

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

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NANTKWEST, INC.,

Plaintiff-Appellee,

v.

JOSEPH MATAL, performing the functions and duties of the Deputy Under  
Secretary of Commerce for Intellectual Property and Director, U.S. Patent and  
Trademark Office,

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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**BRIEF FOR THE APPELLANT ON REHEARING EN BANC**

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## STATEMENT OF RELATED CASES

This Court decided the companion appeal to this case in *NantKwest, Inc. v. Lee*, 686 F. App'x 864 (Fed. Cir. 2017). The Court also stayed the appeal in *Realvirt v. Matal*, 17-1159, pending the resolution of this appeal. 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 directed 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 proceedings” include the personnel expenses actually incurred by the U.S. Patent and Trademark Office (USPTO) in defending those proceedings.

In this case, the USPTO 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 USPTO under § 145. After extensive litigation, the district court granted summary judgment to the USPTO on the merits. It is undisputed that, in defending the § 145 action, the USPTO 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 that subset of expenses unrecoverable as a matter of law notwithstanding the plain language of

§ 145. In so holding, the court rejected the Fourth Circuit’s recent decision in *Shammas v. Focarino*, 784 F.3d 219 (4th Cir. 2015) *cert. denied sub nom. Shammas v. Hirshfield*, 136 S. Ct. 1376 (2016), construing the analogous provision of the trademark laws to require reimbursement of the USPTO’s personnel expenses.

A panel of this Court correctly held that NantKwest must comply with its obligation to pay “*all* the expenses of the proceedings,” including the USPTO’s personnel expenses. 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*, 566 U.S. 431 (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 USPTO users whose fees fund the agency’s operations.

### **QUESTION PRESENTED**

The Court has directed the parties to address the following question:

Did the panel in *NantKwest, Inc. v. Matal*, 860 F.3d 1352 (Fed. Cir. 2017) correctly determine that 35 U.S.C. § 145’s “[a]ll the expenses of the proceedings”

provision authorizes an award of the U.S. Patent and Trademark Office’s attorney’s fees?

## STATEMENT OF THE CASE

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 proceedings.” The question presented in this case is whether “[a]ll the expenses of the proceedings” include the personnel expenses incurred by the USPTO in defending the proceeding.

### 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 USPTO. *See id.* §§ 143, 144; *Kappos v. Hyatt*, 566 U.S. 431, 433 (2012). Alternatively, the applicant may elect to initiate a civil action against the USPTO in federal district court under 35 U.S.C. § 145.<sup>1</sup>

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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”).

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*, 566 U.S. at 433. 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*, 566 U.S. 431 (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 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 and retained the expense-reimbursement provision. 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* 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”). In adopting that language in 1962, Congress explained 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

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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).

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 the 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 the USPTO’s request for personnel expenses, holding that the text of the expenses provision was “pellucidly clear” in requiring a plaintiff to reimburse the USPTO its attorney and paralegal expenses. *Shammas v. Focarino*, 990 F. Supp. 2d 587, 591-92 (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 the “plain language” of the provision to mean that a plaintiff who elects a district court proceeding must pay all of the expenses, including the USPTO’s personnel expenses). 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 the USPTO to recover its

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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 Order, Shammas v. Focarino*, No. 14-1191 (4th Cir. July 1, 2015).

personnel expenses because the Lanham Act’s expenses provision was not a fee-shifting provision. *Id.* at 223-24. “Because the [USPTO] 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—that is, the traditional presumption in the United States against requiring losing parties in litigation to pay the winner’s attorney’s fees. *Id.* at 223.

The Fourth Circuit found that the structure and history of the statute confirmed the plain meaning of the phrase “all the expenses.” By attaching the expense payment provision only to the option to pursue a more “fulsome and expensive” district court proceeding, Congress “obviously intended to reduce the financial burden on the USPTO 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 [USPTO] 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 USPTO 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 the USPTO’s salary expenses. *Id.* at 226-27.

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

1. In 2001, Dr. Hans Klingemann filed a patent application directed to a method of treating cancer by administering natural killer cells. Appx026. The application was subsequently assigned to plaintiff NantKwest. *Id.* After a long and complicated examination, a USPTO examiner rejected the application in 2010 as obvious in view of two prior art publications. Appx054-055. The Patent Trial and Appeal Board affirmed the rejection in October 2013. Appx055-056.

In December 2013, NantKwest filed its complaint in district court under § 145, seeking review of the Board’s decision. In its answer, the USPTO notified NantKwest that the government would seek personnel expenses, *i.e.*, attorney and paralegal salary expenses, as part of “all the expenses of the proceedings” that a plaintiff must pay. Appx036.

In the ensuing discovery on the merits of the patentability dispute, NantKwest availed itself of the opportunity to introduce new evidence not presented in the administrative proceedings. For example, during the administrative process, NantKwest relied solely on the testimony of Dr. Klingemann, the named inventor. Appx056. Before the district court, NantKwest introduced for the first time additional testimony from a person of ordinary skill in



the art to support its claim of patentability. Appx056-057. In essence, NantKwest argued that the agency had not understood the prior art references correctly, nor had it correctly understood whether the prior references had any bearing on the claimed invention or supported a motivation to combine. *Id.* In response, the USPTO retained its own expert who submitted a lengthy report to support the USPTO's claim that it correctly found the claims obvious. In addition, both sides participated in lengthy depositions of the two experts, and the USPTO also took the deposition of the named inventor. Appx075.

At the close of discovery, the parties engaged in significant motions practice. The USPTO filed a motion for summary judgment on patentability as well as a motion in limine to exclude some of NantKwest's new evidence on the basis that it was untimely; NantKwest in turn filed three separate motions in limine. Each of these motions required full briefing from each of the parties, *id.*, as well as a hearing on the summary judgment motion.

The district court granted summary judgment in favor of the USPTO, holding that the application's claims were obvious. The court concluded, like the patent examiner and the Board, 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 found

that “[e]ven considering the new evidence” introduced for the first time in the district court, the claimed invention was obvious, and the new evidence only confirmed the conclusions of the Patent Examiner and the Board. *Id.* Ultimately, the district court was simply unpersuaded by the new evidence submitted by NantKwest. *Id.* The court denied the parties’ motions in limine as moot in light of the summary judgment ruling. The court entered judgment in the USPTO’s favor, and this Court affirmed. *See NantKwest, Inc. v. Lee*, 686 F. App’x 864 (Fed. Cir. 2017).

2. Following the entry of judgment, the USPTO filed a motion for reimbursement of the “expenses of the proceedings,” 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* Appx083-084.<sup>4</sup> The USPTO also requested certain expert witness expenses for the expert it retained to assist in the defense of the district court action.

The district court granted in part and denied in part the USPTO’s motion for expenses, granting the request for expert witness fees in full but denying the USPTO’s request for its personnel expenses. Appx011. The district court concluded that the “American Rule”—*i.e.*, the traditional rule that “each litigant

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<sup>4</sup> NantKwest has not challenged the number of hours expended or the pro rata salaries of the PTO employees who worked on the district court action. *See NantKwest v. Matal*, 860 F.3d, 1352, 1354 n.2 (Fed. Cir. 2017).

pays his own attorneys' fees, win or lose, unless a statute or contract provides otherwise"—bars the payment of personnel expenses under § 145 because the statute does not expressly and specifically provide for the payment of attorney's fees. Appx003; Appx011.

Addressing the text of § 145, the district court reasoned 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 phrase “*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” overcome the American Rule's presumption against fee-shifting. Appx006-007. Acknowledging that 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. Finally, the district court declared that the Fourth Circuit's then-recent interpretation of the materially identical provision in the Lanham Act in *Shammas* was “[e]rroneous.” Appx008.

### **C. This Court's Decision**

A panel of this Court reversed the district court's expenses order. *NantKwest, Inc. v. Matal*, 860 F.3d 1352 (Fed. Cir. 2017). The panel assumed

without deciding that the American Rule’s presumption against shifting attorney’s fees from prevailing to losing parties applied to § 145. *See id.* at 1355 (expressing “substantial doubts” that the Rule applied in this context). Consistent with the two other courts of appeals to construe similar language, the panel concluded that the plain meaning of the term “expenses” includes the USPTO’s own personnel expenses. *Id.* at 1356 (citing *Shammas*, 784 F.3d at 222-23 (construing the analogous provision of the Lanham Act), and *United States v. 110-118 Riverside Tenants Corp.*, 886 F.2d 514, 520 (2d Cir. 1989) (considering § 6342 of the Internal Revenue Code)). This conclusion, the panel explained, is supported by dictionary definitions, statutory usage in the 1839 Patent Act, and Supreme Court case law. *NantKwest*, 860 F.3d at 1356-57 (citing *Taniguchi v. Kan Pacific Saipan, Ltd.*, 566 U.S. 560 (2012) (“Taxable costs are a fraction of the nontaxable expenses borne by litigants for attorneys, experts, consultants, and investigators.”)). Moreover, the panel concluded, the context of the statute makes clear, with the requisite specificity to overcome the American Rule, that Congress “meant to award attorneys’ fees under the broader term ‘expenses’” within this particular context. The panel rejected the notion that Congress must use the magical phrase “attorney’s fees” in order to overcome the American Rule’s presumption: “The law neither confines Congress to the use of any particular term or phrase to satisfy the American Rule’s specificity requirement nor requires that

Congress employ the words, ‘compensation,’ ‘fee,’ or ‘attorney’ to meet it.”

*NantKwest*, 860 F.3d at 1357-58.

The Court also rejected NantKwest’s argument that expenses of salaried employees were not recoverable as expenses “of the proceedings” as inconsistent with this Court’s precedents. The Court held that it could not endorse NantKwest’s view that Congress intended for the phrase “[a]ll the expenses of the proceedings” to include only *some* of the expense incurred as the proximate cause of NantKwest’s appeal. Moreover, the panel recognized that NantKwest’s reading of § 145 would “conflict” with this Court’s en banc decision in *Hyatt*, where the Court “recognized the ‘heavy economic burden’ that § 145 shifts onto applicants for electing this favorable appellate path.” *NantKwest*, 860 F.3d at 1360 (quoting *Hyatt*, 625 F.3d at 1337).

Judge Stoll dissented. In her view, because Congress did not use the term “attorney’s fees” in the provision and the term “expenses” is not itself sufficiently explicit, the language of § 145 does not overcome the American Rule’s presumption against fee-shifting.

### **SUMMARY OF ARGUMENT**

As the panel recognized, the USPTO’s personnel expenses are part of “all the expenses of the proceedings” under any interpretation of the plain language of § 145. 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 the USPTO 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 USPTO users whose fees fund the agency’s operations.

The contrary interpretation offered by NantKwest and the panel dissent disregards the text and history of § 145 and creates an unfounded tension with the application of virtually identical language in the Lanham Act. The American Rule does not govern the interpretation of a statute that, like § 145, requires the plaintiff to reimburse all the expenses of a proceeding 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 the applicant’s decision to proceed under § 145. The American Rule requires nothing more.

## **ARGUMENT**

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

The panel correctly concluded that the USPTO’s personnel expenses in a § 145 action are “expenses of the proceedings” under the plain language of the

statute. Requiring plaintiffs to reimburse those expenses, moreover, comports with the history and purpose of § 145's expense-reimbursement 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 USPTO users whose fees fund the agency's operations. The panel's conclusion is consistent with the only other court of appeals to construe the same language, and neither *NantKwest* nor the dissent have offered a compelling reason for this Court to reach a conflicting conclusion.

**A. The USPTO's personnel expenses are "expenses of the proceedings" under the plain language of the statute.**

As the panel correctly explained, the plain meaning of the term "expenses" encompasses the USPTO's personnel expenses, and the statute unambiguously requires the plaintiff to pay "*all* the expenses of the proceedings." 35 U.S.C. § 145 (emphasis added).

1. The personnel expenses proximately incurred by the USPTO in defending a § 145 proceeding are part of "the expenses of the proceedings" under any straightforward reading of that phrase. The ordinary dictionary meaning of "expenses" encompasses expenditures for personnel. *NantKwest*, 860 F.3d at 1356 (citing dictionary definitions); *cf. Xianli Zhang v. United States*, 640 F.3d 1358, 1364 (Fed. Cir. 2011) ("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 USPTO incurs in litigating a § 145 suit are “expenditure[s] of money, time, labor, or resources” and involve “the disbursing of money.”

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.” *Taniguchi v. Kan Pacific Saipan, Ltd.*, 566 U.S. 560, 573 (2012); *see NantKwest*, 860 F.3d at 1352. 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.” *Taniguchi*, 556 U.S. at 573 (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); *see also United States v. 110-118 Riverside Tenants Corp.*, 886 F.2d 514, 520 (2d Cir. 1989) (including attorney’s fees as “expenses of the [foreclosure] proceeding”).



That Congress has clarified that the term “expenses” includes attorney’s fees in conventional fee-shifting statutes confirms the natural breadth of that term. The examples collected by the panel dissent of statutes that use the phrase “expenses, including attorney’s fees,” *see NantKwest*, 860 F.3d at 1363-64 (Stoll, J., dissenting) (listing examples), establish that the term “expenses” includes attorney’s fees. These 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.”).

Personnel expenses for the attorneys and paralegals that the USPTO assigned to the litigation represent concrete expenditures by the agency in defending the agency in the civil action *NantKwest* commenced—*i.e.*, resources otherwise available to the agency that were expended as a result of the litigation, like the amounts for printing, travel, and expert witnesses even *NantKwest* agrees are “*expenses of the proceedings*,” Appx004. *NantKwest* does not and could not dispute that the USPTO actually incurred these expenses.

Nor does the fact that the USPTO 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. Federal Bureau of Prisons*, 222 F.3d 927, 934-35 (Fed. Cir. 2000) (en banc); *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); *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).

NantKwest’s contrary view ignores the reality of the USPTO’s opportunity costs and “would theoretically permit an award if the [USPTO] retained outside counsel to defend its interests but not if it elected to proceed on its own.” *NantKwest*, 860 F.3d at 1360. There is no reason why the USPTO’s (considerably less expensive) salaried staff time should be treated differently.

2. 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 proceedings.” 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 proceedings,” it meant exactly that—*all* the expenses incurred in connection with the proceedings, not merely some subset of

those expenses. *Id.* at 221. Congress could have hardly been more explicit in identifying which expenses a plaintiff must pay.

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 USPTO 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 USPTO, including the USPTO’s personnel expenses. *See Shammass*, 784 F.3d at 225. 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 USPTO incurred personnel expenses when its employees were diverted from other tasks to defend the USPTO in these proceedings. *See id.* at 223 (The USPTO “incurred expenses when its attorneys were required to defend the Director in the district court proceedings, because their engagement diverted the [USPTO’s] resources from other endeavors.”); *Raney*, 222 F.3d at 934-35.

**B. Congress intended plaintiffs under § 145, rather than taxpayers or other USPTO users, to bear the expenses of optional district court proceedings seeking de novo adjudication of patentability.**

The structure and purposes of the statute confirm that Congress intended all of the expenses associated with § 145 proceedings to be borne by the plaintiffs who elect them.

1. As this Court recognized in its en banc decision interpreting § 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* 625 F.3d at 1337. 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 USPTO users whose fees fund the agency’s operations. “Without shouldering these expenses itself,” as the statute requires, *NantKwest* “seeks a ruling that essentially requires other applicants to fund its own appeal.” *NantKwest*, 860 F.3d at 1360 n.9.

Section 145 proceedings are entirely optional. Every applicant for a patent has the right to appeal an adverse decision of the USPTO 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 its own expenses. Alternatively, the applicant may elect to proceed under § 145 and

institute a civil action in district court in which it may conduct discovery, present new evidence, and obtain *de novo* review of the issues touched by the new evidence. *See Hyatt*, 566 U.S. at 445-46. Section 145 thus provides an applicant with valuable procedural and evidentiary tools that are not available in a § 141 appeal. *Id.*; *see also NantKwest*, 860 F.3d at 1359 (noting the “pro-applicant benefits of the forum” under § 145).

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 USPTO 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 last several years and ensnare the parties in full-blown trials, with the attendant costs and burdens. *See, e.g., SD3, LLC v. Lee*, 205 F. Supp. 3d 37 (D.D.C. 2016) (§ 145 action involving bench trial on anticipation); *Halozyne, Inc. v. Matal*, No. 16-1580 (E.D. Va) (bench trial on obviousness and double patenting); *Hyatt v. Matal*, Nos. 09-1864, -1869, -1872-, 05-2310 (bench trial on prosecution laches, written description requirement, and anticipation/obviousness rejections); *Taylor v. Matal*, No. 16-12 (and consolidated cases) (E.D. Va.) (bench trial concerning rejections for obviousness and under 35 U.S.C. § 112). And, as this case demonstrates, even § 145 actions short of a trial can involve extensive discovery and motions practice, consuming significant

amounts of the USPTO's resources. An applicant's choice to proceed under § 145 thereby diverts the agency's resources from the USPTO's principal mission of examining patent and trademark applications. Section 145's expense-allocation provision ensures that these costs fall on the applicants who elect the more expensive district court proceedings. *See NantKwest*, 860 F.3d at 1360; *see also Shammass*, 784 F.3d at 223 (The agency's "attorneys were required to defend the Director in the district court proceedings, because their engagement diverted the USPTO's resources from other endeavors.").

Indeed, as the panel recognized, the bulk of the "expenses of the proceedings" in many § 145 actions are the personnel expenses incurred by the USPTO. *NantKwest*, 860 F.3d at 1359; *see also Shammass*, 784 F.3d at 225. Requiring the plaintiff to pay the "expenses of the proceedings" was "obviously intended to reduce the financial burden on the [USPTO] in defending such a proceeding." 784 F.3d at 225. Ignoring the vast majority of the expenses the USPTO incurred as a result of *NantKwest*'s choice to proceed in district court is inconsistent with the compensatory purpose of the provision. A plaintiff must pay the expenses it proximately forced the USPTO to incur; nothing more, nothing less.

That principle is particularly important now that the USPTO, 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 USPTO 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 USPTO’s expenses of operation. NantKwest’s position, therefore, amounts to a request that *other USPTO users* 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 knows at the outset that it, not other USPTO 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 USPTO 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 USPTO 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 [USPTO], 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 USPTO in favor of a later district court proceeding “when the party (as plaintiff) would be obligated to pay all the expenses—including the defendant [USPTO’s] expenses.” *Id.* Creating an atextual exception for personnel expenses—which constitute the bulk of the expenditures born by the USPTO in these proceedings—would undermine the purpose of the provision and unfairly require other USPTO users to bear the burden of tactical litigation choices by § 145 plaintiffs.

2. The panel dissent suggested that it is unfair to place this burden on § 145 plaintiffs. *See NantKwest*, 860 F.3d at 1365 (Stoll, J., dissenting). But the question of the equitable allocation of burdens is one that Congress has addressed in the language of the statute, and it is hardly unfair to enforce that legislative judgment.

As the panel recognized, NantKwest elected to pursue review in the district court and “enjoyed the pro-applicant benefits of that forum,” *NantKwest*, 860 F.3d at 1359. Having received all of the benefits of its choice of proceeding, NantKwest must take the bitter with the sweet. *See Hyatt*, 625 F.3d at 1337 (“Where an applicant decides to pursue a § 145 action, this may reflect a belief that the application at issue is or could be especially commercially significant; in such a



case, the applicant likely believes that the additional cost of a § 145 action may be merited.”).

Indeed, 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 the USPTO’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 plaintiff’s argument that allowing the USPTO to recoup attorney travel expenses would mean “there would be absolutely no end to the charges” a plaintiff would be asked to pay, Appx417 (emphasis omitted)); *see also Hyatt*, 625 F.3d at 1337.

There is nothing unfair about holding NantKwest to its obligations under the plain text of the statute. To the contrary, adopting NantKwest’s atextual exception would unfairly require other USPTO users, through higher fees, to subsidize the “heavy economic burden” of litigating NantKwest’s elective § 145 action and others like it. The plain language of § 145 makes clear that Congress intended a different result.

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

The history of § 145 provides further support for the panel’s conclusion that the statutory term “expenses” includes personnel expenses. *See also Shammas*, 784 F.3d at 226 (relying on the history of § 145 and its predecessor provision).

1. 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 the USPTO’s personnel expenses. *Shammas*, 784 F.3d at 227.<sup>5</sup>

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<sup>5</sup> Indeed, the Report of the Commissioner of Patents for the Year 1845 to Congress states: “Two suits in equity are now pending against the Commissioner in the circuit court for the district of Pennsylvania, in which, as it has not been necessary for me to attend, I have employed counsel . . . .” Report of the Commissioner of Patents for the Year 1845, H. Doc. No. 29-140, at 8 (1st Sess. 1846). In the Report for the next year, the Report states: “The *expenses* of the office during the year 1846 are as follows, viz: . . . *contingent expenses*, including postage *and fees paid to counsel in two equity [illegible] pending against the Commissioner, in the United States district court for the eastern district of Pennsylvania, \$7,495.19*; compensation of the district judge, \$100 . . . .” Report of the Commissioner of Patents for the Year 1846, H. Doc. No. 29-52, at 1 (2d Sess. 1847) (emphasis added); *see also id.* at 14.

2. The panel dissent observed that the terms “expenses” and “costs” and even “damages” were listed as synonyms in dictionaries at the time Congress drafted the 1839 Amendments. *See NantKwest*, 860 F.3d at 1363 (Stoll, J., dissenting). That those terms had similar meanings, however, does not establish that Congress used one, “expenses,” to adopt a different, narrower meaning, *e.g.*, “costs” or “damages.” Nor is it dispositive that the Supreme Court has found a different word, “damages,” insufficient to overcome the American Rule. *Id.* Unlike the term “damages” which *has* been interpreted to exclude attorney’s fees, *see Summit Valley Indus. Inc. v. Local 112, United Bhd. of Carpenters & Joiners of Am.*, 456 U.S. 717, 722-23 (1982); *see also Arcambel v. Wiseman*, 3 U.S. (3 Dall.) 306 (1796) (counsel fees generally not considered part of the “damages” awarded in civil actions), *NantKwest* has pointed to no case in which the word “expenses” has been similarly limited. To the contrary, as already discussed, Congress has commonly used the term “expenses” to include expenses for attorneys.

Finally, the dissent suggested that interpreting § 145 to include the USPTO’s personnel expenses would be novel and, therefore, erroneous. *NantKwest*, 860 F.3d at 1363-64 (Stoll, J., dissenting); *see also* Appx004. This reasoning conflates discretion and authority. Neither *NantKwest* nor the dissent has pointed to any other case in which the USPTO has been *denied* personnel expenses under § 145 or its trademark law analog, 15 U.S.C. § 1071(b)(3). The USPTO’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 USPTO has become increasingly reluctant to require other USPTO users to subsidize the expenses of these optional proceedings, in light of Congress’s mandate that the USPTO fund itself exclusively through fees.

## **II. NANTKWEST’S RELIANCE ON THE AMERICAN RULE IS MISPLACED.**

As the Fourth Circuit explained, 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. The panel here likewise expressed “substantial doubts” that the American Rule has any relevance to § 145. *NantKwest*, 860 F.3d at 1355. But as the panel also correctly recognized, the language of § 145 is specific and explicit enough to overcome the American Rule in any event.

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

1. Requiring a patent applicant who elects to proceed in district court under § 145 to reimburse all the expenses incurred by the USPTO 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. No 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" USPTO in the more expensive and burdensome district court proceedings. *Id.*

This Court and the Supreme Court have repeatedly recognized that the American Rule applies to the interpretation of statutes that shift the prevailing party's responsibility to pay its own attorney's fees to the losing party. *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”). The “American Rule” distinguishes our practice from 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, LLC v. ASARCO*, 135 S. Ct. 2158, 2164 (2015) (“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). Indeed, “when Congress has chosen to depart from the American Rule by statute, virtually every one of the more than 150 existing federal fee-shifting provisions predicates fee awards on some success by the claimant; while these statutes contain varying standards as to the precise degree of success necessary for an award of fees—such as whether the fee claimant was the ‘prevailing party,’ the ‘substantially prevailing’ party, or ‘successful’—the consistent rule is that complete failure will not justify shifting fees from the losing party to the winning party.” *Ruckelshaus v. Sierra Club*, 463 U.S. 680, 684 (1983)

(footnotes omitted); *see also Hardt v. Reliance Standard Life Ins. Co.*, 560 U.S. 242, 254-56 (2010) (discretionary fee-shifting statutes implicitly require an assessment whether the claimant achieved some degree of success on the merits). Even the Patent Act fee-shifting provision for private infringement litigation 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 in private litigation); *Rohm & Haas*, 736 F.2d at 690 (describing history).

NantKwest has 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. As the dissent notes, *NantKwest*, 860 F.3d at 1365, it would be particularly anomalous to apply the American Rule in the context of § 145. But that is because the unique nature of these proceedings and their relationship to the USPTO application process demonstrate that the American Rule does not apply—not, as the dissent suggests, that some form of hyper-clarity is required beyond the constraints of the American Rule, *id.*

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 USPTO'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 reimburse the USPTO's examination expenses. Like an application fee, the requirement to pay the USPTO's expenses applies whether the application is successful or not. And like the application fee, it is intended to cover the USPTO'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 USPTO'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. Thus, requiring the applicant to pay the "expenses of the proceedings" logically included the agency's personnel expenses.

Because the proceeding authorized by § 145 takes place before a court, the USPTO's expenses necessarily include expenses for USPTO 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” within the scope of the American Rule. It is, instead, an “unconditional compensatory charge imposed on a dissatisfied applicant who elects to engage” the USPTO in de novo district court proceedings, in order to ensure that those expenses are borne by the applicant rather than the public or other USPTO users. *Shammas*, 784 F.3d at 221. And, accordingly, the USPTO has not sought personnel expenses at market or judicially-established hourly rates applicable to awards of attorney’s fees.

2. NantKwest cites the Supreme Court’s decision in *Baker Botts* to argue that the American Rule applies to § 145’s expense reimbursement scheme. *Baker Botts* construed a provision of the Bankruptcy Code, 11 U.S.C. § 330(a)(1), that authorized payment for “compensation 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 defending the fee application itself against the estate’s trustee. The Court held that the statute did not. *Baker Botts*, 135 S. Ct. at 2165-66. The Court rejected the statutory construction advanced by the petitioner in *Baker Botts* because it would “extend

[the] reach” of the fee-shifting provision “to ancillary litigation Congress never intended” in derogation of the American Rule. *NantKwest*, 860 F.3d at 1355.

Nothing in *Baker Botts* suggests that the American Rule plays any role or would govern the interpretation of all reimbursement statutes “irrespective of a prevailing party,” *NantKwest*, 860 F.3d at 1355, much less 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. Rather, as the Court explained in *Baker Botts*, such a provision 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.” 135 S.Ct. at 2166 (quoting *Hardt*, 560 U.S. at 253) (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 has no bearing on such a scheme, which wholly ousts the default rules that the American Rule presumes to apply absent a statutory exception. *See Shammas*, 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*, 569 U.S. 369 (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*, 569 U.S. at 373 (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 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).

**B. The plain language of § 145 would satisfy the American Rule in any event.**

In any event, as the panel correctly concluded, the specific and express language of § 145 satisfies the American Rule’s requirement that Congress speak clearly when it authorizes an award of attorney’s fees to a prevailing party. 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 the view of *NantKwest* and the dissent, 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 simply a presumption about congressional intent. Congress must speak clearly when it authorizes fee-shifting. *See Alyeska Pipeline*, 421 U.S. at 260. And it has done so here.

1. Congress instructed that a plaintiff pay the “expenses,” a term that clearly encompasses the USPTO’s personnel expenses, and clarified the scope of the expenses obligation by stating that “all expenses” must be paid. The text alone is clear enough to satisfy the American Rule, and the panel’s interpretation of the statute is confirmed by the history and purposes of the provision, as explained above.

The term “expenses” is a broad and includes attorney’s fees under any ordinary reading of the term. *See Taniguchi*, 566 U.S. at 573 (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), 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.*

The term “expenses” is both broad and specific enough to overcome the American Rule without explicit reference to “attorney’s fees.” Appx006-007 (citing examples of statutes). The Supreme Court has not required Congress to use particular magic words in authorizing an award of attorney’s fees. Rather, it has simply required that the statutory text reflect congressional intent to authorize fees. *See Baker Botts*, 135 S. Ct. at 2164 (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, there is no such ambiguity. 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 proceedings.”

NantKwest's interpretation of § 145 oddly suggests that the language "all the expenses" satisfies the American Rule with respect to witness expenses, yet not for personnel expenses. NantKwest does not dispute that the phrase "all the expenses" authorizes payment for the USPTO's retained experts. *See* Appx004, 010. It is well-settled, however, that the American Rule applies to the expenses of parties' own experts. *See Kansas v. Colorado*, 556 U.S. 98, 102 (2009) ("Congress' decision not to permit a prevailing party in the lower courts to recover its actual witness fee expenses may be seen as a decision to depart only slightly from the so-called 'American Rule,' under which parties generally bear their own expenses."). NantKwest effectively argues that the same three words are simultaneously clear enough with respect to some expenses of the proceedings, but not clear enough for other expenses.

More fundamentally, NantKwest's interpretation defies the plain meaning of the term "all" in the statute. Under its reading, "all of the expenses" does not mean "all" of the expenses, but rather only a subset of the expenses of the proceeding. 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 proceedings,” it meant exactly that—*all* the expenses incurred in connection with the proceedings. *Id.* at 221.

2. Instead of explaining how Congress could have meant only *some* of expenses of the proceedings when it said “*all* the expenses” of the proceedings, NantKwest and the dissent suggest that this language was not clear enough to overcome the American Rule’s presumption against fee-shifting. *NantKwest*, 860 F.3d 1363-64 (Stoll, J., dissenting); Appx006-008. That contention fundamentally misunderstands the American Rule’s requirement. The Supreme Court has required only that the statutory text reflect congressional intent to authorize fees, and it has explained that there are a variety of phrases used in statutes that displace the American Rule. *See Baker Botts*, 135 S. Ct. at 2164 (emphasis omitted) (suggesting that a reference to “litigation costs” would constitute sufficiently clear evidence of congressional intent).

Nor does the American Rule require Congress to use “magic words” to demonstrate its intent to shift the burdens of litigation from one party to another. *See Baker Botts*, 135 S.Ct. at 2164. “The law neither confines Congress to the use of any particular term or phrase to satisfy the American Rule’s specificity requirement nor requires that Congress employ the words, ‘compensation,’ ‘fee,’ or ‘attorney’ to meet it.” *Nantkwest*, 860 F.3d at 1358. And yet, NantKwest, joined by the district court and the dissent, suggest that nothing other than the



words “attorney’s fees” or the equivalent will satisfy the American Rule. *Id.* (“Under NantKwest’s narrow view, a statute could not meet the American Rule’s heightened demands without using the precise words ‘attorneys’ fees’ or some equivalent.”).

Furthermore, the examples given by NantKwest and the dissent of formulations that would satisfy the American Rule—*i.e.*, providing that a plaintiff pay the USPTO’s “attorney’s fees”—would make little sense in this context, as the panel explained. *See NantKwest*, 860 F.3d at 1358. Section 145 requires a plaintiff to name and sue the Director of the USPTO. The Director relies on a salaried staff of attorneys and paralegals, *see* 37 C.F.R. § 11.40(b), whose salary expenses are generally not thought of as traditional, private sector “attorney’s fees.” The work of the USPTO staff in defending § 145 actions, therefore, is “more precisely [characterized] as an ‘expense’ to the government than a ‘fee.’” *NantKwest*, 860 F.3d at 1358. Requiring that Congress provide that a plaintiff pay “attorney’s fees” in a provision that only applies to a government agency which employs salaried attorneys, not outside counsel, is a misapplication of the American Rule. Congress employed the most natural textual formulation to express its intent that the plaintiff pay the USPTO’s personnel *expenses* in the context of § 145 actions. *Id.* NantKwest’s cramped version of the American Rule would “force Congress into the untenable position of selecting a word that must be

applied in an unconventional and imprecise manner in the context of these unique proceedings.” *Id.*

## CONCLUSION

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

Respectfully submitted,

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November 2017

## **CERTIFICATE OF SERVICE**

I hereby certify that on November 15, 2017, 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*  
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## CERTIFICATE OF COMPLIANCE

I hereby certify this brief complies with the requirements of Fed. R. App. P. 32(a)(5) and (6) because it has been prepared in 14-point Times New Roman, a proportionally spaced font, and that this brief complies with the type-volume limitation of Fed. R. App. P. 32(a)(7)(B), because it contains 9,924 words, excluding the parts of the brief exempted under Rule 32(a)(7)(B)(iii), according to the count of Microsoft Word.

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