Case No. 16-1794

In the

United States Court of Appeals

for the

Federal Circuit

NANTKWEST, INC.,

Plaintiff-Appellee,

v.

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

Defendant-Appellant.

Appeal from a Decision of the United States District Court for the Eastern District of Virginia, No. 1:13-cv-01566-GBL-TCB · Honorable Gerald Bruce Lee, U.S. District Judge

BRIEF OF PLAINTIFF-APPELLEE NANTKWEST, INC.

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CERTIFICATE OF INTEREST

Counsel for Plaintiff-Appellee NantKwest, Inc. certifies as follows:

1. The full name of every party or amicus represented by us is:

   NantKwest, Inc., formerly CoNKwest, Inc.

2. The name of the real party in interest represented by us is:

   None.

3. All parent corporations and any public companies that own 10 percent or more of the stock of the parties represented by us are:

   None.

4. The names of all law firms and the partners or associates that appeared for the parties now represented by us in the trial court or are expected to appear in this Court are:

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Dated: September 6, 2016 /s/ *Morgan Chu*

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STATEMENT OF RELATED CASE

NantKwest, Inc.'s ("NantKwest") appeal of the District Court's decision granting the United States Patent and Trademark Office's (the "PTO") motion for summary judgment is currently pending before this Court. Appeal No. 15-2095. Appeal No. 15-2095 and this appeal are "companion cases and assigned to the same merits panel for oral argument." Dkt. No. 4.

STATEMENT OF JURISDICTION

NantKwest brought suit against the PTO in the United States District Court for the Eastern District of Virginia pursuant to 35 U.S.C. § 145. Appx024-033. On September 2, 2015, the District Court entered final judgment against NantKwest. Appx021 (Dkt. No. 77). On February 5, 2016, the District Court denied in part and granted in part the PTO's motion for expenses pursuant to § 145. Appx023 (Dkt. No. 97). The PTO filed a notice of appeal of the District Court's decision on April 1, 2016. *Id*. (Dkt. No. 100). This Court has jurisdiction pursuant to 28 U.S.C. § 1295(a)(4).

STATEMENT OF THE ISSUES

1. Whether the American Rule presumption that each litigant pay their own attorney's fees applies to § 145, which provides that "[a]ll the expenses of the proceedings shall be paid by the applicant."

2. Whether the American Rule presumption precludes the PTO from recovering its attorney's fees pursuant to the ambiguous language "expenses of the proceedings" in § 145.

INTRODUCTION

This is an appeal from a civil action pursuant to 35 U.S.C. § 145 that NantKwest commenced against the PTO, challenging the PTO's rejection on obviousness grounds of three claims in U.S. Patent Application Serial No. 10/008,955 (the "'955 application").

NantKwest is a clinical-stage immunotherapy company focused on harnessing the power of the components of the innate immune system—specifically, natural killer cells ("NK cells")—to treat cancer and other diseases. Phase I and II clinical trials of treatments using NantKwest's NK cell line, NK-92, to treat various forms of cancer, including acute myeloid leukemia and Merkel cell carcinoma, are currently in progress. Initial results have been very encouraging, with patients demonstrating longer average survival and, in some instances, complete disappearance of metastasis. All while demonstrating excellent safety and tolerability.

On December 7, 2001, seeking protection for its innovative cancer therapy, NantKwest filed the '955 application, claiming the *in vivo* use of NK-92 cells for the treatment of cancer. Appx026. On June 5, 2007, over five years after the filing

of the ’955 application and five years after the PTO published the ’955 application thereby allowing the public full access to its contents, the PTO mailed its first office action on the merits. Appx026-028. After another three years of prosecution, on December 20, 2010, the PTO mailed a Final Office Action. Appx031. NantKwest appealed to the Board of Patent Appeals and Interference (now the Patent Trial and Appeal Board (the “PTAB”)) on March 18, 2011. *Id.* On October 25, 2013, more than two years after NantKwest filed its Notice of Appeal, the PTAB issued its Decision on Appeal affirming the examiner’s rejection of claims 20, 26, and 27 as obvious and reversing the examiner’s rejection of claim 30. Appx031-032.

Over *twelve years* after filing the ’955 application, on December 20, 2013, NantKwest filed an action in the Eastern District of Virginia pursuant to § 145 seeking a *de novo* assessment of its entitlement to a patent on the invention claimed in the ’955 application. Appx024-033. The case, although not heavily litigated, remained pending for nearly two years in District Court until, on September 2, 2015, the District Court granted the PTO’s motion for summary judgment and final judgment was entered. Appx021 (Dkt. Nos. 76 and 77).

On September 16, 2015, the PTO filed a motion seeking $111,696.39 in “expenses” of the proceeding pursuant to § 145, including $78,592.50 in attorney’s fees. Appx021 (Dkt. No. 78). Accordingly, in addition to the cost of over twelve

years of prosecution, the cost of its own attorney's fees and expenses, and the cost of the PTO's expenses traditionally encompassed by § 145, including the money paid to expert witnesses, the PTO now asks that NantKwest also pay the unpredictable attorney's fees that the PTO elected to incur. As the District Court correctly found, this undue burden is not supported by the language of § 145 or its history.

Section 145 provides that "[a]ll the expenses of the proceedings shall be paid by the applicant." 35 U.S.C. § 145. For over 170 years, the PTO has interpreted this language to encompass printing expenses, counsel's deposition travel expenses, court reporter fees, and money paid to necessary expert witnesses—but *not* attorney's fees. This interpretation has been applied consistently to § 145, as well as to the related trademark provision 15 U.S.C. § 1071(b)(3), and their predecessor statutes. In 2013, the PTO reversed course, abandoning nearly two centuries of *never* interpreting "expenses" to include attorney's fees. For the first time, the PTO sought and was awarded attorney's fees as a component of its "expenses" pursuant to § 1071(b)(3). *Shammas v. Focarino*, 990 F. Supp. 2d 587, 594 (E.D. Va. 2014), *aff'd*, 784 F.3d 219 (4th Cir. 2015), *cert. denied sub nom. Shammas v. Hirshfeld*, 136 S. Ct. 1376 (2016). In a divided decision, the Fourth Circuit upheld that decision. *Shammas v. Focarino*, 784 F.3d 219, 221 (4th Cir. 2015), *cert denied sub nom. Shammas v. Hirshfeld*, 136 S. Ct. 1376 (2016).

The *Shammas* majority's decision was based on the premise that the American Rule presumption that each party bears its own attorney's fees does not apply to a statute which, like § 1071(b)(3) and § 145, awards attorney's fees without regard to whether a party has prevailed. This premise is incorrect. As made clear by the subsequent Supreme Court decision *Baker Botts LLP v. ASARCO LLC*, 135 S. Ct. 2158 (2015), the American Rule applies ***whenever*** a litigant seeks to recover attorney's fees. *Id.* at 2165-66.

Because § 145 does not contain "specific and explicit provisions for the allowance of attorneys' fees" demonstrating a clear Congressional intent to deviate from the American Rule presumption that each litigant pay his own attorney's fees, *Alyeska Pipeline Serv. Co. v. Wilderness Soc'y*, 421 U.S. 240, 260 (1975), the District Court correctly determined that the PTO was "not entitled to attorneys' fees because the American Rule specifically forbids it." Appx003. The District Court's order should be affirmed.

STATEMENT OF THE FACTS AND CASE

I. 35 U.S.C. § 145

A patent applicant has two options for judicial review if the PTAB denies its application. "The applicant may either: (1) appeal the decision directly to the United States Court of Appeals for the Federal Circuit, pursuant to § 141; or (2) file a civil action against the Director of the PTO in the United States District

Court for the [Eastern District of Virginia] pursuant to § 145." *Kappos v. Hyatt*, 132 S. Ct. 1690, 1694 (2012). Section 145 provides:

> 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***.

35 U.S.C. § 145 (emphasis added). Accordingly, if a patent applicant proceeds pursuant to § 145, "[a]ll the expenses of the proceedings shall be paid by the applicant." *Id.*

The predecessor of § 145 was R.S. § 4915, which allowed an unsuccessful patent applicant to file suit in federal court. Rev. Stat. § 4915 (1875). Like § 145, in cases where "there [was] no opposing party," R.S. § 4915 required that "all the expenses of the proceeding shall be paid by the applicant, whether the final decision is in his favor or not." *Id.* Similar language was included in the 1839 predecessor to R.S. § 4915. Patent Act of 1839, Ch. 88, § 10, 5 Stat. 353, 354

(1839) ("[T]he whole of the expenses of the proceeding shall be paid by the applicant, whether the final decision shall be in his favor or otherwise.").

In the over 170 years that they have been in existence, the PTO has never before sought attorney's fees pursuant to these provisions. Courts have similarly never interpreted § 145 as allowing the recovery of attorney's fees. While courts have allowed the PTO to recover printing expenses,[1] counsel's deposition travel expenses,[2] court reporter fees,[3] and money paid to necessary expert witnesses,[4] no court has interpreted "expenses" in § 145 or its predecessor statutes to include "attorney's fees."

II. District Court Proceeding

On December 20, 2013, after over twelve years of prosecution, NantKwest filed suit it in the Eastern District of Virginia pursuant to § 145 seeking a judgment that NantKwest was entitled to a patent for the invention claimed in the rejected claims of the '955 application. Appx024-033. On February 19, 2014, nearly four-months after the PTAB's Decision on Appeal and well past the deadline to file a notice of appeal to this Court, the PTO answered. Appx036-046; *see also* 37 C.F.R. 90.3(a)(1) ("For an appeal under 35 U.S.C. 141. The notice of appeal

[1] *Cook v. Watson*, 208 F.2d 529, 531 (D.C. Cir. 1953).

[2] *Robertson v. Cooper*, 46 F.2d 766, 769 (4th Cir. 1931).

[3] *Sandvik Aktiebolag v. Samuels*, No. CIV. A. 89-3127-LFO, 1991 WL 25774, at *2 (D.D.C. Feb. 7, 1991).

[4] *Id.*

filed pursuant to 35 U.S.C. 142 must be filed with the Director of the United States Patent and Trademark Office no later than sixty-three (63) days after the date of the final Board decision."). In its answer, the PTO asserted that "[p]ursuant to 35 U.S.C. § 145, defendant is entitled to her reasonable expenses, including those related to compensation paid for attorneys' and paralegals' time, incurred in defending this action, regardless of whether the final decision is in plaintiff's favor." Appx036.

Contrary to the PTO's characterization, the District Court proceedings were far from "extensive." PTO.Br.1. The District Court's Rule 16(b) scheduling order was entered on December 1, 2014, nearly a year after this case was filed. Appx014 (Dkt. No. 9). Under this scheduling order, as modified, the parties conducted six months of limited fact and expert discovery. Appx015 (Dkt. No. 18). On May 11, 2015, the PTO filed a motion for summary judgment that the '955 application's claims would have been obvious. Appx017 (Dkt. No. 44). The parties also filed a limited number of motions *in limine*. Appx016-017 (Dkt. Nos. 33, 35, 38, and 39).

On September 2, 2015, the District Court granted the PTO's motion for summary judgment and denied the parties' motions *in limine* as moot. Appx021 (Dkt. No. 76). On the same day, the Clerk of the District Court entered judgment in the PTO's favor. *Id.* (Dkt. No. 77). On September 24, 2015, NantKwest timely

filed a Notice of Appeal of the Districts Court's summary judgment decision. *Id*. (Dkt. No. 82). Appeal No. 15-2095 is currently pending before this Court.

On September 16, 2015, the PTO filed a motion seeking $111,696.39 in "expenses" of the proceeding pursuant to § 145, including $78,592.50 in attorney's fees. Appx021 (Dkt. No. 78). The PTO argued that $78,592.50 constituted "a proportional share of the salaries" of the PTO attorneys and paralegal assigned to this matter. Appx083 (citation and quotation marks omitted).[5]

On February 5, 2016 the District Court denied the PTO's "Motion for Expenses regarding the [PTO's] attorney fees" and granted the PTO's "Motion for Expenses relating to [the PTO's] expert witness." Appx001. The District Court concluded that the PTO was "not entitled to attorneys' fees because the American Rule specifically forbids it." Appx003. The District Court explained 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

[5] The PTO states that there were not "any disputes that the amount of expenses for which the agency sought reimbursement represented a reasonable number of personnel hours for this complex district court action." PTO.Br.22-23. This is incorrect. Before the District Court, NantKwest rejected the PTO's characterization of this case as "complex," Appx122, and stated that the PTO failed to "present[] 'clearly documented and well-justified' support for its request for 1,022 hours of fees." Appx138 (quoting *Sandvik Aktiebolag*, 1991 WL 25774, at *2). For example, the PTO did not provide "any specific descriptions of the work performed." Appx140. This information is "necessary to determine that the time spent was reasonably necessary, reasonable in amount, and actually performed for 'the proceeding' at hand." *Id.*

statute[].'" *Id.* (quoting *Baker Botts*, 135 S. Ct. at 2164). This "does not require a statute to specifically state 'attorneys' fees' in order for attorneys' fees to be one of the statute's contemplated 'expenses.'" Appx004.[6] "Instead, the statute must, in keeping with the 'specific and explicit' standard, clearly indicate that it requires a party to pay attorneys' fees." *Id.* (citing *Baker Botts*, 135 S. Ct. at 2158). As "[t]he language of § 145 neither specifically nor expressly requires plaintiffs to pay their opponent's attorneys' fees," the District Court concluded that "[s]ection 145 does not justify a deviation from the American Rule." *Id.* Instead, "'*all* of the expenses,'" consistent with its interpretation throughout its "entire two-hundred-year existence," means the "*collection* of the expenses used, commonly understood to encompass [] printing, travel, and reasonable expert witness expenses." *Id.*

SUMMARY OF THE ARGUMENT

The District Court correctly concluded that the American Rule prohibits an award of attorney's fees pursuant to § 145, as "[t]he language of § 145 neither

[6] The PTO states that "[t]he 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.'" PTO.Br.11 (quoting Appx008). The district court did not, as the PTO suggests, state that a deviation from the American Rule required the use of the phrase "attorneys' fees," "fees," or any other specific phrase: "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.'" Appx004 (emphasis added).

specifically nor expressly" authorized such an award. Appx004. The decision of the District Court must be affirmed.

The American Rule provides that "[e]ach litigant pays his own attorney's fees, win or lose, unless a statute or contract provides otherwise." *Hardt v. Reliance Standard Life Ins. Co.*, 560 U.S. 242, 253 (2010). The American Rule applies ***whenever*** a litigant seeks to recover attorney's fees. *Baker Botts*, 135 S. Ct. at 2165-66. Deviation from the American Rule is permitted only with "specific and explicit provisions for the allowance of attorneys' fees under selected statutes" that establish a clear Congressional intent to deviate from the American Rule. *Alyeska Pipeline*, 421 U.S. at 260.

Section 145 contains no such specific and explicit language. Instead, § 145 contains two significant qualifications. First, only "expenses" are compensable under § 145. "Fees" are never mentioned, let alone "attorney's fees." Nor does the language of § 145 otherwise demonstrate clear Congressional intent to deviate from the American Rule. Second, to be compensable under § 145, the PTO's "expenses" must be incurred for "***the*** proceedings" at hand and cannot be fixed expenses like legal employee salaries. 35 U.S.C. § 145 (emphasis added).

Indeed, in the over 170 years that applicants have been entitled by statute to file civil actions to obtain patents pursuant to § 145 and its predecessors, the PTO has never before been awarded, or even sought, any attorney's fees. And despite

the PTO's centuries-long failure to seek attorney's fees pursuant to § 145 and its predecessors, and despite multiple amendments to the Patent Act during this time, Congress has never clarified § 145 to specifically or explicitly provide for any attorney's fees.

ARGUMENT

I. The American Rule: No Attorney's Fees Absent "Specific And Explicit" Statutory Authorization.

The American Rule precludes the attorney's fees that the PTO now seeks pursuant to the ambiguous "expenses" language in § 145. The "basic point of reference when considering the award of attorney's fees is the bedrock principle known as the American Rule: Each litigant pays his own attorney's fees, win or lose, unless a statute or contract provides otherwise." *Hardt*, 560 U.S. at 252-53 (citations and internal quotation marks omitted). The American Rule "is deeply rooted in our history and in congressional policy; and it is not for [the courts] to invade the legislature's province by redistributing litigation costs." *Alyeska Pipeline*, 421 U.S. at 271.

Courts "will not deviate from the American Rule absent explicit statutory authority." *Baker Botts*, 135 S. Ct. at 2164 (citations and internal quotation marks omitted). Hence, departure from the American Rule is permitted only with "specific and explicit provisions for the allowance of attorneys' fees under selected statutes" that establish a clear Congressional intent to deviate from the American

Rule. *Alyeska Pipeline*, 421 U.S. at 260. Section 145 contains no such "specific and explicit" language providing for attorney's fees, whether in the form of PTO legal employee salaries or otherwise.[7]

As the language of § 145 fails to include the "specific and explicit" language required to overcome the American Rule, the PTO attempts to inappropriately narrow the application of the American Rule. Relying on the Fourth Circuit decision in *Shammas*, the PTO states that "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." PTO.Br.23. The Fourth Circuit in *Shammas*, like the PTO here, failed to cite a single case that supports this premise. In fact, the Supreme Court's subsequent decision in *Baker Botts*, made clear that this premise is incorrect—the scope of the American Rule is not so limited. *Baker Botts*, 135 S. Ct. at 2165-66. Instead, the American Rule applies whenever a litigant seeks to recover attorney's fees. *Id.* ("[S]tatutory changes to the American Rule take various forms ….") (citation and internal quotation marks omitted). In fact, the

[7] A statute is a "fee-shifting statute[]" regardless of whether the fees sought are in the form of "actual salary expenses" or "attorney time at market or judicially-established hourly rates." *See Wisconsin v. Hotline Indus., Inc*., 236 F.3d 363, 367 (7th Cir. 2000) ("Only a few fee-shifting statutes explicitly limit recoveries to actual outlays.").

American Rule is actually at its strongest when a statute is argued to shift fees regardless of who prevails. *Id*.

A. The Shammas *Decision Erroneously Rejected The American Rule.*

The *Shammas* decision addressed expenses recoverable under 15 U.S.C. § 1071(b)(3). *Shammas*, 784 F.3d at 221.[8] Section 1071(b)(3) provides, in pertinent part:

> In any case where there is no adverse party, a copy of the complaint shall be served on the Director, and, unless the court finds the expenses to be unreasonable, ***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***.

15 U.S.C. § 1071(b)(3) (emphasis added).

In 2013, after over 170 years of *never* interpreting "expenses" in § 145, § 1071(b)(3), or their predecessors as including attorney's fees, the PTO dramatically changed its position. For the first time ever, the PTO sought and was awarded attorney's fees as a component of its "expenses" pursuant to § 1071(b)(3). *Shammas*, 990 F. Supp. 2d at 594.

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[8] The Fourth Circuit has not explicitly opined on the continued validity of its reasoning in *Shammas* in light of *Baker Botts.* The *Shammas* decision is dated April 23, 2015. The *Baker Botts* decision is dated June 15, 2015. Plaintiff-Appellant Milo Shammas brought the *Baker Botts* decision to the Fourth Circuit's attention under Federal Rule of Appellate Procedure 28(j) and Local Rule 28(e), in conjunction with his petition for rehearing and rehearing *en banc*. Appx231-232. Plaintiff-Appellant Milo Shammas's petition for rehearing or rehearing *en banc* was denied without opinion. Appx257-258.

In a divided decision, the Fourth Circuit upheld the district court's decision. *Shammas*, 784 F.3d at 221. The majority in *Shammas* initially recognized the continued validity of the American Rule by stating "[t]o be sure, where the American Rule applies, Congress may displace it only by expressing its intent to do so 'clearly and directly.'" *Id.* at 223 (quoting *In re Crescent City Estates,* 588 F.3d 822, 825 (4th Cir. 2009)). But the *Shammas* majority reasoned (by implication from prior Fourth Circuit and Supreme Court decisions) that "[t]he requirement that Congress speak with heightened clarity to overcome the presumption of the American Rule … applies only where the award of attorneys fees turns on whether a party seeking fees has prevailed to at least some degree." *Id*. Thus, the *Shammas* majority's basis for side-stepping the American Rule was its theory that § 1071(b)(3) "mandates the payment of attorneys fees without regard to a party's success" and hence "is not a fee-shifting statute that operates against the backdrop of the American Rule." *Id.*

According to the majority in *Shammas*, the expense provision of § 1071(b)(3) is a "unilateral, compensatory fee" and therefore not subject to the American Rule's presumption that each litigant pays his own attorney's fees absent explicit statutory language to the contrary. *Id.* at 223, 225. The *Shammas* majority unduly and incorrectly narrowed the scope of the American Rule. The American Rule is a settled presumption that parties shall bear their own legal fees. This

presumption—one of the most "deeply rooted" principles of federal jurisprudence, *Alyeska Pipeline*, 421 U.S. at 271—applies to all potential fee-shifting cases. The Supreme Court has never intimated otherwise.[9]

To the contrary, the Supreme Court has recognized that the fee-shifting provisions "take various forms," including provisions that "do not limit attorney's fees awards to the 'prevailing party.'" *Hardt*, 560 U.S. at 253-54. Regardless of the form at issue, the American Rule presumption applies. *Id.*

For example, in *Hardt*, the Supreme Court evaluated a fee-shifting statute "in light of our precedents addressing statutory deviations from the American Rule that do not limit attorney's fees awards to the 'prevailing party.'" *Id*. at 254. The Supreme Court considered an award of attorney's fees pursuant to 29 U.S.C. § 1132(g)(1), which provides: "In any action under this subchapter … by a participant, beneficiary, or fiduciary, the court in its discretion may allow a reasonable attorney's fee and costs of action to either party." 29 U.S.C. § 1132(g)(1). This statue—unlike § 145—explicitly provides for "a reasonable attorney's fee." *Id.* Instead, at issue was "[w]hether § 1132(g)(1) limits the

[9] *Buckhannon Bd. & Care Home, Inc. v. West Va. Dep't of Health & Human Res.*, 532 U.S. 598 (2001), *Rohm & Haas Co. v. Crystal Chem. Co.*, 736 F.2d 688 (Fed. Cir. 1984), and *Brickwood Contractors, Inc. v. United States*, 288 F.3d 1371 (Fed. Cir. 2002) do not set forth a rule that the American Rule only applies in the context of prevailing parties. These cases simply make the uncontroversial point that statues departing from the American Rule typically award attorney's fees to a prevailing party, and in certain instances, only in exceptional cases.

availability of attorney's fees to a 'prevailing party.'" *Hardt*, 560 U.S. at 251. In deciding this issue, the Supreme Court noted that its "'prevailing party' precedents … do not govern the availability of fees awards under § 1132(g)(1), because this provision does not limit the availability of attorney's fees to the 'prevailing party.'" *Id.* at 253.

If, as the PTO argues, the American Rule only applies where "a losing party will be required to pay the prevailing party's attorney's fees," PTO.Br.24, this would have been the end of the Court's American Rule analysis. Instead, far from suggesting that the American Rule only applies in the context of fee awards to a "prevailing party," the Supreme Court noted that statutory changes to the American Rule "take various forms:"

> Most fee-shifting provisions permit a court to award attorney's fees only to a "prevailing party." Others permit a "substantially prevailing" party or a "successful" litigant to obtain fees. ***Still others authorize district courts to award attorney's fees where "appropriate," or simply vest district courts with "discretion" to award fees***.

Id. (emphasis added) (footnotes omitted). Accordingly, the Supreme Court "interpret[ed] § 1132(g)(1) in light of [its] precedents addressing statutory deviations from the American Rule that ***do not*** limit attorney's fees awards to the 'prevailing party.'" *Id*. at 254 (emphasis added).

Similarly, in *Hensley v. Eckerhart*, 461 U.S. 424 (1983), the Supreme Court distinguished "the 'American Rule, under which the parties bear their own attorney's fees ***no matter what the outcome of a case***," with "the 'English Rule,' under which the losing party, whether plaintiff or defendant, ***pays the winner's fees***." *Id.* at 443 n.2 (emphasis added). I.e., the American Rule is a general presumption that does not depend on a party's status as a winner or loser. *See id.*

The Supreme Court's language in both *Hardt* and *Hensley* is unambiguous. It is simply not the case that, as the *Shammas* majority concluded, "[t]he requirement that Congress speak with heightened clarity to overcome the presumption of the American Rule … applies only where the award of attorneys fees turns on whether a party seeking fees has prevailed to at least some degree." *Shammas*, 784 F.3d at 223. Before *Shammas,* the Supreme Court had made clear that a deviation from the American Rule requires explicit statutory authorization, irrespective of whether that explicit authorization applies to "prevailing parties" or otherwise. After *Shammas*, the Supreme Court, in *Baker Botts*, reiterated this point. *Baker Botts,* 135 S. Ct. at 2165-66.

The *Shammas* majority was incorrect and none of cases the PTO cites suggest otherwise. The PTO states that "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." PTO.Br.30 (referring to *Sebelius v. Cloer*, 133 S. Ct. 1886 (2013)). This statement is disingenuous.

Sebelius involved the provision of The National Childhood Vaccine Injury Act that "provides that a court may award ***attorney's fees*** and costs 'incurred [by a claimant] in any proceeding on' an unsuccessful vaccine-injury 'petition filed under section 300aa-11,' if that petition 'was brought in good faith and there was a reasonable basis for the claim for which the petition was brought.'" *Id.* at 1890 (quoting 42 U.S.C. §§ 300aa-15(e)(1)) (emphasis added). Attorney's fees were explicitly and specifically "provided, not only for successful cases but even for unsuccessful claims that are not frivolous." *Id.* at 1891 (citation and quotation marks omitted). At issue was "whether an untimely petition can garner an award of attorney's fees." *Id.* at 1890. The Supreme Court found that it could:

> Our "inquiry ceases [in a statutory construction case] if the statutory language is unambiguous and the statutory scheme is coherent and consistent." ***The text of the statute is clear***: like any other unsuccessful petition, an untimely petition brought in good faith and with a reasonable basis that is filed with—meaning delivered to and received by—the clerk of the Court of Federal Claims is eligible for an award of attorney's fees.

Id. at 1895 (quoting *Barnhart v. Sigmon Coal Co.*, 534 U.S. 438, 450 (2002)) (emphasis added).

After determining the statute was unambiguous, the Supreme Court addressed the Governments "two additional lines of argument:"

> [The Government] first invokes two canons of construction: the canon favoring strict construction of waivers of sovereign immunity and "***the presumption favoring the retention of long-established and familiar common-law principles***." Similarly, the Government also argues that the NCVIA should be construed so as to minimize complex and costly fees litigation.

Id. at 1895 (quoting Br. for Petitioner at 32) (emphasis added). The Supreme Court rejected both lines of argument because "as the Government acknowledges, such cannons and policy arguments come into play only '[t]o the extent the Vaccine Act is ambiguous.'" *Id.* at 1895 (quoting Brief for Petitioner at 28). "These 'rules of thumb' give way when 'the words of a statute are unambiguous,' as they are here." *Id.* at 1896 (*Connecticut Nat'l Bank v. Germain*, 503 U.S. 249, 253-54 (1992)).

The canon of construction "favoring the retention of long-established and familiar common-law principles" that the Supreme Court found "g[ave] way" to the unambiguous language of the Vaccine Act was the American Rule:

> The extremely generous interpretation of the Vaccine Act's fee-shifting provision that respondent advances departs so far from background principles about who pays a litigant's attorneys' fees that it ***cannot be justified without a clearer statement*** than the Act can supply. … In certain respects, the Vaccine Act's remedial provisions do unambiguously deviate from prevailing legal practices. ***The very existence of a fee-shifting provision reflects a departure from the "American Rule," under which each party pays its own fees***, *e.g., Alyeska Pipeline Serv. Co. v. Wilderness Soc'y*, 421 U.S. 240, 247 (1975), and the Vaccine Act is especially unusual because it permits an award of fees when a claimant does not succeed on the merits. See Pet. App.

> 18a (Bryson, J., dissenting) ("[I]t is almost unknown in American practice for a statute to provide that the prevailing party will pay the losing party's attorneys' fees."). Thus, even construed by the government and by the dissenting members of the en banc court of appeals, Section 300aa-15(e)(1) exposes the United States to much more expansive potential fee liability than does the typical federal fee-shifting statute. That fact counsels particular hesitation before reading Section 300aa-15(e)(1) to authorize fee awards in additional situations that the provision does not clearly cover.

Appx469-470 (Br. for Petitioner at 32-33, *Sebelius v. Cloer*, No. 12-236 (S. Ct. Jan. 4, 2013) (emphasis added). While the Supreme Court did "not [] mention" the American Rule explicitly, the Supreme Court did consider the American Rule, argued by the petitioner, but found that the Vaccine Act "unambiguous[ly]" authorized the attorney's fees sought.

B. The Baker Botts *Decision Confirms That The American Rule's Presumption Applies Whenever A Litigant Seeks To Recover Attorney's Fees.*

If there had been any question, the Supreme Court in *Baker Botts* again made clear that the American Rule applies whenever a party seeks to obtain attorney's fees. *Baker Botts*, 135 S. Ct. at 2165-66. In *Baker Botts*, the Supreme Court applied the American Rule to analyze a statute that provided attorney's fees even though the statute did not require the party seeking fees to have prevailed in any way. *Id*. This confirms that the *Shammas* majority was wrong to condition the

American Rule on whether the statute in question only awards fees to a prevailing party.

The statute addressed in *Baker Botts* was § 330(a)(1) of the Bankruptcy Code. 11 U.S.C. § 330(a)(1). Section 330(a)(1) provides:

> After notice to the parties in interest and the United States Trustee and a hearing, and subject to sections 326, 328, and 329, the court may award to a trustee, a consumer privacy ombudsman appointed under section 332, an examiner, an ombudsman appointed under section 333, or a professional person employed under section 327 or 1103—
>
> **(A)** ***reasonable compensation for actual, necessary services rendered by the*** trustee, examiner, ombudsman, professional person, or ***attorney*** and by any paraprofessional person employed by any such person; and
>
> **(B)** ***reimbursement for actual, necessary expenses***.

11 U.S.C. § 330(a)(1) (emphasis added). Section § 330(a)(1) thus allows a bankruptcy court to award "reasonable compensation for actual, necessary services rendered by" attorneys that serve the debtor. *Id.*; *see* 11 U.S.C. § 327(a) (allowing the bankruptcy trustee to retain attorneys).

The debtor in *Baker Botts*, ASARCO, had retained two outside law firms to assist it in litigation. *Baker Botts*, 135 S. Ct. at 2163. Both firms thereafter submitted fee applications to the bankruptcy court to seek compensation for their services under § 330(a)(1). *Id.* But ASARCO, having by then emerged from bankruptcy, challenged the firms' requested fees. *Id.* After a trial, the bankruptcy

court upheld the fee applications and awarded the law firms not only their fees for services provided to the bankrupt estate but also their fees incurred in defending their own fee applications, all as part of their "services" rendered under § 330(a)(1). *Id.* Applying the American Rule, the Fifth Circuit reversed the portion of the fees that the firms incurred during their fee-defense trial. *Id.*

The Supreme Court affirmed. The Supreme Court's analysis began: "Our basic point of reference when considering the award of attorney's fees is the bedrock principle known as the American Rule: Each litigant pays his own attorney's fees, win or lose, unless a statute or contract provides otherwise." *Id.* at 2164 (*quoting* Hardt, 560 U.S. at 252-53). In light of this "bedrock principle," the Supreme Court reasoned that "[t]o be sure, the phrase 'reasonable compensation for actual, necessary services rendered' permits courts to award fees to attorneys for work done to assist the administrator of the estate." *Id.* at 2165 (quoting 11 U.S.C. § 330(a)(1)). But the fees must be incurred "*in service* of the estate administrator" to be compensable. *Id.* The attorney's time spent in defending their own fee applications at trial was not "in service of the administrator" and therefore was not compensable. *Id.* at 2165-66.[10]

[10] Notably, the Supreme Court did not consider whether the attorney's fees sought were compensable as "reimbursement for actual, necessary expenses" pursuant to § 330(a)(1)(B).

Importantly, the Supreme Court's analysis applied the American Rule's presumption against fee-shifting. The Supreme Court first reiterated that courts must "not deviate from the American Rule 'absent explicit statutory authority.'" *Id.* at 2164 (quoting *Buckhannon*, 532 U.S. at 602). It then explained that, under the firms' interpretation, the statute would award attorney's fees even if the firms had not prevailed. *Id.* at 2166 (finding that to interpret the statute in the proposed manner "could end up compensating attorneys for the *unsuccessful* defense of a fee application"). The Supreme Court found that a fee award under these circumstances would be "a particularly unusual deviation from the American Rule" because the award was not at all dependent on outcome and "most fee-shifting provisions permit a court to award attorney's fees only to a prevailing party, a substantially prevailing party, or a successful litigant." *Id.* (citation and internal quotation marks omitted). Attorney's fees were thus not available because "[t]here is no indication that Congress departed from the American Rule in § 330(a)(1) with respect to fee-defense litigation, let alone that it did so in such an unusual manner." *Id.*

This is directly contrary to the *Shammas* majority's conclusion that the American Rule applies ***only*** to statutes that shift fees to a prevailing party. *Shammas*, 784 F.3d at 223-24. Rather, as the Supreme Court's *Baker Botts* decision demonstrates, the American Rule is actually at its ***strongest***, and the need

for clarity in any deviation from that Rule is at its ***highest***, precisely when a statute is argued to provide the "particularly unusual deviation" of shifting fees regardless of who prevails. *Baker Botts*, 135 S. Ct. at 2166.

The PTO argues that "[n]othing 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." PTO.Br.29. The PTO accepts that because the statute at issue in *Baker Botts* "did not clearly provide for shifting attorney's fees" for defense of a fee application "the [Supreme Court] concluded that the American Rule foreclosed an award of fees for the fee-defense litigation." *Id.* Further, the PTO summarizes the holding in *Baker Botts* as "reject[ing] the statutory construction advanced by the petitioner … in part because 'it could end up compensating attorneys for the *unsuccessful* defense of a fee application'" which "would involve a 'particularly unusual deviation from the American Rule.'" *Id.* (quoting *Baker Botts*, 135 S. Ct. at 2166). And the PTO accepts that § 145 "involves exactly such an unusual scheme." *Id.*

Despite conceding that the Supreme Court applied the American Rule presumption to reject a construction of a statute that would provide the "particularly unusual deviation" of shifting fees regardless of who prevails, and further conceding that it's proposed construction of § 145 involves "exactly such

an unusual scheme," the PTO nonetheless concludes that "the American Rule does not speak to such a scheme." *Id.* This conclusion is illogical and does not square with the Supreme Court's *Baker Botts* opinion. The Court observed that shifting fees without regard to who prevails is not simply an unusual scheme in the abstract, but rather is "a particularly unusual deviation ***from the American Rule***." *Baker Botts*, 135 S. Ct. at 2166 (emphasis added).

II. The American Rule Precludes the PTO's Request for Attorney's Fees Because § 145 Does Not "Specifically And Explicitly" Authorize Attorney's Fees.

Contrary to the requirements that the Supreme Court reiterated in *Baker Botts*, § 145 neither specifically nor explicitly authorizes the PTO's request for attorney's fees. Instead, § 145 contains two significant qualifications on its cost-shifting provision. First, only "expenses" are compensable under § 145. "Fees" are never mentioned, let alone "attorney's fees," and the language of § 145 does not otherwise demonstrate clear congressional intent to deviate from the American Rule. Second, to be compensable under § 145, the PTO's "expenses" must be incurred for "***the*** proceedings" at hand. 35 U.S.C. § 145 (emphasis added). In other words, the PTO may not seek compensation for fixed and other expenses that it would have incurred regardless of whether or not the particular proceeding in question had ever been filed. Nothing in § 145 rebuts the American Rule

presumption or transforms the PTO's fixed legal employee annual salaries into case-specific "expenses."

C. The Language of § 145 Does Not Authorize Attorney's Fees.

1. "[A]ll the Expenses of the Proceeding" Does Not Specifically and Explicitly Include Attorney's Fees.

The PTO argues that "[t]he ordinary meaning of 'expenses' … 'is sufficiently broad' to include salary expenses for attorneys and paralegals," relying on a string of dictionary definitions. PTO.Br.16, 14. This argument misses the point. If the American Rule's presumption against fee-shifting succumbed to any argument that broad statutory language could possibly be interpreted to include attorney's fees, it would be a very weak presumption indeed. In fact, that is not the law. Finding some dictionary definition for one word or phrase that might plausibly include attorney's fees is not sufficient to overcome the presumption of the American Rule.

For example, the Supreme Court has found that even "[t]he open-ended phrase 'reasonable compensation,' standing alone, is not the sort of 'specific and explicit provisio[n]' that Congress must provide in order to alter [the American Rule]." *Baker Botts*, 135 S. Ct. at 2168 (quoting *Alyeska Pipeline*, 421 U.S. at 260). The broad, ambiguous phrase "all expenses," like the open-ended phrase "reasonable compensation," is not sufficiently specific to overcome the American Rule. *Id.* at 2168. Indeed, the phrase "all expenses" is even more ambiguous than

"reasonable compensation," which at least suggests payment for work performed. *Compare* COMPENSATION, Black's Law Dictionary (10th ed. 2014) ("Remuneration and other benefits received in return for services rendered; esp., salary or wages.") *with* EXPENSE, Black's Law Dictionary (10th ed. 2014) ("An expenditure of money, time, labor, or resources to accomplish a result; esp., a business expenditure chargeable against revenue for a specific period.").

This is particularly so given that Congress elsewhere included clear and specific language in the Patent Act when it wanted to authorize fee-shifting. *See, e.g.*, 35 U.S.C. § 285 (authorizing in "exceptional cases," awards of "reasonable attorney fees"); 35 U.S.C. § 271(e)(4) ("The remedies prescribed by subparagraphs (A), (B), (C), and (D) are the only remedies which may be granted by a court for an act of infringement described in paragraph (2), except that a court may award attorney fees under section 285."); 35 U.S.C. § 296(b) ("Such remedies include ... attorney fees under section 285 ...."); *cf. Baker Botts*, 135 S. Ct. at 2165-66 (refusing to award certain attorney's fees based on broad language in § 330(a)(1) where "other provisions of the Bankruptcy Code" expressly required paying the debtor's "reasonable attorney's fees and costs") (citing 11 U.S.C. § 110(i)(1)(c)); *Clay v. United States*, 537 U.S. 522, 528-29 (2003) ("When 'Congress includes particular language in one section of a statute but omits it in another section of the same Act,' we have recognized, 'it is generally

presumed that Congress acts intentionally and purposely in the disparate inclusion or exclusion.'") (quoting *Russello v. United States*, 464 U.S. 16, 23 (1983)).

That courts have interpreted "costs" more narrowly than "expenses" is similarly insufficient to overcome the American Rule. PTO.Br.14-15, 31-32. In *Taniguichi v. Kan Pacific Saipan Ltd.*, 132 S. Ct. 1997 (2012), the Supreme Court declined to interpret "costs" to include costs for document translation. *Id.* at 2007. The Supreme Court reasoned that "[a]lthough 'costs" has an everyday meaning synonymous with 'expenses,'" taxable costs pursuant to Federal Rule of Civil Procedure 54(d) are limited to "relatively minor, incidental expenses" and "are a fraction of the nontaxable expenses borne by litigants for attorneys, experts, consultants, and investigators." *Id.* at 2006.

Similarly, in *Arlington Cent. School District Board of Education v. Murphy*, 548 U.S. 291 (2006), the Supreme Court found that the Disabilities Education Act, which authorizes a court to "award reasonable attorneys' fees as part of the costs" to prevailing parents, did not authorize prevailing parents to recover for services rendered by experts. *Id.* at 293-94. The Supreme Court reasoned that "'costs' is a term of art that generally does not include expert fees" and that "the use of this term of art, rather than a term such as 'expenses,' strongly suggests that [this provision] was not meant to be an open-ended provision that makes participating States liable for all expenses incurred…—for example, travel and lodging expenses

or lost wages due to time taken off work." *Id* at 297 (citations and internal quotation marks omitted). Instead, "[t]his language simply adds reasonable attorney's fees incurred by prevailing parents to the lists of costs that prevailing parents are otherwise entitled to recover," which was "obviously the list set out in 28 U.S.C. § 1920." *Id*. at 297-98.

The PTO asks this Court to make an extraordinary leap: according to the PTO, because "expenses" is generally broader than "costs," this Court should conclude that "expenses" is somehow sufficiently specific and explicit to overcome the presumption of the American Rule. Neither *Taniguichi* nor *Arlington* supports such a leap. Without clear language authorizing the award of attorney's fees, the word "expenses," like "costs," cannot be read to authorize an award of those fees. *See Fleischmann Distilling Corp. v. Maier Brewing Co*., 386 U.S. 714, 719-21 (1967) (holding that Lanham Act provision authorizing award of "costs of the action" in infringement suit did not authorize award of attorney's fees).

The PTO states that "[a]lthough 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.'" PTO.Br.32 (citing Appx006-007). The District Court required no such "explicit reference to 'attorney's fees.'" Appx004. Instead, the District Court stated:

> 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 statue must, in keeping with the 'specific and explicit' standard, clearly indicate that it requires a party to pay attorneys' fees."

Id. (citing *Baker Botts*, 135 S. Ct. 2158) (emphasis added). The District Court further explained: "In *Baker Botts*, the Supreme Court held that a statute successfully deviated from the American Rule and therefor mandated a party pay its opponent's attorney' fees ***even though the statute never used the term 'attorneys' fees'"*** because "crucially" the language of the statute "authorizing 'reasonable compensation for actual, necessary services rendered' ***undisputedly*** authorized an award of attorneys' fees for the work in question." *Id.* (citing *Baker Botts*, 135 S. Ct. at 2158) (emphasis added). Far from requiring the explicit words "attorney's fees," the District Court simply recognized that "when a statue 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 meaning." Appx006.

Indeed, when Congress intends to authorize an award of attorney's fees, it does so clearly and 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"); *Shammas*, 784 F.3d at 228 (King, J., dissenting).[11]

On its own, the term "expenses" is ambiguous. *York Research Corp. v. Landgarten*, 927 F.2d 119, 123 (2d Cir. 1991) (finding phrase "any and all … expenses" ambiguous with respect to whether attorney's fees were included). Accordingly, when Congress actually intends to authorize attorney's fees, it modifies that term to provide both clarity and specificity. For example, attorney's fees may be authorized ***in addition to*** "expenses." *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

[11] In his dissent, Judge King reasoned that "[b]ecause the American Rule applies" and "§ 1071(b)(3) cannot overcome the presumption against fee awards embodied in the American Rule, … the district court's award of attorney's fees should be vacated." *Shammas*, 784 F.3d at 227-28. In light of the Supreme Court's subsequent decision in *Baker Botts,* which effectively rejected the *Shammas* majority's only basis for reaching a different conclusion, Judge King's dissent in fact provides the proper analysis. *See Baker Botts*, 135 S. Ct. at 2166.

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); 15 U.S.C. § 6309(d) (authorizing the award of "reasonable attorneys fees and expenses"); 28 U.S.C. § 1875(d)(2) (referring to "attorney fees and expenses incurred"); *Shammas*, 784 F.3d at 228 (King, J., dissenting).

Alternatively, such fees may be authorized ***as a component of*** "expenses." *See, e.g.*, 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"); 5 U.S.C. § 504(a)(1) (authorizing recovery of "fees and other expenses"); *Shammas*, 784 F.3d at 228-29 (King, J., dissenting). These examples demonstrate that the meaning Congress intends when it uses the term "expenses" alone is far from clear. But when Congress actually intends to authorize attorney's fees, it can and does say so with precision.

This is especially true where, as here, the statute at issue involves civil actions against the government. Pursuant to 28 U.S.C. § 2412 (the "Equal Access to Justice Act"), an eligible party who prevails in a civil action against the government may recover its costs and fees. *Id.* Certain provisions of the Equal

Access to Justice Act refer to expenses ***in addition to*** (and therefore different from) "fees … of attorneys." 28 U.S.C. § 2412(a)(1) (authorizing the award of costs "but not including the fees and expenses of attorneys"); 28 U.S.C. § 2412(b) (authorizing "reasonable fees and expenses of attorneys"); 28 U.S.C. § 2412(c)(2) (specifying the manner of payment for "fees and expenses of attorneys"). Other provisions refer to the "fees" ***as a component of*** expenses. 28 U.S.C. § 2412(d)(1)(A), (B) (referring to "fees and other expenses"). The generic phrase "fees and other expenses" is then defined as specifically including "reasonable attorney fees." 28 U.S.C. § 2412(d)(2)(A). Again, while the meaning Congress intends when it uses the term "expenses" is far from clear, Congress is explicit when it intends to authorize attorney's fees.

The inclusion of the word "all" in the phrase "all the expenses of the proceedings" does not provide the clarity that "expenses" lacks. While this modifier makes clear that a § 145 plaintiff must bear *all* **expenses**, it does not specifically and explicitly provide that **expenses** include attorney's fees. *See Flora v. United States*, 362 U.S. 145, 149 (1960) ("'any sum,'" while a "catchall" phrase, does not "define what it catches"); *see also York Research Corp*, 927 F.2d at 123 (finding phrase "any and all … expenses" ambiguous with respect to whether attorney's fees were included).

2. "Expenses" are Limited to "Expenses of the Proceedings."

Even if § 145 authorized courts to award attorney's fees as expenses, it does not provide for "expenses" *simpliciter*, but "expenses of ***the*** proceedings." 35 U.S.C. § 145 (emphasis added). Here, the three PTO employee's salaries would have been paid even if NantKwest had never filed the instant proceeding and hence are not compensable under any plausible reading of the statute.

The PTO argues that "[l]ike the amounts expended for printing, travel, and expert witnesses … 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." PTO.Br.15. The PTO provides no support for this statement. While printing, travel, and expert witness costs are undoubtedly expenses "of the proceedings," as these expenses would not exist absent the § 145 action, the PTO has not shown that the particular personnel involved (and for which it seeks attorney's fees) would have been employed on other matters, or received any lower compensation, had NantKwest never initiated this proceeding. Hence, these fixed employee salaries, any more than the PTO's rent, electric bills, computers, office chairs, or other fixed expenses, cannot be an "expense[] of ***the*** proceedings," as the statute requires.

The PTO's citation to *Raney v. Federal Bureau of Prisons*, 222 F.3d 927 (Fed. Cir. 2000) and *Wisconsin v. Hotline Industries, Inc.*, 236 F.3d 363 (7th Cir. 2000) is misplaced. PTO.Br.15-16. In *Raney*, this Court held salaried employees of a union were entitled to recover "reasonable attorney fees" as "market-rate fees" pursuant to the Back Pay Act which provides, in pertinent part, that an employee "*is entitled*, on correction of the personnel action, *to receive … reasonable attorney fees* related to the personnel action." *Raney*, 222 F.3d at 932-33 (emphasis in original). Similarly, in *Hotline Industries*, the Seventh Circuit held that salaried government employees were permitted to recover "a proportional share of the salaries of its attorneys handling the removal" pursuant to a 28 U.S.C. § 1447(c) which provides, in pertinent part, for payment of "*any actual* expenses, including attorney fees, *incurred*." *Hotline Indus.*, 236 F.3d at 367-68 (emphasis in original). The statutes at issue in *Raney* and *Hotline Industries* explicitly allowed for a recovery of attorney's fees. Accordingly, preventing salaried employees from recovering their "attorney's fees" would have "indirectly penalize[d] the institution, be it public or private, for providing its own legal counsel throughout a case." *Id.* at 366. The same is not true here. Section 145 *only* applies to actions against the PTO. Accordingly, had Congress intended for the PTO to recover the salaries of its employees, it would have explicitly allowed for such a recovery. It did not.

The PTO's interpretation would require impermissibly excising the words "of the proceedings" from the language of § 145. *See Baker Botts*, 135 S. Ct. at 2167 ("Section 330(a)(1) does not authorize courts to award 'reasonable compensation' *simpliciter*, but 'reasonable compensation *for actual, necessary services rendered by*' the § 327(a) professional. … Thus, the only way to reach their reading of the statute would be to excise the phrase 'for actual, necessary services rendered' from the statute."). If Congress intended such a result, it could have referred specifically to fees and expenses "of the PTO." *Cf.* Patent Act of 1836, Ch. 357, § 9, 5 Stat. 117 (1836) ("And the moneys received into the Treasury under this act shall constitute a fund for the payment of salaries of the officers and clerks herein provided for, and all other ***expenses of the Patent Office***, and to be called the patent fund.") (emphasis added). It did not. Instead, Congress referred to expenses "of the proceedings," which is not naturally read to refer to the salaries of PTO employees.

The Patent Act of 1836 provided a "remedy by bill in equity" to any person interested in a patent or application "refused on an adverse decision of a board of examiners," Patent Act of 1836, Ch. 357, § 16, 5 Stat. 117 (1836), and separately provided for a "patent fund" to "fund for the payment of salaries of the officers and clerks herein provided for, and all other expenses of the Patent Office." Patent Act of 1836, Ch. 357, § 9, 5 Stat. 117 (1836). In 1839, the Patent Act was amended to

provide "in all cases where there is no opposing party, a copy of the bill shall be served upon the Commissioner of Patents, when 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." Patent Act of 1839, Ch. 88, § 10, 5 Stat. 353-355 (1839). The PTO argues that "Congress thus provided that the applicant would pay 'the whole expenses of the proceeding,' against the backdrop 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." PTO.Br.22. There are two flaws in this logic.

First, the 1839 Patent Act, like § 145, required the applicant to pay the "expenses *of* ***the proceeding,***" Patent Act of 1839, Ch. 88, § 10, 5 Stat. 353-355 (1839) (emphasis added), not the "expenses ***of the Patent Office***" as provided in the 1836 Patent Act relied on by the PTO. Patent Act of 1836, Ch. 357, § 9, 5 Stat. 117 (1836) (emphasis added). Even assuming that "expenses of the Patent Office" is appropriately construed to include the salaries of PTO attorneys and paralegals, "expenses of the proceedings" is not.

Second, the 1836 Patent Act only serves to highlight that if Congress had intended "expenses of the proceeding" to authorize attorney's fees—whether characterized as a portion of PTO employee salaries or otherwise—it would have been explicit. Congress made no such explicit provision for attorney's fees, despite

the fact that even as early as 1839 Congress was legislating against the backdrop of the American Rule. *See Arcambel v. Wiseman*, 3 U.S. 306, 306 (1796) ("We do not think that this charge [of attorney's fees] ought to be allowed. The general practice of the United States is in opposition [sic] to it; and even if that practice were not strictly correct in principle, it is entitled to the respect of the court, till it is changed, or modified, by statute.").

D. Neither The PTO, Nor Congress, Nor The Courts Have Ever Interpreted § 145 To Authorize Any Attorney's Fees.

After over 170 years, and absent a meaningful explanation for its drastic divergence from its own longstanding practice, the PTO seeks to place a significant new burden on applicants that pursue the congressionally provided remedy set forth in § 145. This Court should reject such an about-face. *Cf. Immersion Corp. v. HTC Corp.*, No. 2015-1574, 2016 WL 3408017, at *1 (Fed. Cir. June 21, 2016) (refusing to adopt an interpretation inconsistent with "clearly articulated agency practice going back at least half a century, which has plausibly engendered large-scale reliance").

1. The PTO Has Never Interpreted § 145 To Authorize Any Attorney's Fees.

History belies the PTO's new attempt to stretch the ambiguous "expenses" language to include attorney's fees. The PTO offers no explanation why it has for

over 170 years failed to seek any attorney's fees in these sorts of cases if, as it argues, the statutory "expenses" so clearly include such a recovery.

Beyond failing to ***ever*** seek attorney's fees pursuant to § 145, the PTO has on multiple occasions intimated that such fees were not recoverable. For example, in *Robertson*, the district court denied the PTO's recovery for the travel expenses of one of its lawyers to attend an out-of-state deposition. *Robertson*, 46 F.2d at 769. On appeal, the applicant argued that failing to limit "expenses" to "costs" would invite abuses, including attempts by the PTO to recover "parts of the salaries of the Patent Office solicitor, of the solicitor general, [and] of the Patent Office clerks." Appx417 (Br. for Appellee at 37, *Robertson v. Cooper*, No. 3066 (4th Cir. Oct. 14, 1930)). The applicant cautioned that under the broad interpretation of "expenses" advocated by the PTO "there would be *absolutely no end* to the charges that could be made against an *ex parte* litigant." *Id.* (emphasis in original). Such charges "might practically bankrupt an ordinary litigant." *Id.* In response, the PTO called items such as salaries for its personnel "so remote that they need not be seriously considered." Appx426 (Defendant-Appellant's Reply to Plaintiff-Appellee's Br. at 10, *Robertson v. Cooper*, No. 3066 (4th Cir. Oct. 31, 1930)). Similarly, in *Cook*, the District of Columbia Circuit allowed the PTO to recover "printing expenses," specifically the cost of printing the PTO's appeal brief, as a component of "expenses" pursuant to R.S. § 4915. *Cook*, 208 F.2d at

530. In its brief, the PTO characterized the "expenses incident to … trial in the District Court" as the "relatively small" in comparison to "the much greater expenses of an appeal whenever the applicant saw fit to take one." Appx393 (Br. for Appellee at 5, *Cook v. Watson*, No. 11,675 (D.C. Cir. Mar. 1953)). *But see* PTO.Br.18 ("[L]itigation in district court is expensive and time-consuming …."). The PTO further acknowledged that the only cognizable expenses were those actually "incur[red]" in connection with the proceeding. Appx393 (Br. for Appellee at 5, *Cook v. Watson*, No. 11,675 (D.C. Cir. Mar. 1953)).

"The Supreme Court has long recognized that a 'longstanding administrative construction,' at least one on which reliance has been placed, provides a powerful reason for interpreting a statute to support the construction." *Immersion Corp.*, 2016 WL 3408017, at *5. The PTO should be held to its nearly two-century construction of "expenses."

2. Congress Has Never Interpreted § 145 To Authorize Any Attorney's Fees.

Even assuming (contrary to fact) that Congress intended that the PTO receive its attorney's fees as "expenses" under § 145, there is no explanation for Congress' failure to clarify the statute to address the PTO's universal failure to ever obtain them. Instead, despite multiple amendments to the Patent Act, including the December 2011 amendment to § 145 changing the venue for actions

under that section[12] and Congress's "broadening the availability of attorney's fees in the federal courts" in response to the Supreme Court's *Alyeska Pipeline* decision,[13] Congress has never clarified § 145 to specifically or explicitly provide for attorney's fees.

"It is well established that when Congress revisits a statute giving rise to a longstanding administrative interpretation without pertinent change, the congressional failure to revise or repeal the agency's interpretation is persuasive evidence that the interpretation is the one intended by Congress." *CFTC v. Schor*, 478 U.S. 833, 846 (1986) (internal quotation marks omitted); *Immersion Corp.*, 2016 WL 3408017, at *6 ("And the conclusion is reinforced by the fact that Congress has done nothing to disapprove of this clearly articulated position despite having amended section 120 several times since its first enactment in 1952."). If Congress disagreed with the PTO's long-held understanding that attorney's fees were not recoverable as "expenses" pursuant to § 145, it would have addressed the issue.

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[12] Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 (2011); *see also Kappos*, 132 S. Ct. at 1694 n.1.

[13] *Crawford Fitting Co. v. J. T. Gibbons, Inc.*, 482 U.S. 437, 444 (1987).

3. District Courts Have Never Interpreted § 145 To Authorize Any Attorney's Fees.

District courts have similarly never interpreted § 145 as allowing the recovery of attorney's fees. While courts have allowed the PTO to recover printing expenses, counsel's deposition travel expenses, court reporter fees, and money paid to necessary expert witnesses, the PTO fails to cite a single decision interpreting "expenses" in § 145 to include "attorney's fees." To the contrary, at least one court has expressly excluded "attorney's fees" from the "expenses" recoverable under § 145. Appx171-172 (*Encyclopedia Britannica, et al. v. Q. Todd Dickinson*, No. 1:98cv00209(ESH), slip op. at 2 (D.D.C. Nov. 2, 2001) ("Pursuant to § 145, the defendant shall submit a statement of its reasonable expenses, not including attorneys fees, to the Court ….")).

Finally, even if this Court finds that § 145 authorizes an award of attorney's fees, as a matter of equity, the Court should decline to require NantKwest to pay the PTO's attorney's fees here in light of the PTO's consistent position of never seeking attorney's fees in the past, and the public's reliance regarding the same. The fact that the PTO's answer stated that "[p]ursuant to 35 U.S.C. § 145, defendant is entitled to her reasonable expenses, including those related to compensation paid for attorneys' and paralegals' time, incurred in defending this action, regardless of whether the final decision is in plaintiff's favor" does not defeat this reliance. PTO.Br.34 n.5. This statement was made well after the time to

file a notice of appeal with this Court had passed. 37 C.F.R. 90.3(a)(1) ("For an appeal under 35 U.S.C. 141. The notice of appeal filed pursuant to 35 U.S.C. 142 must be filed with the Director of the United States Patent and Trademark Office no later than sixty-three (63) days after the date of the final Board decision.").

E. The Leahy-Smith America Invents Act Does Not Justify the PTO's About Face.

The PTO attempts to justify its divergence from its own longstanding practice because now "at Congress's direction" the PTO "operates entirely as a user-funded agency." PTO.Br.19 (citing 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 "aggregated estimated costs" of operation.)). Accordingly, the PTO argues, "[t]he 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." PTO.BR.19.

First, this justification ignores that in the face of over 170 years of the PTO *never* seeking attorney's fees, Congress mandated that the PTO become an entirely user-funded agency *without* amending § 145 to clearly authorize attorney's fees. In other words, despite further congressional attention to PTO funding, Congress never touched the PTO's settled practice that "expenses of the proceeding" excludes attorney's fees.

Second, this justification ignores the fact that through the fee-setting provision of the Leahy-Smith America Invents Act, Congress already provided a mechanism through which the PTO is to recover the attorney's fees sought here. The Leahy-Smith Act authorizes the PTO to set its fees so as to recover "the aggregate estimated costs" of certain PTO operations. Leahy-Smith America Invents Act, Pub. L. No. 112-29, § 10, 125 Stat. 284, 316 (2011). Accordingly, in setting the fees charged to applicants, the *entire* cost of operating the PTO is to be taken into account. Congress has therefore already directed how the PTO is to recover the attorney's fees sought here—through fees charged to applicants. This "justification" in fact reveals what appears to be the PTO's true intention. Far from an "'unconditional compensatory charge imposed on a dissatisfied applicant who elects to engage the PTO' in *de novo* district court proceeding," the attorney's fees sought here are meant to deter applicants (who have already paid application fees, etc.) from pursuing *de novo* review pursuant to § 145. Notably, the PTO does not appear to be concerned that "*other PTO users* … pay the personnel expenses incurred by the agency" when an applicant pursues an appeal to this Court under § 141—a *far* more common event.

The PTO continues that "[t]he 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" and that "the district court's atextual exception for personnel expenses … undermines the purpose of the provision." PTO.Br.20. As an initial matter, in *Kappos*, the Supreme Court found that this potential for gamesmanship was "unlikely," as "[a]n applicant who pursues such a strategy would be intentionally undermining his claims before the PTO on the speculative chance that he will gain some advantage in the § 145 proceeding by presenting new evidence to a district court judge." *Kappos*, 132 S. Ct. at 1700. Further, the statement made by this Court that "[t]o deter applicants from exactly the type of procedural gaming that concerns the Director, Congress imposed on the applicant the heavy economic burden of paying '[a]ll the expenses of the proceedings' regardless of the outcome" must be read in context. *Hyatt v. Kappos*, 625 F.3d 1320, 1337 (Fed. Cir. 2010). This statement was made at a time when, for over 170 years, the PTO, district courts, and Congress had *never* interpreted "expenses" to authorize attorney's fees. Accordingly, Congress must have concluded that any needed deterrence is served sufficiently by requiring applicants to pay the "expenses" traditionally encompassed by § 145, *i.e.,* printing expenses, counsel's deposition travel expenses, court reporter fees, and money paid to necessary expert witnesses.

Regardless, no amount of purported financial hardship on patent applicants or potential for gamesmanship can trump the American Rule. As the Supreme

Court explained in *Baker Botts* when addressing analogous policy arguments concerning purported financial adversity to the bankruptcy bar:

> More importantly, we would lack the authority to rewrite the statute even if we believed that uncompensated fee litigation would fall particularly hard on the bankruptcy bar. "Our unwillingness to soften the import of Congress' chosen words even if we believe the words lead to a harsh outcome is longstanding," and that is no less true in bankruptcy than it is elsewhere. *Lamie v. United States Trustee*, 540 U.S. 526, 538 (2004). Whether or not the Government's theory is desirable as a matter of policy, ***Congress has not granted us "roving authority . . . to allow counsel fees … whenever [we] might deem them warranted.***" *Alyeska Pipeline,* 421 U.S. at 260. ***Our job is to follow the text even if doing so will supposedly "undercut a basic objective of the statute***."

Baker Botts, 135 S. Ct. at 2169 (emphasis added). Thus, just as the Supreme Court found with respect to the statute at issue in *Baker Botts*, § 145 "itself does not authorize the award of fees … and that is the end of the matter." *Id.*

Notably, policy arguments could just as easily lead this Court to reject the PTO's newfound theory for attorney's fees. Requiring an applicant to pay the PTO's attorney's fees both punishes the applicant and acts a windfall to the PTO. An applicant who rightfully pursues a § 145 action will be unduly burdened and prevented from pursuing the avenues of review the statute expressly contemplates if it is forced to pay both its own attorney's fees and expenses and the unpredictable attorney's fees and expenses that the PTO elects to incur. On the other hand, the USPTO receives a windfall in not having to pay its attorney's fees

or expenses, at least a portion of which it would have been otherwise responsible for had the applicant pursued a direct appeal to the Federal Circuit pursuant to § 141.

CONCLUSION

For the foregoing reasons, the order of the District Court denying the PTO's request for attorney's fees should be affirmed.

Dated: September 6, 2016

Respectfully submitted,

/s/ Morgan Chu

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CERTIFICATE OF SERVICE

I, Morgan Chu, certify that on September 6, 2016, a copy of the **BRIEF OF PLAINTIFF-APPELLEE NANTKWEST, INC.** was served upon the following in the manner indicated:

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CERTIFICATE OF COMPLIANCE WITH RULE 32(a)

1. This brief complies with the type-volume limitation of Federal Rule of Appellate Procedure 32(a)(7)(B). The brief contains 11,433 words, excluding the parts of the brief exempted by Federal Rule of Appellate Procedure 32(a)(7)(B)(iii) and Federal Circuit Rule 32(b).

2. This brief complies with the typeface requirements of Federal Rule of Appellate Procedure 32(a)(5) and the type style requirements of Federal Rule of Appellate Procedure 32(a)(6). The brief has been prepared in a proportionally spaced typeface using Microsoft Word 2010 in 14-point Times New Roman font.

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