No. 2016-1794

IN THE UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

NANTKWEST, INC.,

Plaintiff-Appellee,

v.

MICHELLE K. LEE, Director, U.S. Patent and Trademark Office, Deputy Under Secretary of Commerce for Intellectual Property,

Defendant-Appellant.

On Appeal from the United States District Court for the Eastern District of Virginia in case no. 1:13-cv-1566, Judge Gerald Bruce Lee.

REPLY BRIEF

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TABLE OF CONTENTS

Page(s)

TABLE OF AUTHORITIES

Cases: **Page(s)**

Statutes:

INTRODUCTION AND SUMMARY

Plaintiff and amici correctly emphasize that civil actions under 35 U.S.C. § 145 provide an invaluable opportunity for patent applicants to introduce new testimony and evidence and obtain de novo review of the PTO's findings. But that rare opportunity comes at a price: "[a]ll the expenses of the proceeding[] shall be paid by the applicant." 35 U.S.C. § 145. Congress thus ensured that the entire expense of litigating § 145 proceedings would fall on the applicants who voluntarily elect them—not on the other PTO users whose fees fund the agency's operations.

Plaintiff identifies no textual basis for construing "[a]ll the expenses of the proceeding[]" to mean "*some* expenses of the proceeding[]." Nor does plaintiff make any attempt to justify the consequence of its interpretation: that other patent applicants must underwrite, through increased fees, the real and substantial personnel expenses incurred by the PTO to defend plaintiff's elective § 145 action and others like it.

The personnel expenses that PTO incurred to defend plaintiff's § 145 proceeding are "expenses" under any interpretation of that word. Congress specified that "all" such expenses "shall be paid by the applicant," regardless of the outcome. There is no ambiguity in that statutory command, and plaintiff identifies no proper basis for disregarding it. As the Fourth Circuit recently explained in

construing the materially identical provision of the Lanham Act, the expenses clause is "a straightforward funding provision, designed to relieve the PTO of the financial burden that results from an applicant's election to pursue the more expensive district court litigation." *Shammas v. Focarino*, 784 F.3d 219, 225 (4th Cir. 2015).

Plaintiff's proposed atextual reading of § 145, like the district court's, reflects a fundamental misunderstanding of the purposes of the expenses provision. Plaintiff treats the provision as though it were a conventional cost-shifting statute for prevailing litigants. From that premise, plaintiff invokes the "American Rule" presumption against requiring losing parties to pay a prevailing party's attorney's fees. But as the Fourth Circuit explained in rejecting the same argument, plaintiff's premise is incorrect and the American Rule's presumption about legislative intent is inapplicable. Section 145 is unconcerned with who wins and who loses: the statute imposes "an unconditional compensatory charge" on patent applicants who opt for judicial review via a full civil action, akin to the fees that PTO imposes during the application process itself. *Shammas*, 784 F.3d at 221. The American Rule has no relevance to such a statute. Plaintiff's brief in this Court only reinforces that conclusion: for all its reliance on the American Rule, plaintiff fails to cite any example of a case in which that presumption was applied in interpreting a statute that, like § 145, requires one party to pay the other's

expenses regardless of who prevails. And in any event, the plain language of § 145 would satisfy the American Rule even if it applied.

ARGUMENT

SECTION 145 REQUIRES PLAINTIFF TO PAY "ALL THE EXPENSES" OF THE PROCEEDING IT ELECTED.

The personnel expenses actually incurred by the PTO in defending a § 145 action are "expenses of the proceeding[]" under the plain language of the statute. Plaintiff offers no alternative construction that is faithful to the statutory text. Instead, plaintiff rests its argument entirely on the "American Rule" presumption that Congress does not normally intend to require a losing party to pay a prevailing party's attorney's fees. But as the Fourth Circuit explained in *Shammas*, that presumption has no application to a statute that, on its face, requires one party to pay the whole expenses of a proceeding regardless of the outcome. And even if the American Rule's presumption did apply to § 145, the statute's clear requirement that the plaintiff pay "*[a]ll* the expenses of the proceeding[]" would satisfy it.

A. Plaintiff disregards the text and purpose of § 145.

1. The Supreme Court has stated "time and again . . . courts must presume that a legislature says in a statute what it means and means in a statute what it says there." *Connecticut Nat'l Bank v. Germain*, 503 U.S. 249, 253–54 (1992). Plaintiff has identified no natural interpretation of the phrase "[a]ll the expenses of

the proceeding[]" that would permit "all" to mean "some." Plaintiff's brief contains no dictionary definitions or exemplars of ordinary usage that would support reading the phrase "[a]ll the expenses of the proceeding[]" to mean only some undefined subset of those resources expended in the proceedings it elected.

Plaintiff does not meaningfully dispute that the ordinary meaning of the term "expenses" includes personnel expenses. *See Shammas*, 784 F.3d at 222 (concluding that the ordinary meaning includes salary expenses for attorneys and paralegals). That Congress has clarified that the term "expenses" includes attorney's fees in conventional fee-shifting statutes confirms the natural breadth of that term. Pl. Br. 31-33 (citing statutes using the phrase "expenses, including attorney's fees"). Plaintiff's examples thus underscore that attorney's fees and other expenses for labor in litigation are a well-established subset of "expenses." *See Shammas*, 784 F.3d at 222 (Congress "clearly indicat[ed] that the common meaning of the term 'expenses' should not be limited.").

Indeed, as our opening brief explained (at 31-32), the Supreme Court has repeatedly drawn the same textual inference, emphasizing the breadth of the term "expenses." *See Taniguchi v. Kan Pac. Saipan, Ltd.,* 132 S. Ct. 1997, 2006 (2012) (explaining that the term "costs" generally encompasses only "a fraction of the nontaxable expenses borne by litigants for attorneys, experts, consultants, and investigators"); *Arlington Cent. Sch. Dist. Bd. of Educ. v. Murphy*, 548 U.S. 291,

297 (2006) (concluding that the fees of expert consultants could not be recovered under a statute allowing the shifting of "costs" because Congress's use of that term, "rather than a term such as 'expenses,' strongly suggests that [the statute] was not meant to be an open-ended provision that makes participating States liable for all expenses incurred").

In *Shammas*, the Fourth Circuit held that the same language requires a plaintiff to pay PTO's personnel expenses. *See Shammas v. Focarino*, 784 F.3d 219, 225 (4th Cir. 2015), *cert. denied sub nom. Shammas v. Hirshfeld*, 136 S. Ct. 1376 (2016). The ordinary meaning of "expenses," the court of appeals reasoned, "is sufficiently broad" to include salary expenses for attorneys and paralegals. *Id.* at 222. And any remaining doubt about what expenditures Congress intended to include was clarified by modifying the term "expenses" with the term "all," "clearly indicating that the common meaning of the term 'expenses' should not be limited." *Id.* Plaintiff has no response to the Fourth Circuit's reasoning other than to say that *Shammas* was wrongly decided.

Plaintiff resists the plain import of the statutory text, asserting that the phrase "[a]ll the expenses of the proceeding[]" is too "broad" to constitute a clear statutory command to reimburse the agency's personnel expenses. Br. 27. But plaintiff mistakes breadth for ambiguity. In *Sebelius v. Cloer,* 133 S. Ct. 1886 (2013), for example, the Supreme Court construed a provision of the Vaccine Act

that authorized attorney's fees for "any proceeding on . . . a petition." Rejecting the argument that Congress meant only to authorize fees for proceedings on timely petitions, the Supreme Court concluded that even fees incurred in prosecuting an untimely petition were compensable under the Act's "broad[]" and "unambiguous[]" terms. *Sebelius*, 133 S. Ct. at 1893, 1896. Like the fees provision of the Vaccine Act, the expenses provision of § 145 is both "broad" and "unambiguous."

Plaintiff also disputes that PTO's expenses for salaried employees constitute "expenses of the proceeding[]." Pl. Br. 35. Even if personnel expenses are "expenses," plaintiff suggests the agency's personnel expenses for salaried employees are not expenses "of the proceeding[]" because they would have been incurred regardless. But that contention fails to account for the basic economic principle of opportunity cost. As this Court has explained in an analogous context, the expense of salaried attorney's time requires "taking into account the opportunity cost involved in devoting attorney time to one case when it could be devoted to others." *Raney v. Federal Bureau of Prisons*, 222 F.3d 927, 934-35 (Fed. Cir. 2000). The Court held in *Raney* that salaried union attorneys could recover a portion of their salary expenses under a statute providing for "attorney's fees related to [a] personnel action," 222 F.3d at 932, because the litigation required the union lawyers to divert their time from other matters to handle the

personnel action. *Id*. at 934-35. *See also Wisconsin v. Hotline Indus., Inc*., 236 F.3d 363, 365-66 (7th Cir. 2000) (holding that a state government agency could recover the attorney salary expenses it incurred in opposing an improper removal of a state court case). That those cases involved statutes which provided for "attorney's fees" makes the principle of opportunity cost no less applicable here.

For the same reasons, personnel expenses of PTO's staff in § 145 actions constitute "expenses of the proceeding[]" because a patent applicant's election to proceed under § 145 diverts those personnel from other matters, requiring the agency to expend that valuable resource—salaried personnel time—on the § 145 proceeding instead. Plaintiff does not dispute that the PTO personnel in this case actually expended their time on the district court proceedings plaintiff initiated. If PTO had hired outside staff to handle plaintiff's § 145 proceeding, those proximately-caused expenses would plainly be expenses of the proceeding. There is no reason why PTO's (considerably less expensive) salaried staff time should be treated differently. *See Shammas*, 784 F.3d at 223 (recognizing that PTO "incurred expenses when its attorneys were required to defend the Director in the district court proceedings, because their engagement diverted the PTO's resources from other endeavors").

2. Plaintiff, moreover, disregards the history and purpose of the expenses provision of § 145. Like the parallel provision of the Lanham Act addressed by the

Fourth Circuit in *Shammas*, § 145 is "a straightforward funding provision, designed to relieve the PTO of the financial burden that results from an applicant's election to pursue the more expensive district court litigation." *Shammas*, 784 F.3d at 226. It ensures that the burden of conducting § 145 proceedings falls on the applicants who elect those proceedings, rather than on the public or on the other PTO users whose fees fund the agency's operations.

As our opening brief explained (at 26-27), § 145 actions are, in both historical and functional terms, an extension of the ex parte patent application process. *See, e.g., Gandy v. Marble*, 122 U.S. 432, 439 (1887) ("[T]he proceeding is, in fact and necessarily, a part of the application for the patent."). In this respect, the mandatory expenses-reimbursement requirement of § 145 is a direct counterpart to the application fees that the PTO imposes to recoup the agency's expenses in examining the patent application. Like an application fee, the requirement to pay the PTO's expenses applies whether the application is successful or not. And like the application fee, it is intended to cover the PTO's expenses, including its expenses for salaried personnel.

As the Fourth Circuit explained, moreover, the "original understanding" of the predecessor provision in the 1839 Patent Act reinforces this conclusion. *Shammas*, 784 F.3d at 226-27. In the 1836 Patent Act, Congress specified that patent applicants would be required to pay application fees to recoup the "expenses

of the Patent Office," including "the salaries of the officers and clerks herein provided for, and all other expenses of the Patent Office." Act of July 4, 1836, ch. 357, § 9, 5 Stat. 117, 121. Three years later, in enacting the predecessor provision to § 145, Congress imposed an expense-reimbursement requirement in conspicuously parallel terms—"the whole of the expenses of the proceeding." *See* Act of Mar. 3, 1839, ch. 88, § 10, 5 Stat. 354. Plaintiff concedes that the term "expenses" in the 1836 Act encompassed PTO's personnel expenses, but asserts that the same term in the 1839 Act cannot bear the same meaning. Pl. Br. 38. That result cannot be squared with ordinary principles of statutory interpretation.

Plaintiff articulates no reason why other PTO users, rather than plaintiff itself, should be required to bear the burden of plaintiff's voluntary choice to pursue the more expensive and burdensome option of district-court review under § 145. As this Court emphasized in its en banc decision in *Hyatt v. Kappos*, the manifold procedural benefits of § 145 proceedings come at a price: the applicant must bear the "heavy economic burden of paying '[a]ll the expenses of the proceedings' regardless of the outcome." 625 F.3d 1320, 1337 (Fed. Cir. 2010) (en banc) (alteration in original), *aff'd*, 132 S. Ct. 1690 (2012). That is especially important in the era of the America Invents Act, in which Congress has directed the agency to operate on a user-funded basis. The district court's order in this case effectively requires other PTO users, through higher fees, to subsidize the "heavy

economic burden" of litigating plaintiff's elective § 145 action and others like it. The plain language of § 145 makes clear that Congress intended a different result.

While plaintiff and its amicus complain that applying the statute as written is overly burdensome, Pl. Br. 47-48, INTA Br. 16-18, this Court and others have confirmed that requiring a plaintiff to pay the full share of expenses of these elective proceedings is what Congress intended, even when the result is "harsh." *Cook v. Watson*, 208 F.2d 529, 530 (D.C. Cir. 1953) (holding that Congress clearly intended a plaintiff to pay PTO's printing expenses even though it was "harsh"); *Robertson v. Cooper*, 46 F.2d 766, 769 (4th Cir. 1931) (the same phrase was "clearly . . . intended" to include attorney travel expenses, rejecting the argument that allowing PTO to recoup attorney travel expenses would mean "there would be absolutely no end to the charges" a plaintiff would be asked to pay); Appx417; *see also Hyatt*, 625 F.3d at 1337. There is nothing unfair about holding plaintiff to its obligations under the plain text of the statute.

Finally, plaintiff asserts that PTO's request for reimbursement of the full expenses of § 145 proceedings is recent and thus, according to plaintiff, wrong. As we explained in our opening brief (at 33), however, that contention confuses the exercise of discretion with a lack of authority. PTO has historically refrained from seeking reimbursement of its personnel expenses under § 145, but it has never affirmatively disclaimed that authority. This case is therefore unlike the cases on

which plaintiff relies, which involved disruptions of affirmative and long-settled agency constructions. *See Zenith Radio Corp. v. United States*, 437 U.S. 443, 457-58 (1978) (relying on settled interpretation of language in Tariff Act made in Treasury Department decisions since 1898); *Singh v. Brake*, 222 F.3d 1362, 1371 (Fed. Cir. 2000) (examining reliance interests affected by a new procedural rule adopted by PTO). Rather, in an era in which Congress has required the PTO to operate on a user-funded basis, and as the cost and frequency of § 145 proceedings has increased following the Supreme Court's decision in *Hyatt*, PTO has concluded that it can no longer refrain from seeking payment of all the expenses incurred by the agency in defending § 145 proceedings.

Plaintiff has no legitimate reliance interest in the PTO's prior discretionary choice not to seek recovery of its personnel expenses in § 145 cases. Indeed, the government specifically and expressly notified plaintiff in its answer to the complaint in this case that the government would seek recovery of those expenses. *See* Appx036. And the PTO had given the same notice in public filings in other cases filed before plaintiff's deadline for electing review in the district court. *See Intellectual Ventures I LLC v. Rea*, No. 1:13-cv-00534 (E.D. Va.) (doc. no. 28, filed July 1, 2013)*; Critchley v. Kappos*, No, 1:13-cv-00136 (E.D. Va.) (doc. no. 4, filed April 5, 2013) (filed under the parallel Lanham Act provision); *Shammas v. Focarino*, No. 1:12-cv-1462 (E.D. Va.) (doc. No. 10, filed Mar. 1, 2013) (same).

B. Plaintiff erroneously relies on the American Rule.

Plaintiff's argument on appeal, like the district court's reasoning below, rests almost entirely on the contention that § 145 is a conventional cost-shifting statute whose interpretation is governed by the "American Rule" presumption. But § 145 is not such a statute, and the American Rule has no application to § 145's mandatory, win-or-lose expense-recoupment scheme. And even if the statute were subject to the American Rule, the text is sufficiently clear to overcome that presumption.

1. Plaintiff's arguments concerning the American Rule rest on the premise that § 145 is a conventional cost-shifting statute whose interpretation is subject to the American Rule. The American Rule is the presumption that a losing party is generally not required to pay a prevailing party's attorney's fees, even if a statute provides for the shifting of costs or certain other expenses. *Alyeska Pipeline Serv. Co. v. Wilderness Soc'y*, 421 U.S. 240, 247 (1975). But as the Fourth Circuit explained, "the imposition of all expenses on a plaintiff in an ex parte proceeding, *regardless of whether he wins or loses*, does not constitute fee-shifting." *Shammas*, 784 F.3d at 221 (emphasis in original). Rather, § 145 imposes "an unconditional compensatory charge imposed on a dissatisfied applicant who elects to engage the PTO" in the more expensive and burdensome district court proceedings. *Id.*

Plaintiff fails to cite any example of a case in which the American Rule has been applied to a statute that shifts *all* expenses to a specified party in *every* circumstance, regardless of who prevails. *Cf.* Pl. Br. 16-17 (discussing statutes that authorize attorney's fees awards where "appropriate" or in the court's discretion). Indeed, even if plaintiff had prevailed on the merits of its § 145 action and obtained a judgment that its invention is patentable, plaintiff would still have been required to pay "[a]ll the expenses of the proceeding[]" in district court. That is the opposite of the American Rule. That sort of "unconditional compensatory charge," *Shammas*, 784 F.3d at 221, is not the sort of problem that the American Rule addresses.

Unsurprisingly, none of the American Rule cases on which plaintiff relies involves a remotely similar scheme. Like the district court, plaintiff principally relies on *Baker Botts LLP v. ASARCO LLC*, 135 S. Ct. 2158, 2165 (2015). In that case, it was undisputed that the Bankruptcy Code permitted the trustee in a bankruptcy proceeding to recover attorney's fees as part of "reasonable compensation for actual, necessary services rendered" to the estate. At issue was the more attenuated question of whether the statute permitted an award of attorney's fees for success in ancillary litigation over the size of a fee award under that provision. Noting that the American Rule generally governs the payment of fees in such "adversarial litigation," the Court applied the American Rule in

declining to read the statutory authorization for reasonable compensation in bankruptcy cases to authorize fee-shifting in related fee litigation. *Baker Botts*, 135 S. Ct. at 2164. *Baker Botts* thus involved an entirely conventional application of the American Rule: the Court held that, in the absence of statutory authorization, the losing party in attorney's fee litigation would not be required to pay the prevailing party's attorney's fees for that litigation.

If any case is analogous, it is not *Baker Botts* but *Cloer*. As already discussed, *Cloer* involved the interpretation of a provision of the Vaccine Act that authorized attorney's fees for "any proceeding on . . . a petition." 133 S. Ct. at 1891. The Supreme Court concluded that fees incurred in prosecuting even an untimely petition were compensable under the Act's "broad[]" and "unambiguous[]" terms. 133 S. Ct. at 1893. The Court reached that conclusion, moreover, without resort to the American Rule—despite the explicit invocation of the Rule in the government's merits brief in the Supreme Court and in Judge Bryson's dissenting opinion in this Court. *See Cloer v. Secretary of Health & Human Servs.*, 675 F.3d 1358, 1366-67 (Fed. Cir. 2012) (en banc) (Bryson, J., dissenting) (arguing that the American Rule should bar compensation for fees for an untimely application); United States Br., *Sebelius v. Cloer*, No. 12-236, 2013 WL 75285, at *32 (U.S. Jan. 4, 2013) (arguing that an interpretation "that authorizes an award of attorneys' fees and costs on an untimely petition is

disfavored because it would substantially depart from the common law," including the American Rule). The Supreme Court concluded that any background presumptions "g[a]ve way" in the face of the broad and unambiguous language chosen by Congress. *Id*. at 1896.[1] For the same reasons, the American Rule has no application to § 145, which requires the applicant in a § 145 case to pay "[a]ll the expenses of the proceeding[]."

2. For essentially the same reasons, even if § 145 were analyzed under the American Rule, the district court's order would require reversal. Section 145 clearly evinces Congress's intent to place the full economic burden of district court proceedings on a plaintiff who elects that path. Under plaintiff's view, nothing short of the words "attorney's fees" would satisfy the American Rule. But the American Rule is not a magic-words requirement; it is a simply a presumption about congressional intent. *See Alyeska Pipeline*, 421 U.S. at 260.

Here, as in *Cloer*, the plain language of the statute answers any question about congressional intent. If Congress had merely specified that the applicant shall pay "the expenses of the proceeding," leaving open the question of *which*

[1] Plaintiff relies on *York Research Corp. v. Landgarten*, 927 F.2d 119, 123 (2d Cir. 1991), to argue that § 145 is broad and, therefore, ambiguous. That case is inapposite. There, the court of appeals court noted that the ordinary meaning of an indemnification provision in an arbitrator's award for "any and all expenses" likely included attorney's fees, but that the arbitrator's intent was unclear. Even in those circumstances, the court did not apply the American Rule to preclude an attorney's fees award. *See id*. (remanding for clarification).

expenses, the American Rule might inform the interpretation of the statute. But Congress instead provided—unambiguously and without qualification—that "*[a]ll* the expenses of the proceeding[] shall be paid by the applicant." 35 U.S.C. § 145 (emphasis added); *see Shammas*, 784 F.3d at 222 (The word "all" establishes that the term "expenses" "should not be limited."). The American Rule requires nothing more.

CONCLUSION

For the foregoing reasons, the order of the district court denying PTO's personnel expenses should be reversed.

Respectfully submitted,

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United States Patent and Trademark Office

October 2016

CERTIFICATE OF SERVICE

I hereby certify that on October 11, 2016, I electronically filed the foregoing brief with the Clerk of the Court for the United States Court of Appeals for the Federal Circuit by using the appellate CM/ECF system. Participants in the case are registered CM/ECF users, and service will be accomplished by the appellate CM/ECF system.

s/ Jaynie Lilley
Jaynie Lilley

CERTIFICATE OF COMPLIANCE

I hereby certify that this brief complies with the requirements of Federal Rule of Appellate Procedure 32(a). This brief contains 3,727 words.

s/ Jaynie Lilley
Jaynie Lilley