

Chief Justice Roberts, in questioning of Chu, sought to determine if the award of "expenses" including attorney fees was "just like a filing fee," which in many instances could be quite large. Chu noted that unlike a typical filing fee, the proceeding in question is an adversarial litigation in court, not an administrative agency proceeding.

The chief justice also seemed to find significant that Section 145 is a special situation where there is an alternative proceeding that does not impose expenses to justify the departure from the American Rule.

Chu was also questioned regarding the parameters of what could or could not be included in "expenses," including whether it covered "expert fees." Curiously, although Chu opined "I do not think it should include expert witness fees," his client nonetheless "did not challenge the government's request for expert fees and they were paid."

He was further questioned regarding the difference between "expenses" and "costs."

Chu also pointed to distinctions drawn between the 1952 Patent Act where the term "attorneys' fees" was used with respect to Section 285, and yet not employed in the reenactment of the Act in Section 145.

Based on the questions raised throughout the oral argument, it appears likely that the Supreme Court will affirm the lower court's finding that the government is not entitled to recoup its salaries for attorneys and paralegals as expenses under Section 145 of the Patent Act or the corresponding provision of the Lanham Act. ■

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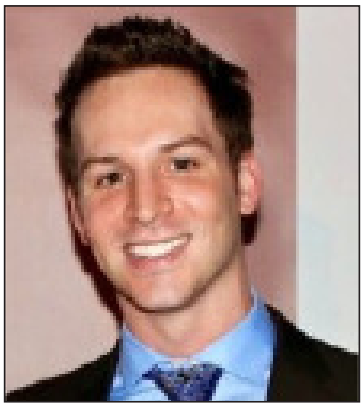

*Mr. Macedo along with David Goldberg, an associate at the firm, submitted an amicus brief on behalf of the New York Intellectual Property Law Association to the Supreme Court in Peters v. Nantkwest, the subject of this article. See Brief, available at https://www.arelaw.com/publications/view/amicus06252019/.*

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