

**IN THE UNITED STATES COURT OF APPEALS  
FOR THE FEDERAL CIRCUIT**

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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.

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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.

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## **STATEMENT OF RELATED CASES**

NantKwest's appeal from the district court's order granting summary judgment to the Patent and Trademark Office is currently pending before this Court. *See NantKwest v. Lee*, No. 15-2095. This Court set the appeals as companion cases. *See* Order of 4/12/16.

The government is not aware of any other related cases within the meaning of Federal Circuit Rule 47.5(b).



## INTRODUCTION

The Patent Act provides that, when a disappointed patent applicant elects to pursue a civil action under 35 U.S.C. § 145, “[a]ll the expenses of the proceedings shall be paid by the applicant.” Congress thus stipulated that, win or lose, the entire burden of the litigation must be borne by a patent applicant who chooses to proceed under § 145. The question in this appeal is whether “all the expenses of the proceeding” include the personnel expenses actually incurred by the Patent and Trademark Office in defending the proceeding.

In this case, the PTO rejected certain claims in a patent application assigned to NantKwest as obvious over the prior art. Although NantKwest could have appealed that decision directly to this Court, it elected to commence a civil action against the Director of the PTO under § 145. After extensive litigation, the district court granted summary judgment to the PTO on the merits. It is undisputed that, in defending the § 145 action, the PTO incurred not only expenses for expert witnesses, but also significant personnel expenses—that is, the expense of diverting agency attorneys and paralegals from other matters to the defense of NantKwest’s § 145 action. The district court ordered NantKwest to reimburse the agency’s expert witness expenses, but refused to order reimbursement of the agency’s personnel expenses, declaring such expenses unrecoverable as a matter of law notwithstanding the plain language of § 145. In so holding, the court expressly

disagreed with the Fourth Circuit's recent decision in *Shammas v. Focarino*, 784 F.3d 219 (4th Cir. 2015), construing the analogous provision of the trademark laws to require reimbursement of the PTO's personnel expenses.

The district court's refusal to order NantKwest to pay "*all* the expenses of the proceeding" is erroneous and should be reversed. As this Court has stressed, Congress required plaintiffs who elect to proceed in district court under § 145 to bear the "heavy economic burden of paying '[a]ll the expenses of the proceedings' regardless of the outcome." *Hyatt v. Kappos*, 625 F.3d 1320, 1337 (Fed. Cir. 2010) (en banc) (alteration in original), *aff'd*, 132 S. Ct. 1690 (2012). The expenses provision ensures that the economic burden of conducting § 145 proceedings falls entirely 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.

The district court's contrary ruling rests on a mistaken application of the "American Rule" presumption against requiring losing parties to pay a prevailing party's attorney's fees. As the Fourth Circuit explained in rejecting the same argument, that rule has no application to a statute like § 145, which requires one party to pay *all* the expenses of the proceeding *regardless* of who prevails. And in any event, the clear language of § 145 would satisfy the American Rule even if it applied.

## **STATEMENT OF JURISDICTION**

In its complaint, NantKwest invoked the jurisdiction of the district court under 35 U.S.C. § 145. Appx025; *see also* 28 U.S.C. §§ 1331, 1338. On September 2, 2015, the district court granted summary judgment to the government, Appx069. On February 5, 2016, the district court entered an order denying the government’s motion for expenses pursuant to 35 U.S.C. § 145. *See* Appx011. PTO timely filed a notice of appeal of the district court’s expenses order on April 1, 2016. Appx385; *see* Fed. R. App. P. 4(a)(1)(B). This Court has jurisdiction under 28 U.S.C. § 1295(a)(4).

## **STATEMENT OF THE ISSUE**

A disappointed patent applicant who chooses to commence a district court proceeding under 35 U.S.C. § 145 must pay “[a]ll the expenses of the proceeding.”

The question presented is whether “[a]ll the expenses of the proceeding” include the personnel expenses incurred by the Patent and Trademark Office in defending the proceeding.

## **STATEMENT OF THE CASE**

### **A. Statutory Background**

A disappointed patent applicant may obtain judicial review of an adverse decision of the Patent Trial and Appeal Board (Board) in either of two ways. First, under 35 U.S.C. § 141, the applicant may appeal directly to this Court. In such an

appeal, the court of appeals reviews the decision from which the appeal is taken on the record before the PTO. *See id.* §§ 143, 144; *Kappos v. Hyatt*, 132 S. Ct. 1690, 1694 (2012). Alternatively, the applicant may elect to initiate a civil action against the PTO in federal district court under 35 U.S.C. § 145.<sup>1</sup>

As this Court and the Supreme Court have explained, electing to proceed under § 145 carries both advantages and disadvantages for the applicant. On the one hand, the district court is not constrained by the administrative record before the agency, so the applicant may introduce new evidence and obtain a de novo judicial determination of the significance of that evidence. *See Hyatt*, 132 S. Ct. at 1694. On the other hand, Congress stipulated that, win or lose, “[a]ll the expenses of the proceedings shall be paid by the applicant.” 35 U.S.C. § 145; *see Hyatt v. Kappos*, 625 F.3d 1320, 1337 (Fed. Cir. 2010) (en banc) (observing that Congress imposed on applicants who elect to proceed in district court the “heavy economic burden of paying ‘[a]ll the expenses of the proceedings’ regardless of the outcome”) (alteration in the original), *aff’d*, 132 S. Ct. 1690 (2012).

The requirement that the applicant pay all the expenses associated with a proceeding under § 145 has a long history. The Patent Act of 1836 created a right

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<sup>1</sup> An applicant may pursue either a direct appeal to the Federal Circuit or a civil action in district court, but not both. *See* 35 U.S.C. § 141(a) (applicant who appeals to the Federal Circuit “waives his or her right to proceed under section 145”); *id.* § 145 (applicant may file a civil action “unless appeal has been taken”).

to commence a proceeding in equity in federal court to challenge a decision of the Patent Office. *See* Act of July 4, 1836 (1836 Act), ch. 357, § 16, 5 Stat. 117, 123. In 1839, Congress amended the Patent Act to require the party commencing such a litigation to pay “the whole of the expenses of the proceeding.” *See* Act of Mar. 3, 1839 (1839 Amendments), ch. 88, § 10, 5 Stat. 353, 354 (“[In] all cases where patents are refused for any reason whatever . . . where there is no opposing party . . . the whole of the expenses of the proceeding shall be paid by the applicant, whether the final decision shall be in his favor or otherwise.”). And, in 1870, Congress revised the Act, expanding the availability of judicial review to all disappointed patent applicants. Act of July 8, 1870, ch. 230, § 52, 16 Stat. 198, 205 (“[I]n all cases where there is no opposing party a copy of the bill shall be served on the commissioner, and all the expenses of the proceeding shall be paid by the applicant, whether the final decision is in his favor or not.”).<sup>2</sup> The expenses provision remained virtually unchanged through subsequent amendment to the Patent Act and the review provisions.

Congress subsequently incorporated a materially identical “all the expenses of the proceeding” requirement into the parallel provision of the Lanham Act. *See*

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<sup>2</sup> In 1893, Congress also allowed disappointed applicants to seek review directly in the court of appeals. Act of Feb. 9, 1893, ch. 74, §§ 1, 9, 27 Stat. 434, 434, 436 (allowing direct appeals from decisions of the Commissioner); *see also* *Frasch v. Moore*, 211 U.S. 1, 9 (1908) (describing the two avenues of review).

15 U.S.C. § 1071(b)(3) (if a disappointed trademark applicant elects to seek review by civil action in district court, “all the expenses of the proceeding shall be paid by the party bringing the case, whether the final decision is in favor of such party or not”). Prior to 1962, the Lanham Act incorporated by reference the procedures in the Patent Act, and, in that year, Congress adopted virtually identical language in the trademark expenses provision, explaining that the provision was intended to mirror the expenses requirement for civil actions under § 145. *See* S. Rep. No. 87-2107, at 6-7 (1962) (explaining that the prior trademark expenses provision “incorporates by reference the procedure of appeals to the Court of Customs and Patent Appeals and review by civil action in patent cases”). *Cf. American Steel Foundries v. Robertson*, 262 U.S. 209, 213-15 (1923) (construing predecessor to § 1071(b) to include same procedures as predecessor to § 145).

The Fourth Circuit recently interpreted the expenses provision of the Lanham Act in *Shammas v. Focarino*, 784 F.3d 219 (4th Cir. 2015), *cert. denied sub nom. Shammas v. Hirshfield*, 136 S. Ct. 1376 (2016).<sup>3</sup> There, the district court granted PTO’s request for personnel expenses, holding that the text of the expenses provision was “pellucidly clear” in requiring the plaintiff to reimburse the PTO its attorney and paralegal expenses. *Shammas v. Focarino*, 990 F. Supp. 2d 587, 591-

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<sup>3</sup> Prior to filing a cert petition, Shammas also filed a petition in the Fourth Circuit for rehearing and rehearing en banc, which the court rejected. *See* Doc. No. 48, *Shammas v. Focarino*, No. 14-1191 (4th Cir. July 1, 2015).

92 (E.D. Va. 2014). The court of appeals reasoned that the ordinary meaning of the term “expenses” encompassed attorney and paralegal expenses. *Shammas*, 784 F.3d at 222; *id.* at 224 (construing that the “plain language” of the provision to mean that a plaintiff who elects a district court proceeding must pay all of the expenses, including PTO’s personnel expenses, “whether he wins or loses.”). And, the court emphasized, “Congress modified the term ‘expenses’ with the term ‘all,’ clearly indicating that the common meaning of the term ‘expenses’ should not be limited.” *Id.* at 222. The Fourth Circuit rejected the contention that the expenses provision must explicitly provide for “attorney’s fees” in order for PTO to recover its personnel expenses because the Lanham Act’s expenses provision was not a fee-shifting provision. *Id.* at 223-24. “Because the PTO is entitled to recover its expenses even when it completely fails, § 1071(b)(3) need not be interpreted against the backdrop of the American Rule.” *Id.* at 223.

The Fourth Circuit found that the structure and history of the statute confirmed the plain meaning. By attaching the expense payment provision to the option to pursue a more “fulsome and expensive” district court proceeding, Congress “obviously intended to reduce the financial burden on the PTO in defending such a proceeding” by requiring the applicant to pay all of those expenses. *Shammas*, 784 F.3d at 225 (“Of course, if the dissatisfied applicant does not wish to pay the expenses of a de novo civil action, he may appeal the adverse

decision of the PTO to the Federal Circuit.”). The legislative history, the court determined, indicates that the expenses provision was “intended as 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,” and the “original understanding” of the predecessor provision in the 1839 Patent Act provides support for the conclusion that “expenses” included PTO’s salary expenses. *Id.* at 226-27.

#### **B. Factual Background and Prior Proceedings**

In 2001, Dr. Hans Klingemann filed a patent application directed to a method of treating cancer by administering natural killer cells. Appx024. The application was subsequently assigned to plaintiff NantKwest. *Id.* After a long and complicated examination, a PTO examiner rejected the application in 2010 as obvious in view of two prior art publications. Appx054-55. The Patent Trial and Appeal Board affirmed the rejection in October 2013. Appx055-56.

In December 2013, NantKwest filed its complaint in district court under § 145, seeking review of the Board’s decision. In its answer, PTO notified NantKwest that the government would seek personnel expenses, *i.e.*, attorney and paralegal salary expenses, as part of “all the expenses of the proceeding” that a plaintiff must pay. Appx036. In the ensuing discovery on the merits of the patentability dispute, both sides retained experts, who produced extensive reports



and participated in lengthy depositions. Appx075. In addition, the parties filed several motions, and the district court held a hearing on those motions.

On September 2, 2015, the district court granted summary judgment in favor of the PTO, holding that the application's claims were obvious. The court concluded that two prior art references "disclose[d] all the elements of the claimed invention. . . [and that] it is clear that a person of skill in the art in 1997 would have had a reasonable expectation of success and a motivation to combine the [two] prior art references." Appx048. The court entered judgment in PTO's favor, and NantKwest filed a timely notice of appeal. That appeal is currently pending before this Court. *See NantKwest v. Lee*, No. 15-2095 (4th Cir.).

### **C. The District Court's Expenses Decision**

Following the entry of judgment in its favor, PTO filed a motion for reimbursement of the "expenses of the proceeding," under § 145, including \$78,592.50 of personnel expenses calculated as the pro rata share of the salaries of the two attorneys and one paralegal who worked on the case. *See* Appx 083-084.<sup>4</sup> PTO also requested under the same provision certain expert witness expenses for the expert it retained to assist in the defense of the district court action.

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<sup>4</sup> Before the district court, NantKwest's raised no challenge to the number of hours expended or the pro rata salaries of the PTO employees who worked on the district court action. *See* Appx138 (challenging only the documentation PTO provided to establish that it, in fact, expended the amount claimed).

The district court granted in part and denied in part PTO's motion for expenses. Appx011. The court granted PTO's request for expert witness fees in full. But the court denied PTO's request for its personnel expenses. *Id.* The district court treated that request as a traditional request for fee-shifting subject to the "American Rule"—*i.e.*, the rule that "each litigant pays his own attorneys' fees, win or lose, unless a statute or contract provides otherwise." Appx003. The court interpreted the Supreme Court's decision in *Baker Botts LLP v. ASARCO LLC*, 135 S. Ct. 2158, 2164 (2015) to mandate that the American Rule applies in any form of "classic adversarial litigation." Appx005. Reasoning that judicial review of PTO decisions under § 145 is "naturally adversarial," the court concluded that the American Rule must bar the payment of personnel expenses under § 145 unless the statute expressly and specifically provides for the payment of attorney's fees.

Turning to the text of § 145, the district court declared that the term "expenses" does not encompass personnel expenses because the statute does not clearly address the shifting of attorney's fees. The court declared that the term "all of the expenses" means "a *collection* of the expenses used, commonly understood to encompass as [sic] printing, travel, and reasonable expert witness expenses." Appx004. The court concluded that the term "expenses" alone was too "broad" to overcome the American Rule's presumption against fee-shifting. Appx006-007. Acknowledging that, under *Baker Botts*, a statute need not use the magic phrase

“attorney’s fees” to deviate from the American Rule, the district court nonetheless found the phrase “all the expenses of the proceedings” insufficiently specific. The court emphasized that many ordinary fee-shifting statutes that use the term “expenses” also clarify that the term includes “attorney’s fees.” Appx006. The essential point, in the district court’s view, was that “Congress neither used the phrase ‘attorneys’ fees’ nor ‘fees’ nor any alternative phrase demonstrating a clear reference to attorneys’ fees.” Appx008.

Finally, the district court declared that the Fourth Circuit’s recent interpretation of the materially identical provision in the Lanham Act in *Shammas* was “[e]rroneous.” Appx008. The district court asserted that the Fourth Circuit’s ruling, which found the American Rule inapposite in interpreting 15 U.S.C. § 1071(b), was inconsistent with the Supreme Court’s subsequent decision in *Baker Botts*, Appx009.

## **SUMMARY OF ARGUMENT**

Under any interpretation of the plain language of § 145, the PTO’s personnel expenses are part of “all the expenses of the proceeding.” By using the broad term “expenses” and specifying that the applicant must pay “all” of those expenses, Congress left no doubt that § 145 requires a patent applicant who pursues de novo proceedings in district court to reimburse PTO for the expenses at issue here. The statute’s purposes, as recognized by this Court, underscore this interpretation:

Congress intended the “heavy burden” of the expenses associated with § 145 proceedings to fall on those who voluntarily elect to pursue those proceedings, rather than on the public or the other PTO users whose fees fund the agency’s operations.

The district court’s contrary interpretation disregards the text and history of § 145 and creates an unfounded tension with the application of virtually identical language in the Lanham Act. The linchpin of the district court’s reasoning was its erroneous application of the American Rule’s presumption against fee-shifting from prevailing parties to losing parties. As the Fourth Circuit explained in construing the analogous provision of the Lanham Act, the American Rule does not speak to the interpretation of a statute that, like § 145, requires one party to bear all the expenses of a case regardless of the outcome. And in any event, the clear language of § 145 would satisfy the American Rule even if it applied: Congress unambiguously expressed its intent to require a patent applicant to pay “*all the expenses*” associated with its decision to proceed under § 145. The American Rule requires nothing more.

### **STANDARD OF REVIEW**

The district court’s interpretation of 35 U.S.C. § 145 is reviewed *de novo*. *See Weatherby v. Dep’t of Interior*, 466 F.3d 1379, 1383 (Fed. Cir. 2006)

(“Statutory or regulatory interpretations . . . like other questions of law, are reviewed de novo.”).

## **ARGUMENT**

### **I. THE PTO’S PERSONNEL EXPENSES ARE “EXPENSES OF THE PROCEEDING” UNDER SECTION 145.**

The PTO’s personnel expenses in a § 145 action are “expenses of the proceeding” under the plain language of the statute. Requiring plaintiffs under § 145 to reimburse those expenses, moreover, comports with the purpose and history of the expenses provision, which is designed to ensure that the burden of litigating optional § 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.

#### **A. The PTO’s personnel expenses are “expenses of the proceeding” under the plain language of the statute.**

The personnel expenses proximately incurred by the PTO in defending a § 145 proceeding are part of “the expenses of the proceeding” under any straightforward reading of that phrase. “In construing a statute or regulation, we begin by inspecting its language for plain meaning.” *Sullivan v. McDonald*, 815 F.3d 786, 790 (Fed. Cir. 2016); *see also Bilski v. Kappos*, 561 U.S. 593, 603 (2010) (“In patent law, as in all statutory construction, ‘[u]nless otherwise defined, “words will be interpreted as taking their ordinary, contemporary, common

meaning.””). And, the “judicial inquiry ends where statutory language is plain and unambiguous.” *White v. United States*, 543 F.3d 1330, 1337 (Fed. Cir. 2008). Nothing in the Patent Act, or the parallel provision of the Lanham Act, defines the term “expenses.” And in the absence of a definition, courts give the words their “ordinary, contemporary, common meaning.” *Xianli Zhang v. United States*, 640 F.3d 1358, 1364 (Fed. Cir. 2011); *see, e.g., Smith v. United States*, 508 U.S. 223, 228 (1993).

The ordinary dictionary meaning of “expenses” encompasses expenditures for personnel. *Cf. Xianli Zhang*, 640 F.3d at 1364 (“Dictionary definitions can elucidate the ordinary meaning of statutory terms.”). According to *Black’s Law Dictionary*, an “expense” is an “expenditure of money, time, labor, or resources to accomplish a result.” *Black’s Law Dictionary* 698 (10th ed. 2014). Dictionaries contemporaneous with the original enactment of § 145’s predecessors provide similar definitions. *See, e.g., Noah Webster, American Dictionary of the English Language* (1st ed. 1828) (“A laying out or expending; the disbursing of money, or the employment and consumption, as of time or labor.”). The personnel expenditures that the PTO incurs in litigating a § 145 suit are “expenditure[s] of money, time, labor, or resources” and involve “the disbursing of money.”

Indeed, the Supreme Court has specifically recognized that the term “expenses,” when used in connection with civil litigation, generally includes

expenditures for the employment of “attorneys, experts, consultants, and investigators.” *Taniguchi v. Kan Pac. Saipan, Ltd.*, 132 S. Ct. 1997, 2006 (2012). In this respect, the Court noted, “expenses” stands in juxtaposition to more limited terms such as “costs,” which represent only “a fraction of the nontaxable *expenses* borne by litigants.” *Id.* at 2006 (emphasis added). *See also* 10 Charles Alan Wright et al., *Federal Practice and Procedure* § 2666 (3d ed. 1998) (“‘[e]xpenses,’ of course, include all the expenditures actually made by a litigant in connection with the action,” including expenses for attorneys).

Like the amounts expended for printing, travel, and expert witnesses the district court agreed are “expenses of the proceedings,” *see* Appx004, personnel expenses for the attorneys and paralegals that the PTO assigned to the litigation represent concrete expenditures by the agency proximately caused by NantKwest’s complaint—*i.e.*, resources otherwise available to the agency that were expended as a result of the litigation. NantKwest does not and could not dispute that the PTO actually incurred these expenses. Nor does the fact that the PTO diverted salaried employees to handle the § 145 litigation, rather than hire contractors specifically for the case, detract from the reality of the expenditure. This Court concluded in an analogous context that litigants represented by salaried union counsel, like the salaried government counsel here, could recover expenses for their attorneys under a provision providing for such compensation. *Raney v. Fed. Bureau of Prisons*,

222 F.3d 927, 934-35 (Fed. Cir. 2000); *see also id.* at 942 (Rader, J., dissenting) (disputing whether salaried counsel should receive fees at market rates or prorated amounts of counsel's salary, but not questioning whether the expenses of salaried counsel were reimbursable); *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 salary expenses it incurred in opposing an improper removal of a state court case).

In the only court of appeals decision to address this question, the Fourth Circuit construed the virtually identical language in the companion provision of the Lanham Act, 15 U.S.C. § 1071(b)(3), to permit the PTO to recover its personnel expenses. The court of appeals found that, in using the phrase “all the expenses,” Congress “obviously intended” to reduce the financial burden of these proceedings on the PTO, including 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.* And, the PTO incurred personnel expenses when its



employees were diverted from other tasks to defend the PTO in these proceedings. *See id.* at 223 (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.”); *Raney*, 222 F.3d at 934-35 (Fed. Cir. 2000) (the cost 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”).

**B. Congress intended plaintiffs under § 145, rather than taxpayers or other PTO users, to bear the expenses of optional district court proceedings.**

Construing the broad language of § 145 according to its plain meaning comports with the structure and purposes of the statute. As this Court recognized in its en banc decision construing § 145, the unusual opportunity that § 145 offers comes with a price: Congress required plaintiffs who elect to proceed in district court to bear the “heavy economic burden of paying ‘[a]ll the expenses of the proceedings’ regardless of the outcome.” *Hyatt v. Kappos*, 625 F.3d 1320, 1337 (Fed. Cir. 2010) (en banc) (alteration in original), *aff’d*, 132 S. Ct. 1690 (2012). The expenses provision 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.

Section 145 proceedings are optional. Every applicant for a patent has the right to appeal an adverse decision of the PTO directly to this Court and obtain review of the agency's decision on the administrative record. *See* 35 U.S.C. §§ 141, 143. An applicant in such an appeal is responsible only for paying her own expenses. Alternatively, the applicant may elect to proceed under § 145 and institute a civil action in district court in which she may conduct discovery, present new evidence, and obtain *de novo* review of the issues touched by the new evidence. *See Hyatt*, 132 S. Ct. at 1701. Section 145 thus provides an applicant with valuable procedural and evidentiary rights that are not available in a § 141 appeal. *Id.*; *accord Mazzari v. Rogan*, 323 F.3d 1000, 1004-05 (Fed. Cir. 2003).

But litigation in district court is expensive and time-consuming, much more so than direct appeals limited to the administrative record. Suits under §145 force the PTO and its employees to dedicate time and effort to conducting discovery, interviewing witnesses, filing and responding to motions, and addressing new evidence. Section 145 proceedings can ensnare the parties in full trials, with the attendant costs and burdens associated. *See, e.g., SD3, LLC v. Lee*, No. 08-1242 (D.D.C.)(section 145 action involving bench trial

on anticipation). An applicant's choice to proceed under § 145 thereby diverts the agency's resources from the PTO's principal mission of examining trademark and patent applications. Section 145's expense-allocation provision

ensures that these costs fall on the applicants who elect them. *See Shammass*, 784 F.3d at 223 (“And even though the PTO’s attorneys in this case were salaried, we conclude that the PTO nonetheless 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.”).

That principle is particularly important now that the PTO, at Congress’s direction, operates entirely as a user-funded agency. *See Leahy-Smith America Invents Act*, Pub. L. No. 112-29, § 10, 125 Stat. 284, 316 (2011) (requiring the PTO to operate as a revenue-neutral agency by setting fees to recover the “aggregate estimated costs” of operation). Applicants for patents and trademarks pay substantial fees—such as \$4000 for expedited patent examination, 37 C.F.R. § 1.17(c), and \$40 per hour for general labor for administrative services, *id.* § 2.6(b)(10)—that are calculated to cover the PTO’s expenses of operation. The district court’s order in this case, therefore, amounts to a determination that *other PTO users* should pay the personnel expenses incurred by the agency in response to NantKwest’s complaint under § 145, rather than NantKwest itself. The plain terms of the Patent Act make clear that Congress intended a different result: the applicant who voluntarily chooses a § 145 civil action, not other PTO users, must pay “[a]ll the expenses of the proceeding.” 35 U.S.C. § 145.

The expense-reimbursement requirement also serves the related purpose of deterring gamesmanship by plaintiffs who might withhold evidence during PTO proceedings and then present it to the district court later. *See Hyatt*, 625 F.3d at 1330. In *Hyatt*, this Court rejected the government’s argument that evidence strategically withheld from the PTO should be inadmissible in district court in a civil action under § 145. *Id.* at 1337. But the Court emphasized: “To deter applicants from exactly the type of procedural gaming that concerns the [PTO], Congress imposed on the applicant the heavy economic burden of paying ‘[a]ll the expenses of the proceedings’ regardless of the outcome.” *Id.* (second alteration in original). The Court reasoned that an applicant would have no incentive to withhold evidence from the PTO in favor of a later district court proceeding “when the party (as plaintiff) would be obligated to pay all the expenses—including the defendant PTO’s expenses.” *Id.* The district court’s atextual exception for personnel expenses—which in most cases constitute the bulk of the expenditures born by PTO in these proceedings—undermines the purpose of the provision and unfairly requires other PTO users to bear the burden of tactical litigation choices by § 145 plaintiffs.

**C. The history of § 145 reinforces the conclusion that personnel expenses are “expenses of the proceeding.”**

The history of § 145 provides further support for the conclusion that the statutory term “expenses” includes personnel expenses. *See Shammass*, 784 F.3d at

226 (relying on the “legislative history” of § 145 and its predecessor provision, that “was intended as 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”).

The Patent Act of 1836 created a right to commence a proceeding in equity in federal court to challenge a decision of the Patent Office. *See* 1836 Act, § 16, 5 Stat. at 123-24. In 1839, Congress amended the Patent Act to require the party commencing such a litigation to pay “the whole of the expenses of the proceeding.” *See* 1839 Amendments, § 10, 5 Stat. at 354 (“[In] all cases where patents are refused for any reason whatever . . . where there is no opposing party . . . the whole of the expenses of the proceeding shall be paid by the applicant, whether the final decision shall be in his favor or otherwise.”).

Although there are no other references to “expenses” in the 1839 amendments, Congress did use that term once in the original 1836 Patent Act: to specify that applicant fees shall be used to pay the “expenses of the Patent Office,” including “the salaries of the officers and clerks herein provided for.” 1836 Act, § 9, 5 Stat. at 121 (“[B]efore any application for a patent shall be considered by the commissioner as aforesaid, the applicant shall pay into the Treasury of the United States, or into the Patent Office [certain sums]. . . . And the moneys received into the Treasury under this act shall constitute a fund for the payment of the *salaries of*

*the officers and clerks* herein provided for, *and all other expenses of the Patent Office.*” (emphasis added)). It is therefore telling that Congress directed in the 1839 amendments that a party seeking review of a Patent Office decision by an original suit was required to reimburse “the whole of the *expenses* of the proceeding.” Congress thus provided that the applicant would pay “the whole of the expenses of the proceeding,” against the background of a Patent Act that employed the term “expenses” in the broad sense of the expenses of the Patent Office, including salaries, that were to be funded by application fees. As the Fourth Circuit observed, “Congress’ original understanding of ‘expenses’ with respect to the 1836 Patent Act and the 1839 amendments provides substantial support” for the interpretation of “expenses” to include PTO’s personnel expenses. *Shammas*, 784 F.3d at 227 (4th Cir. 2015); *see also infra* pp. 26-27 (discussing historical understanding of district court actions as a continuation of the administrative process and the expenses provision as analogous to user fees).

## **II. THE DISTRICT COURT MISTAKENLY ANALYZED SECTION 145’S EXPENSES PROVISION UNDER THE AMERICAN RULE.**

The district court did not dispute that the PTO incurred personnel expenses as an immediate and proximate consequence of NantKwest’s choice to proceed under § 145. Nor was there any dispute that the amount of the expenses for which the agency sought reimbursement represented a reasonable number of personnel

hours for this complex district court action. The district court declared as a matter of law, however, that the phrase “all the expenses of the proceeding” excludes those expenses, expressly rejecting as “erroneous” the Fourth Circuit’s interpretation of the parallel provision of the Lanham Act. Appx008-10.

The linchpin of the district court’s analysis was its conclusion that the American Rule’s presumption against awarding attorney’s fees to prevailing parties forecloses interpreting § 145’s expenses provision to include the PTO’s personnel expenses. But as the Fourth Circuit correctly recognized, the American Rule has no application to a statute that does not shift attorney’s fees from prevailing parties to losing parties, but instead categorically requires one party to pay the whole expenses of a litigation regardless of the outcome. And even if the American Rule’s presumption were understood to apply to § 145, the statute’s explicit mandate that the plaintiff pay “*all* the expenses of the proceeding” would satisfy it.

**A. Section 145 does not implicate the American Rule.**

Requiring a patent applicant who elects to proceed in district court under § 145 to reimburse all the expenses incurred by the PTO in defending that action, including its personnel expenses, does not implicate the American Rule. The American Rule provides that “the prevailing litigant is ordinarily not entitled to collect a reasonable attorneys’ fee from the loser.” *Alyeska Pipeline Serv. Co. v.*

*Wilderness Soc’y*, 421 U.S. 240, 247 (1975). Under § 145, by contrast, it is irrelevant which party prevails and which party loses. Instead, “Congress imposed on the applicant the heavy economic burden of paying ‘[a]ll the expenses of the proceedings’ regardless of the outcome.” *Hyatt*, 625 F.3d at 1337. Neither the Supreme Court’s decision in *Baker Botts LLP v. ASARCO LLC*, 135 S. Ct. 2158 (2015), on which the district court relied, nor any other decision of the Supreme Court or this Court applies the American Rule to any similar statutory scheme.

As the Fourth Circuit explained with respect to the parallel provision of the trademark laws, “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 that implicates the American Rule.” *Shammas*, 784 F.3d at 221. Rather, the court explained, it is “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.*

This Court and the Supreme Court have repeatedly recognized that the American Rule concerns the circumstances in which a losing party will be required to pay the prevailing party’s attorney’s fees. *See e.g., Buckhannon Bd. & Care Home, Inc. v. West Va. Dep’t of Health & Human Res.*, 532 U.S. 598, 602 (2001) (explaining that, under the “‘American Rule,’ we follow ‘a general practice of not awarding fees to a prevailing party absent explicit statutory authority’”). It is a



rule adopted by American courts in contrast to the rule applied in courts of other countries, in which a prevailing litigant is normally entitled to have his legal fees paid by the loser. *See Rohm & Haas Co. v. Crystal Chem. Co.*, 736 F.2d 688, 690 (Fed. Cir. 1984) (“Unlike countries which follow the ‘English Rule,’ our courts do not routinely assess attorney fees against the losing party.”); *accord Brickwood Contractors, Inc. v. United States*, 288 F.3d 1371, 1377 (Fed. Cir. 2002).

For this reason, as the Supreme Court has recognized, statutory departures from the American Rule typically speak in terms of “prevailing” parties. *Baker Botts*, 135 S. Ct. at 2164 (“Although these ‘[s]tatutory changes to [the American Rule] take various forms’ they . . . usually refer to a ‘prevailing party’ in the context of an adversarial ‘action.’”) (brackets in original; citation omitted). Even the Patent Act’s fee-shifting provision reflects this feature of the American Rule: “The court in exceptional cases may award reasonable attorney fees to the prevailing party.” 35 U.S.C. § 285. *See Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749, 1753 (2014) (noting that, until the Patent Act’s amendments in 1946, courts applied the American Rule to preclude fee-shifting in the Patent Act); *Rohm & Haas*, 736 F.2d at 690 (Fed. Cir. 1984) (describing history).

The district court cited no example of a case applying the American Rule to a statute that requires one party to pay all the expenses of the proceeding regardless

of the outcome, and we are aware of none. The district court emphasized the Supreme Court’s observation in *Baker Botts* that the American Rule applies in “adversarial litigation.” Appx005 (citing *Baker Botts*, 135 S. Ct. at 2164). But that observation is unremarkable: it is “adversarial litigation” that results in prevailing parties and losing parties.

It would be particularly anomalous to apply the American Rule in the context of § 145. The district court’s ruling misapprehends the unique nature of these proceedings and their relationship to the PTO application process. *See Hyatt v. Doll*, 576 F.3d 1246, 1256 (Fed. Cir. 2009), *vacated on other grounds sub nom.*, *Hyatt v. Kappos*, 366 F. App’x 170 (Fed. Cir. 2010) (noting the “unusual” structure of the review process); *see also Shammass*, 784 F.3d at 226 (noting the “relatively rare” feature of permitting an aggrieved party to choose between two avenues of review).

Section 145 actions are, in both historical and functional terms, an extension of the ex parte patent application process. During the nineteenth century, the Supreme Court described the de novo proceeding provided by §145’s predecessor provision as distinct from “a technical appeal” of the PTO’s decision. Rather, the Court explained, “the proceeding is, in fact and necessarily, a part of the application for the patent.” *Gandy v. Marble*, 122 U.S. 432, 439 (1887). The de novo proceeding was treated in practical effect as a continuation of the

examination proceeding, in which the applicant could receive an adjudication of his entitlement to a patent based on new evidence.

In this sense, the expense-reimbursement provision of § 145 is a direct counterpart to the application fees that are designed to defray the PTO's examination expenses. 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 entire expenses for the proceeding, including the agency's personnel expenses. As already discussed, the 1836 Patent Act required the applicant to pay an application fee designed to help cover the cost of the PTO's examination—that is, to pay the “expenses of the Patent Office,” including “the salaries of the officers and clerks herein provided for.” 1836 Act § 9, 5 Stat. at 121. Congress used similar language in the 1839 Act when it first required each applicant to pay the “expenses of the proceeding” if the applicant elected the de novo judicial proceeding to obtain a patent. 1839 Amendments § 10, 5 Stat. at 354.

Because the proceeding authorized by § 145 takes place before a court, the PTO's expenses necessarily include expenses for PTO personnel who are attorneys, rather than patent examiners. But that does not transform an order requiring an applicant to fulfill its obligations under the expenses-reimbursement requirement of § 145 into an award of “attorney's fees” in violation of the

American Rule. It is, instead, an “unconditional compensatory charge imposed on a dissatisfied applicant who elects to engage the PTO” in de novo district court proceedings, in order to ensure that those expenses are borne by the applicant rather than the public or other PTO users. *Shammas*, 784 F.3d at 221. And, accordingly, PTO has sought only its actual salary expenses, not attorney time at market or judicially-established hourly rates applicable to awards of attorney’s fees.

In concluding that the American Rule applies (and in rejecting the Fourth Circuit’s contrary conclusion in *Shammas*), the district court relied on the Supreme Court’s decision in *Baker Botts*. Appx005. *Baker Botts* construed a provision of the Bankruptcy Code, 11 U.S.C. § 330(a)(1), that authorized payment for “services rendered” to the estate administrator in a bankruptcy proceeding, including legal services. It was undisputed that the statute authorized an award of attorney’s fees for services provided in the successful bankruptcy proceeding; the question was whether the statute also permitted a supplemental award of attorney’s fees for the defense of the fee application itself. Invoking the American Rule, the Court held that the statute did not. *Baker Botts*, 135 S. Ct. at 2165-66. The Court emphasized that the Bankruptcy Code authorized an award of attorney’s fees only for “actual, necessary services rendered” to the bankruptcy estate. *Id.* at 2165. Litigation *against* the bankruptcy administrator over the size of a fee award, the Court

explained, “cannot be fairly described” as services rendered *to* the bankruptcy administrator. *Id.* Consequently, because the statute did not clearly provide for shifting of attorney’s fees in that context, the Court concluded that the American Rule foreclosed an award of fees for the fee-defense litigation. *Id.* at 2164-65.

Nothing in *Baker Botts* suggests that the American Rule would govern the interpretation of a statute that, like § 145, requires a specific party to bear all of the expenses of a case regardless of the outcome of the underlying litigation. To the contrary, the Court rejected the statutory construction advanced by the petitioner in *Baker Botts* in part because it “could end up compensating attorneys for the *unsuccessful* defense of a fee application.” 135 S. Ct. at 2166. That result, the Court explained, would involve a “particularly unusual deviation from the American Rule,” because most fee-shifting statutes “permit a court to award attorney’s fees “only to a ‘prevailing party,’ a ‘substantially prevailing’ party, or a ‘successful’ litigant.” *Id.* (quoting *Hardt v. Reliance Standard Life Ins. Co.*, 560 U.S. 242, 253 (2010)) (quotation marks omitted).

Section 145, by contrast, involves exactly such an unusual scheme: the plaintiff must bear all the expenses of the proceeding “regardless of the outcome.” *Hyatt*, 625 F.3d at 1337. The American Rule does not speak to such a scheme, which wholly ousts the default rules that the American Rule presumes to apply absent a statutory exception. *See Shammass*, 784 F.3d at 223 (A “statute that

mandates the payment of attorneys fees without regard to a party's success is not a fee-shifting statute that operates against the backdrop of the American Rule.”).

Indeed, when the Supreme Court recently addressed a statutory scheme that required the payment of attorney's fees regardless of a litigant's success, the Court did not even mention the American Rule. In *Sebelius v. Cloer*, 133 S. Ct. 1886 (2013), the Court considered the fees provision of the National Childhood Vaccine Injury Act of 1986, 42 U.S.C. § 300aa-15(e), which provides for reasonable attorney's fees for successful as well as unsuccessful claims, as long as they are not frivolous. *See Cloer*, 133 S. Ct. at 1891 (describing the “unusual” compensation scheme). The issue in the Supreme Court was whether the statute requires payment on an untimely application. The Court held that it does, affirming this Court's en banc decision. And it did so without reference to the American Rule, notwithstanding the contention of the dissenting judges of this Court who argued that the American Rule should preclude fee awards for untimely applications absent express statutory authorization. *See Cloer v. Secretary of Health & Human Servs.*, 675 F.3d 1358, 1366-67 (Fed. Cir. 2012) (Bryson J., dissenting) (arguing that the American Rule should bar compensation for fees for an untimely application); *see also* United States Br., *Sebelius v. Cloer*, No. 12-236, 2013 WL 75285, at \*32 (arguing that 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).

**B. The plain language of § 145 satisfies the American Rule.**

In any event, even if an order to pay the PTO’s personnel expenses were properly understood as an attorney’s fee award, the language of § 145 provides the clear statement that the American Rule requires. *See Alyeska Pipeline*, 421 U.S. at 260. As already discussed, the plain meaning of the term “expenses” encompasses PTO’s personnel expenses, and the statute unambiguously requires the plaintiff to pay “*all* the expenses of the proceeding.” 35 U.S.C. § 145 (emphasis added).

As the Supreme Court has stressed, Congress employs the broad term “expenses” when it means to capture the full range of expenditures a party must make in litigation, including expenses of “attorneys.” *See Taniguchi*, 132 S. Ct. at 2006 (explaining that the term “costs” generally encompasses only “a fraction of the nontaxable expenses borne by litigants for attorneys, experts, consultants, and investigators”). In *Arlington Central School District Board of Education. v. Murphy*, 548 U.S. 291 (2006), for example, the Supreme Court rejected an effort to recover the fees of expert consultants under the cost-shifting provisions of the Individuals with Disabilities Education Act, holding that such fees are not compensable “costs.” *Id.* at 297. The Court emphasized that “[t]he use of this term of art, 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.” *Id.*

Here, Congress provided that “all the expenses of the proceeding” must be paid an applicant who elects to proceed under § 145. By using the broad term “expenses” coupled with the unqualified “all,” Congress left no doubt that the *entire* economic burden of the litigation should be borne by the plaintiff. No additional evidence of congressional intent would be necessary to satisfy the American Rule.

Although the district court agreed that the term “expenses” is “broad” enough to include attorney’s fees, it concluded that the term “expenses” alone was not specific enough to overcome the American Rule without explicit reference to “attorney’s fees.” Appx006-7 (citing examples of statutes). The Supreme Court, however, has not required Congress to use particular magic words in authorizing an award of attorneys’ fees. Rather, it has simply required that the statutory text reflect congressional intent to authorize fees. *See Baker Botts*, 135 S. Ct. at 1264 (emphasis omitted) (noting variety of phrases used in statutes that displace the American Rule, and suggesting that a reference to “litigation costs” would constitute sufficiently clear evidence of congressional intent). The American Rule is a tool for the resolution of ambiguity. Here, Congress did not simply provide



that a plaintiff under § 145 must pay “expenses,” without specifying *which* expenses. It said that the plaintiff must pay “*all* the expenses of the proceeding.”

The district court’s interpretation defies the plain meaning of the term “all” in the statute. Under the court’s reading, “all of the expenses” does not mean “all” of the expenses, but rather only a subset of the expenses of the proceeding.

Appx004. In its view, the term “all” instead refers only to “a collection of the expenses used.” *Id.* (emphasis omitted). But Congress plainly did not use the categorical term “all” to mean only “some” of the expenses of the proceeding. As the Fourth Circuit explained, the word “all” establishes that the term “expenses” “should not be limited.” *Shammas*, 784 F.3d at 222. When Congress specified that a party who files a civil action under § 145 must pay “all the expenses of the proceeding,” it meant exactly that—*all* the expenses incurred in connection with the proceeding, not merely some subset of those expenses. *Id.* at 221.

Finally, the district court reasoned that interpreting the recoverable under § 145 to include the PTO’s personnel expenses would be novel and, therefore, erroneous. Appx004. This reasoning conflates discretion and authority. The district court did not point to any case in which PTO has been *denied* personnel expenses under § 145 or its trademark law analog, 15 U.S.C. § 1071(b)(3). The PTO’s recent efforts to recover personnel expenses under both § 145 and § 1071(b) reflect the fact that, as district court proceedings under these statutes have grown

more common and more expensive, *cf. Hyatt*, 625 F.3d at 1337, the PTO has become increasingly reluctant to require other PTO users to subsidize the expenses of these discretionary proceedings.

The PTO explicitly cautioned NantKwest in its answer to the complaint in this case that the agency would seek reimbursement of its personnel expenses as part of its right to recover the “expenses of the proceeding.” Appx036.<sup>5</sup>

NantKwest was not required to proceed under § 145 to obtain review of the Board’s decision. Having elected to do so, it is obliged to reimburse *all* the expenses incurred by the PTO as a consequence of that choice.

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<sup>5</sup> Because the PTO notified NantKwest in its answer to the complaint in this case that it would seek personnel expenses, Appx036, NantKwest has no reliance interest in what it asserts was PTO’s prior position of not seeking these expenses. *See* Appx132 n.11.

## 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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June 2016

## **CERTIFICATE OF SERVICE**

I hereby certify that on June 6, 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 8,211 words.

*s/ Jaynie Lilley*  
Jaynie Lilley

## **STATUTORY ADDENDUM**

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### **35 U.S.C. § 145. Civil action to obtain patent**

An applicant dissatisfied with the decision of the Patent Trial and Appeal Board in an appeal under section 134(a) may, unless appeal has been taken to the United States Court of Appeals for the Federal Circuit, have remedy by civil action against the Director in the United States District Court for the Eastern District of Virginia if commenced within such time after such decision, not less than sixty days, as the Director appoints. The court may adjudge that such applicant 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.



## **ADDENDUM**

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IN THE UNITED STATES DISTRICT COURT FOR THE  
EASTERN DISTRICT OF VIRGINIA  
ALEXANDRIA DIVISION

NANKWEST, INC.

Plaintiff,

v.

MICHELLE K. LEE, Deputy Under Secretary  
of Commerce for Intellectual Property and  
Deputy Director of the United States Patent  
and Trademark Office

Defendant.

Case No. 1:13-cv-1566-GBL-TCB

**MEMORANDUM OPINION AND ORDER**

THIS MATTER is before the court on Defendant, Michelle K. Lee's Motion for Expenses (Doc. 78) at the conclusion of a trademark and infringement case, where the Plaintiff elected to bring its appeal of the PTAB's decision pursuant to 35 U.S.C. §145.

The first issue is whether 35 U.S.C. § 145's language requiring Plaintiff to pay for the USPTO's "expenses" encompasses the payment of the USPTO's attorney fees, thereby deviating from the American Rule, that each side bears their own attorney's fees. The second issue is whether the USPTO's expert witness' fees of \$800/hr. (and \$1000/hr. for testimony) were unreasonable given that Plaintiff's own expert, specializing in the same field, only charged \$400/hr.

The Court DENIES Defendant's Motion for Expenses regarding the Defendant's attorney fees and GRANTS Defendant's Motion for Expenses relating to Defendant's expert witness.

## I. BACKGROUND

This matter arises from a patent infringement dispute between Nantkwest, Inc. (“NantKwest”) and the United States Patent and Trademark Office (“USPTO”). Def. Mot. to Dismiss, at 1. After the PTAB rejected its patent claims, Plaintiff Nantkwest, pursuant to 35 USC § 145, elected to present its claim in this Court. *Id.* Section 145 allows a plaintiff to have a federal district court review its patent claims, along with new evidence, to determine the patentability of the relevant patents. 35 U.S.C. §145. However, when a plaintiff elects to have a district court review patents pursuant to § 145, Congress has mandated that the plaintiff is responsible for “all the expenses of the proceeding.” *Id.*

On December 20, 2013, under § 145, NantKwest filed this proceeding to challenge an adverse decision from the USPTO. Def. Mot. to Dismiss, at 2. On September 2, 2015, this Court entered summary judgment in favor of the USPTO. *Id.* The USPTO now seeks \$111,696.39 from Plaintiff as “expenses” of the proceeding under § 145. *Id.*

## II. STANDARD OF REVIEW

Under the “American Rule,” parties are responsible for their own attorneys’ fees. *In re Crescent City Estates, LLC*, 588 F.3d 822, 825 (4th Cir. 2009) (citing *Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 533 (1994)). Thus, a prevailing litigant is generally not entitled to recover attorneys’ fees from the non-prevailing litigant. *Id.* (citing *Alyeska Pipeline Serv. Co. v. Wilderness Soc’y*, 421 U.S. 240, 247 (1975)). However, there is an exception to this rule when attorney’s fees are provided by a statute. *Travelers Cas. & Sur. Co. of Am. v. Pac. Gas & Elec. Co.*, 549 U.S. 443, 448 (2007). Nevertheless, a statute will only be interpreted as allowing a deviation from the American Rule if it requires another party to pay attorney’s fees in specific and explicit provisions. *Baker Botts L.L.P. v. ASARCO LLC*, 135 S. Ct. 2158 (2015). The party

seeking to recover attorneys' fees has the burden of demonstrating that it is entitled to fees and that the amount it seeks is reasonable. *See Airlines Reporting Corp. v. Sarrion Travel, Inc.*, 846 F. Supp. 2d 533, 536 (E.D. Va. 2012).

### III. ANALYSIS

The Court DENIES Defendant's Motion for Expenses regarding the Defendant's attorney fees and GRANTS Defendant's Motion for Expenses relating to Defendant's expert witness.

#### 1. The USPTO is Not Entitled to Attorneys' Fees Under 35 U.S.C. §145.

##### *a. The American Rule Does Not Allow Payment Of Attorneys' Fees Unless A Statute Specifically And Expressly Requires It.*

Defendants are not entitled to attorneys' fees because the American Rule specifically forbids it. The American Rule states that each litigant pays his own attorneys' fees, win or lose, unless a statute or contract provides otherwise. *Baker Botts L.L.P. v. ASARCO LLC*, 135 S. Ct. 2158, 2164 (2015); *Hardt v. Reliance Standard Life Ins. Co.*, 560 U.S. 242, 252-53 (2010) ("[e]ach litigant pays his own attorney's fees, win or lose, unless a statute or contract provides otherwise."). Because the American Rule is rooted in common law, dating as far back as the 18<sup>th</sup> century, a party who seeks to deviate from the American Rule by requesting attorneys' fees from his opposing party, must have statutory justification. *Baker Botts*, 135 S. Ct. at 2164 ("The basic point of reference when considering the award of attorneys' fees is the bedrock principle known as the American Rule."); *Alyeska Pipeline Serv. Co. v. Wilderness Soc'y*, 421 U.S. 240, 271 (1975) ("absent statute or enforceable contract, litigants pay their own attorneys' fees.").

More precisely, the Supreme Court has stated that departures from the American Rule are authorized *only* when there is a "specific and explicit provision[] for the allowance of attorneys' fees under [the] selected statute[]." *Id.* at 2164 (quoting *Alyeska Pipeline Service*, 421 U.S. at 260.) In other words, "absent explicit statutory authority," to the contrary, a court must follow

the American Rule. *Id.* In light of this “specific and explicit provision” standard, Defendants must be able to articulate a statutory provision that clearly and explicitly allows them to recover attorneys’ fees from Plaintiff.

*b. Section 145 of Title 35 of the United States Code Does Not “Specifically and Explicitly” Allow for Payment of Attorneys’ Fees*

The language of §145 neither specifically nor expressly requires plaintiffs to pay their opponent’s attorneys’ fees. Section 145 does not justify a deviation from the American Rule. Section 145 states, in relevant part: “[a]ll the *expenses* of the proceedings shall be paid by the applicant.” 35 U.S.C. § 145 (2011). Thus, to satisfy the Supreme Court’s standard in *Baker Botts* and show that § 145 deviates from the American Rule, Defendants must be able to show the statute’s use of the term ‘expenses’ specifically encompasses attorneys’ fees. However, this is not possible because in § 145’s entire two-hundred-year existence, it has never been interpreted as including attorneys’ fees in “expenses.” Instead, Congress’s reference to “*all of the expenses*” merely points to a *collection* of the expenses used, commonly understood to encompass as printing, travel, and reasonable expert witness expenses.

The American Rule requires a statute to expressly indicate a deviation from its bedrock principle that each side pays its own fees. This deviation from the American Rule does not require a statute to specifically state “attorneys’ fees” in order for attorneys’ fees to be one of the statute’s contemplated “expenses.” Instead, the statute must, in keeping with the “specific and explicit” standard, clearly indicate that it requires a party to pay attorneys’ fees. *See Baker Botts*, 135 S. Ct. 2158. In *Baker Botts*, the Supreme Court held that a statute successfully deviated from the American Rule and therefore mandated a party pay its opponent’s attorneys’ fees *even though the statute never used the term “attorneys’ fees.” Id.* The Supreme Court crucially noted that the statute satisfied the “specific and explicit” standard because the statute’s language

authorizing “reasonable compensation for actual, necessary services rendered” *undisputedly* authorized an award of attorneys’ fees for the work in question. *See id.* (“*no one disputes* that §330(a)(1) authorizes an award of attorneys’ fees for that kind of work”). More specifically, the Supreme Court noted the statute’s use of the term ‘services rendered,’ in reference to what fees should be paid, further indicated Congress’s intent to include attorneys’ fees in the party’s required expenses. *Id.* This ruling shows that a statute can depart from the American Rule without requiring the term “attorneys’ fees” as long as its deviation is clear and unambiguous.

In spite of such a concrete precedent from the Supreme Court, Defendant still mischaracterizes *Baker Botts* in two ways. First, Defendant insists that the Supreme Court’s holding in *Baker Botts* does not apply to the case at hand because the Court, after agreeing the statute at issue *allowed* attorney’s fees, rejected an attorneys’ request to apply the statute to fees the attorney had personally accumulated while defending *himself* during fee litigation. However, this analysis actually cuts against Defendant’s position because, as Defendant notes in its Reply Brief, “[t]he Supreme Court *applied* the American Rule to what it viewed as a classic example of ‘adversarial litigation.’” (Doc. 93 at 8). In other words, the Supreme Court’s refusal to deviate from the American Rule in the single instance involving an attorney’s fee-defense litigation was based solely on the fact that the litigation the attorney sought expenses for, was not classic example of adversarial litigation, where “one side” is against “the other.” *See Baker Botts*, 135 S. Ct. at 2164. Instead, the attorney sought to use the relevant statute to recover attorney’s fees for he had previously imposed on his *own* client, and thus was defending, that removed this particular scenario from the “classic adversarial” case.

The case fits into the category of “classic adversarial litigation.” Plaintiff, opposing Defendants, sought judicial review of a USPTO ruling of in this Court. Simply because Plaintiff

brings suit under a statute that requires them to pay for all expenses, does not indicate that this suit is not adversarial. On the contrary, because such suits are naturally adversarial, the requirement of paying all expenses is meant to be a deterrent to litigation, not simply require a party to pay the expenses he would have had to pay regardless. Additionally, the very structure of §145 indicate that claims pursued under the statute are inherently adversarial. The statute is premised on a party's dissatisfaction with the administrative ruling such that, knowing well before bringing suit that it will have to pay the expenses of the USPTO, it *still* endeavors to have his suit heard in a federal district court. This cannot be described as anything but adversarial.

Second, Defendant alleges that *Baker Botts* stands for the proposition that a broad term like "reasonable compensation" is sufficient to deviate from the American Rule. This conclusion fails for many reasons. Primarily, Defendant's position ignores the requirement that a statute requiring attorney's fees be specific and explicit, as well as previous statutes that adhere to the 'specific and explicit' requirement. To be clear, when Congress intends a statute to deviate from the American Rule, it does so explicitly. *See, e.g.*, 35 U.S.C. § 285 (authorizing, in "exceptional cases," awards of "reasonable attorney fees"); 15 U.S.C. § 1114(2)(D)(iv) (imposing liability on party making material misrepresentations "for any damages, including costs and attorney's fees"); 15 U.S.C. § 1116(d)(11) (authorizing, in action for wrongful seizure of goods or marks, award of "a reasonable attorney's fee"); 15 U.S.C. § 1117(a) (authorizing, in "exceptional cases," awards of "reasonable attorney fees"); 15 U.S.C. § 1117(b) (authorizing, in counterfeit mark litigation, recovery of "a reasonable attorney's fee").

Further, even when a statute authorizes a broad term like 'costs' or 'expenses,' if such terms are intended to include attorney's fees, Congress will modify the term to specify or clarify the statute's meanings. *See, e.g.*, 11 U.S.C. § 363(n) (authorizing recovery of "any costs,



attorneys' fees, or expenses incurred"); 12 U.S.C. § 1464(d)(1)(B)(vii) (at the court's discretion, obligating federal savings associations to pay "reasonable expenses and attorneys' fees" in enforcement actions); 26 U.S.C. § 6673(a)(2)(A) (requiring lawyers who cause excessive costs to pay "excess costs, expenses, and attorneys' fees"); 31 U.S.C. § 3730(d)(4) (authorizing, in false claims suit, "reasonable attorneys' fees and expenses" to prevailing defendant); 12 U.S.C. § 5009(a)(1)(B) (holding party at fault liable for "interest and expenses (including costs and reasonable attorney's fees and other expenses of representation)"); Fed. R. Civ. P. 37(a)(5)(A) (requiring party at fault to pay "reasonable expenses . . . including attorney's fees").

Additionally, Defendant's argument misses the fact that in *Baker Botts*, the statute at issue did not simply state "reasonable compensation" but used the phrase "reasonable compensation for actual, necessary *services rendered*." *See id.* While it is true that in *Baker Botts*, the Supreme Court emphasized that *various* phrases—not solely "attorneys' fees,"—could indicate departure from the American Rule. such variations, whether "a reasonable attorneys' fee," "fees," or "litigation costs," all *unequivocally* indicate attorneys' fees. *Id.* at 2164. For example, the Equal Access to Justice Act, which dictates what fees a party must pay in specific suits against the government, makes a clear distinction between expenses *generally* and attorneys' fees, often referring to both terms in the same sentence. *See* 28 USC § 2412. Section (a)(1) the act states "a judgment for costs . . . *but not including the fees and expenses of attorneys*;" section (b) notes "a court may award reasonable fees *and* expenses of attorneys;" subsection (2) it outlines the payment of "fees *and* expenses of attorneys;" and in section (d)(1)(A) it states "a court shall award . . . fees *and* other expenses, *in addition to costs*." *Id.*

The Equal Access to Justice Act and the Supreme Court's interpretation of the specific and explicit language in *Baker Botts*, provide examples of statutory provisions that specifically

and explicitly authorize attorneys' fees. In both statutes, Congress' intentional inclusion of the term *fees*, rather than 'costs' or 'expenses' when it wanted to authorize attorneys' fees, make it is evident that §145 simply does not meet the standard articulated in *Baker Botts*. In §145 Congress neither used the phrase "attorneys' fees" nor "fees" nor any alternative phrase demonstrating a clear reference to attorneys' fees. *See* 35 U.S.C. § 145 (2011). Such ambiguity regarding the exact reach of the term "expenses" means §145 does not meet the Supreme Court's *Baker Botts* standard and therefore, cannot deviate from the American Rule.

*c. The Shammass Court's Reading That the American Rule Only Applies When The Prevailing Party Seeks Fees, Is Erroneous*

The Fourth Circuit's holding in *Shammass v. Focarino* does not correctly follow the later articulated Supreme Court standard in *Baker Botts*. In *Shammass*, the Fourth Circuit decided that "the American Rule [] applies only where the award of attorney[']s fees turns on whether a party seeking fees has prevailed to at least some degree." *Shammass v. Focarino*, 784 F.3d 219, 223 (4th Cir. 2015). Relying on previous Supreme Court cases that state the American Rule by addressing "the prevailing party," the *Shammass* court concluded that the American Rule applies *only* in the context of a prevailing party seeking fees from a losing party. *Id.* at 223 (concluding, "[t]hus a statute that mandates the payment of attorneys' fees without regard to a party's success is not a fee-shifting statute that operates against the backdrop of the American Rule."). The court then noted that, in the context of § 145, "[b]ecause the PTO is entitled to recover its expenses even when it completely fails, [§ 145] *need not be interpreted against the backdrop of the American Rule.*" *Id.*

Without more, this hardly justifies deviating from the American Rule's bedrock principle. Most important however, given the Supreme Court's decision *Baker Botts* decision after *Shammass*, specifying a clear standard that directly *opposes* the exception the *Shammass* court

articulated, this Court is bound to apply *Baker Botts* to the current case<sup>1</sup>. Granted, the *Shammas* decision cited Supreme Court cases that included the phrase “the prevailing party,” however, those cases made no reference to an express holding that the American Rule *only* applied to prevailing parties. For example, the *Shammas* court cited the Supreme Court’s decision in *Ruckelshaus v. Sierra Club*, which merely stated that “the consistent rule is that complete failure will not justify shifting fees.” 463 U.S. 680, 684 (1983). However, this affirmative statement does not necessitate its inverse. In other words, simply because the Supreme Court holds that a party’s failure does not justify shifting fees to its opponent, does not necessarily mean that in cases where “failure” is not possible (because the parties have agreed that one party will pay all expenses), the American Rule does not apply. Neither the *Shammas* court, nor Defendant has pointed to a Supreme Court case that affirmatively states that the American Rule only applies in contexts of prevailing parties. This complete omission, in light of a clearly articulated standard from the Supreme Court, reinforces the fragility in the *Shammas* justification. Given this, the Supreme Court’s 2015 standard articulated in *Baker Botts* should guide all determinations of whether a statute deviates from the American Rule.

Finally, the *Shammas* court notes that, even if it had erroneously concluded that the term “expenses” in § 145 deviates from the American Rule, its conclusion is nonetheless supported because it is clear from “ordinary parlance” that “expenses” is “sufficiently broad to include attorneys’ fees.” *Id.* at 22. But once again, this misinterprets the standard articulated in *Baker Botts*. The issue, when deciding if statutory language sufficiently deviates from the American Rule, is whether the language specifically and *explicitly* states that attorneys’ fees—in some way

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<sup>1</sup> Both Plaintiff and Defendant correctly recognize that the Fourth Circuit’s decision in *Shammas* is not binding on this Court because the Federal Circuit is the exclusive appellate authority for this action brought pursuant to part of the Patent Act (35 U.S.C. § 145). *See* Def’s Mtn. for Expenses at 9 n.2; Plt. Opp. at 13 n12.

or another—are authorized, *not* whether a term is broad enough to where it appears applicable under the terms in the statute.

As the *Shammas* court itself noted, Congress must speak with “heightened clarity” to overcome the presumption of the American Rule. *Shammas*, 784 F.3d at 223. In light of this, the Fourth Circuit’s references to the dictionary definition of expenses and the likelihood that the term expenses encompasses attorney fees do not affect this Court’s analysis. Instead, when viewing § 145, this Court must determine whether the statute *specifically and explicitly* authorized attorneys’ fees. When disturbing a bedrock principle with such harsh results, uncertainty is unacceptable. Finally, as Plaintiff aptly notes, no other court has supported or echoed *Shammas*’ rationale.

**2. Defendants’ Retention of Expert Lewis Lanier Does Not Appear Excessive; However, That Is at The Discretion of the Court.**

Plaintiff additionally contests Defendants’ use of an expert witness costing between \$800-\$1000/hr. given that Plaintiff’s expert only cost \$400/hr. This disparity in experts’ rates is not indicative of any misconduct by the Defendants. Before selecting their expert witness, Defendants sought nine different experts, did not choose the highest one, and eventually selected an expert whose fee is similar to recent cases the expert has served as a witness. Thus the Court holds that the USPTO’s expert Lewis Lanier’s total rate of \$33, 103.89 was not excessive in light of his previous rates and experience. Accordingly, the Court GRANTS Defendants’ Motion for Expenses for \$33, 103.89, for the costs of retaining its expert witness, Lewis Lanier.

**V. CONCLUSION**

The Court DENIES Defendant’s Motion for Expenses regarding the Defendant’s attorney fees of \$78,592.50 and GRANTS Defendant’s Motion for Expenses of \$33, 103.89 for Defendant’s expert witness, Lewis Lanier.

For the reasons stated above, it is hereby,

**ORDERED** that Defendant Michelle K. Lee's Motion for Expenses is **DENIED** for attorney's fees of \$78,592.50 and **GRANTED** for the fees of \$33, 103.89 for Defendant's expert witness Lewis Lanier.

**IT IS FURTHER ORDERED** that Plaintiff pay the USPTO \$33, 103.89 within forty-five (45) days of this Order.

**IT IS SO ORDERED.**

ENTERED this 5<sup>th</sup> day of February, 2016.

Alexandria, Virginia  
02 / 5 / 2016

\_\_\_\_\_  
/s/  
Gerald Bruce Lee  
United States District Judge

IN THE UNITED STATES DISTRICT COURT FOR THE  
EASTERN DISTRICT OF VIRGINIA  
ALEXANDRIA DIVISION

NANKWEST, INC.

Plaintiff,

v.

MICHELLE K. LEE, Deputy Under Secretary  
of Commerce for Intellectual Property and  
Deputy Director of the United States Patent  
and Trademark Office

Defendant.

Case No. 1:13-cv-1566-GBL-TCB

**FINAL JUDGMENT**

THIS MATTER is before the court on Defendant, Michelle K. Lee's Motion for Expenses (Doc. 78). For the reasons stated in the Memorandum Opinion and Order,

**IT IS HEREBY ORDERED** that JUDGMENT is ENTERED against Defendant Michelle Lee for the attorney's fees of the litigation, amounting to \$78,592.50 and in favor of Plaintiff Nankwest, Inc.

**IT IS FURTHER ORDERED** that JUDGMENT is ENTERED in favor of Defendant Michelle Lee for the expenses of expert witness Lewis Lanier, amounting to of \$33, 103.89 and against Plaintiff Nankwest, Inc.

Pursuant to Rule 58 of the Civil Rules of Procedure,

IT IS SO ORDERED.

ENTERED this 5<sup>th</sup> day of February, 2016

Alexandria, Virginia  
2 / 5 / 2016

\_\_\_\_\_  
/s/  
Gerald Bruce Lee  
United States District Judge