

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

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.

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

REPLY BRIEF FOR THE APPELLANT ON REHEARING EN BANC

Of Counsel:
NATHAN K. KELLEY
Solicitor
THOMAS W. KRAUSE
Deputy Solicitor
THOMAS L. CASAGRANDE
Associate Solicitor

*United States Patent and Trademark
Office*

CHAD A. READLER
Acting Assistant Attorney General
TRACY DOHERTY-McCORMICK
Acting United States Attorney
MARK R. FREEMAN
JAYNIE LILLEY
*Attorneys, Appellate Staff
Civil Division, Room 7321
U.S. Department of Justice
950 Pennsylvania Avenue NW
Washington, DC 20530
(202) 514-3542*

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INTRODUCTION AND SUMMARY

NantKwest offers no textual basis for construing “[a]ll the expenses of the proceeding[]” to mean *some* expenses of the proceeding. Nor does NantKwest make any attempt to justify the consequence of its interpretation: that other patent applicants must underwrite, through increased fees, the substantial personnel expenses incurred by the Patent and Trademark Office (USPTO) in defending optional § 145 actions. To the contrary, NantKwest and its amici now embrace that result: the majority of the expenses incurred by the agency in defending NantKwest’s § 145 action, they assert, must be recovered “through fees charged to applicants.” NantKwest Br. 40; *see also, e.g.*, Intellectual Prop. Law Ass’n of Chicago Amicus Br. 14 (personnel expenses for § 145 actions must be spread “across the PTO’s larger user base”).

That contention cannot be reconciled with the statutory text. Congress specified that the applicant must shoulder *all* the expenses of optional § 145 proceedings, regardless of the outcome. The obvious purpose of that requirement is to ensure that the burden of litigating § 145 proceedings does not impair the ability of the USPTO to serve other applicants. As the panel explained, “Congress intended that all applicants unconditionally assume this financial burden when seeking review directly in district court—whether they win, or lose.” *NantKwest v. Matal*, 860 F.3d 1352, 1355 (Fed. Cir. 2017). Like the parallel provision of the

Lanham Act, § 145 is “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.” *Shammas v. Focarino*, 784 F.3d 219, 226 (4th Cir. 2015), *cert. denied*, 136 S. Ct. 1376 (2016).

Ignoring this purpose, NantKwest treats § 145 as though it were a conventional cost-shifting statute for prevailing litigants. From that erroneous premise, NantKwest invokes the “American Rule”—that is, the presumption in American law that losing parties are not required to pay the winner’s attorney’s fees—in urging that the statute does not encompass the USPTO’s personnel expenses. Section 145’s expenses provision, however, is unconcerned with who wins and who loses: the statute imposes “an unconditional compensatory charge” on patent applicants who opt for more expensive district court review proceedings. *Shammas*, 784 F.3d at 221. The American Rule has no relevance to such a statute, just as the American Rule does not apply to the USPTO’s fee-setting process generally.

In any event, the plain language of § 145 would satisfy the American Rule requirement that Congress speak clearly when it authorizes an award of fees to a prevailing party. NantKwest appears to suggest that Congress must use the magic words “attorney’s fees,” or something very close, to overcome the American Rule. But there is no reason why Congress would have used such a phrase with respect to

the USPTO, which does not incur traditional “attorney’s fees.” Rather, the USPTO has expenses for the labor of its personnel. And as the panel explained, 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

SECTION 145 REQUIRES NANTKWEST TO PAY “ALL THE EXPENSES” OF THE PROCEEDING IT ELECTED, INCLUDING THE USPTO’S PERSONNEL EXPENSES.

The personnel expenses actually incurred by the USPTO in defending a § 145 action are “expenses of the proceeding[]” under the plain language of the statute. 35 U.S.C. § 145. NantKwest offers no alternative construction that is faithful to the statutory text. Instead, NantKwest rests its argument entirely on the “American Rule” presumption that a losing party is generally not required to pay a prevailing party’s attorney’s fees. But as the Fourth Circuit explained in *Shammas*, that presumption has no application to a statute that, on its face, requires one party to pay the whole expenses of a proceeding regardless of the outcome. 784 F.3d at 221. And even if the American Rule’s presumption did apply to § 145, the statute’s clear requirement that NantKwest pay “[a]ll the expenses of the proceeding[]” would satisfy it. 35 U.S.C. § 145.

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

1. The Supreme Court has stated “time and again . . . courts must presume that a legislature says in a statute what it means and means in a statute what it says there.” *Connecticut Nat’l Bank v. Germain*, 503 U.S. 249, 253-54 (1992).

NantKwest has identified no natural interpretation of the phrase “[a]ll the expenses of the proceeding[]” that would permit “all” to mean “some.” Neither NantKwest nor amici point to any dictionary definitions or exemplars of ordinary usage that would support reading the phrase “[a]ll the expenses of the proceeding[]” to mean only some undefined subset of those resources expended in the proceedings it elected.

NantKwest does not dispute that the ordinary meaning of the term “expenses” encompasses the USPTO’s personnel expenses. Br. 20 (acknowledging that “the plain and ordinary meaning of ‘expenses’ is sufficiently broad to encompass attorney’s fees”). The examples cited by NantKwest of conventional fee-shifting statutes using the term “expenses” to include attorney’s fees (Br. 26-27) only underscore the natural breadth of that term. Indeed, the sole example cited by NantKwest or amici of another statute using the phrase “all expenses” makes clear that those expenses include “attorney’s fees and expenses of

litigation,” 50 U.S.C. § 4531(b)(4).¹ NantKwest Br. 31; Intellectual Prop. Owners Ass’n Amicus Br. 10. NantKwest’s examples thus confirm that attorney’s fees and other expenses for labor in litigation are a well-established subset of “expenses.”

As our opening brief explained (at 17-18), the Supreme Court has repeatedly drawn the same textual inference, emphasizing the breadth of the term “expenses.” See *Taniguchi v. Kan Pac. Saipan, Ltd.*, 566 U.S. 560, 573 (2012) (explaining that the term “costs” generally encompasses only “a fraction of the nontaxable expenses borne by litigants for attorneys, experts, consultants, and investigators”); *Arlington Cent. Sch. Dist. Bd. of Educ. v. Murphy*, 548 U.S. 291, 297 (2006) (concluding that the fees of expert consultants could not be recovered under a statute allowing the shifting of “costs” because Congress’s use of that term, “rather than a term such as ‘expenses,’ strongly suggests that [the statute] was not meant to be an open-ended provision that makes participating States liable for all expenses incurred”). NantKwest has not pointed to any case in which a court has considered similar language and held that it excludes personnel expenses.²

¹ That statute authorizes one agency to reimburse another agency for serving as a fiscal agent for certain loan guarantees. In those circumstances, “all expenses and losses” incurred by the fiscal agent in service of the guaranteeing agency would be paid. 50 U.S.C. § 4531(b)(4).

² In *Encyclopedia Britannica, Inc. v. Dickinson*, No. 98-209, (D.D.C. Nov. 2, 2001), reprinted in Appx 171-72, the district court did not address the scope of § 145 but rather ordered the USPTO to submit a statement of its expenses, other than attorney’s fees, for the court to review.

In *Shammas*, the Fourth Circuit held that the same language requires plaintiffs under the parallel provision of the Lanham Act, 15 U.S.C. § 1071(b), to reimburse the USPTO's personnel expenses. *See Shammas v. Focarino*, 784 F.3d 219, 225 (4th Cir. 2015), *cert. denied*, 136 S. Ct. 1376 (2016). The ordinary meaning of "expenses," the court of appeals reasoned, "is sufficiently broad" to include salary expenses for attorneys and paralegals. *Id.* at 222. And Congress resolved any remaining doubt about what expenditures were included by modifying the term "expenses" with the term "all," thereby "clearly indicating that the common meaning of the term 'expenses' should not be limited." *Id.* NantKwest has no response to the Fourth Circuit's reasoning other than to assert that *Shammas* was wrongly decided.

NantKwest also disputes that the USPTO's expenses for salaried employees constitute expenses "of the proceeding[]," asserting that those expenses would have been incurred regardless. Br. 32-33. But as the panel explained, that contention fails to account for the basic economic principle of opportunity cost. 860 F.3d at 1359-60. Section 145 proceedings impose real and proximate burdens on the USPTO's staff. When the agency assigns attorneys and paralegals to defend a § 145 proceeding, those personnel are not available to perform other necessary tasks.

For this reason, as this Court has explained in an analogous context, calculating the expense of salaried attorney time requires “taking into account the *opportunity cost* involved in devoting attorney time to one case when it could be devoted to others.” *Raney v. Federal Bureau of Prisons*, 222 F.3d 927, 934-35 (Fed. Cir. 2000) (en banc) (emphasis added). The Court held in *Raney* that salaried union attorneys could recover a portion of their salary expenses under a statute providing for “attorney’s fees related to [a] personnel action,” *id.* at 932, because the litigation required the union lawyers to divert their time from other matters to handle the personnel action. *Id.* at 934-35; *see also Wisconsin v. Hotline Indus., Inc.*, 236 F.3d 363, 365-66 (7th Cir. 2000) (holding that a state government agency could recover for the time of salaried attorneys under a statute providing for attorney’s fees). If NantKwest were correct that the USPTO’s personnel expenses for salaried employees are not expenses “of the proceeding” merely because the salaries would have been paid anyway, *Raney* and *Hotline Industries* would have come out the other way.

NantKwest does not dispute that the salaried USPTO personnel in this case actually expended their time on the district court proceedings that NantKwest initiated. Like the attorney time expended in the foreclosure proceedings in *United States v. 110-118 Riverside Tenants Corp.*, 886 F.2d 514, 520 (2d Cir. 1989) (holding that government was required to reimburse a corporation for all “expenses

of the[] [foreclosure] proceedings,” including the costs of the attorney time spent on behalf of the government in those proceedings), the USPTO’s personnel expenses are direct and proximate expenses of the proceeding. As the panel noted, if the USPTO had hired outside staff to handle NantKwest’s § 145 proceeding, those proximately-caused expenses would plainly be expenses of the proceeding. 860 F.3d at 1360; *see also* USPTO Opening Br. 28 n.5 (citing examples). There is no reason why the USPTO’s (considerably less expensive) salaried staff time should be treated differently. *See* 860 F.3d at 1360; *see also* *Shammas*, 784 F.3d at 223 (recognizing that the USPTO “incurred expenses when its attorneys were required to defend the Director in the district court proceedings, because their engagement diverted the [US]PTO’s resources from other endeavors”).

2. More fundamentally, NantKwest fails to explain *why* § 145’s expenses provision should exclude the substantial personnel expenses that the USPTO incurs in defending elective § 145 proceedings. Like the patent system overall, § 145 reflects a fee-for-service model: the expenses requirement ensures that the entire burden of litigating § 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.³

³ Various amici erroneously suggest that § 145 is in tension with the general fee-shifting provisions of the Equal Access to Justice Act, 28 U.S.C. § 2412

As our opening brief explained (at 33-34), § 145 actions are, in both historical and functional terms, an extension of the *ex parte* patent application process. *See, e.g., Gandy v. Marble*, 122 U.S. 432, 439 (1887) (“[T]he proceeding is, in fact and necessarily, a part of the application for the patent.”). In this respect, the mandatory expenses-reimbursement requirement of § 145 is a direct counterpart to the application fees that the USPTO imposes to recoup the agency’s expenses in examining the patent application. Like an application fee, the requirement to pay the USPTO’s expenses applies whether the application is successful or not, and the agency imposes additional fees for an applicant’s choice to pursue an optional or expedited path. *See, e.g., 37 C.F.R. § 1.17(c)* (fees for expedited patent examination).⁴ And like the application fee, it is intended to cover the USPTO’s expenses—including its expenses for salaried personnel.

(EAJA). This Court, however, has never suggested that a prevailing applicant in a § 145 action may recover its fees and costs under EAJA, and for good reason: § 145’s specific and explicit expenses provision, which requires the applicant to pay the expenses of the proceeding regardless of the outcome, supersedes the general rule of EAJA, which allows shifting of costs and fees only for prevailing parties. *Cf. 28 U.S.C. § 2412(d)(1)(A)* (authorizing fee-shifting “except as otherwise specifically provided by statute”).

⁴ The USPTO may have additional mechanisms for collecting fees and expenses from bad-faith litigants, *see Intellectual Prop. Law Ass’n of Chicago Amicus Br. 12-14*, but the availability of those alternatives does not alter Congress’s determination that applicants who pursue *de novo* litigation in district court must pay the all the expenses of the litigation. Similarly, Congress’s instruction that the USPTO set fees according to the “aggregate estimated costs” of the agency, *Leahy-Smith America Invents Act, Pub. L. No. 112-29, § 10, 125 Stat.*

As the Fourth Circuit stressed, the “original understanding” of the predecessor provision in the 1839 Patent Act reinforces this conclusion. *Shammas*, 784 F.3d at 226-27. In the 1836 Patent Act, Congress specified that patent applicants would be required to pay application fees to recoup the “expenses of the Patent Office,” including “the salaries of the officers and clerks herein provided for, and all other expenses of the Patent Office.” Act of July 4, 1836, ch. 357, § 9, 5 Stat. 117, 121. Three years later, in enacting the predecessor provision to § 145, Congress imposed an expense-reimbursement requirement in conspicuously parallel terms—“the whole of the expenses of the proceeding.” *See* Act of Mar. 3, 1839, ch. 88, § 10, 5 Stat. 353, 354. Faced with this history, NantKwest concedes that the term “expenses” in the 1836 Act encompassed Patent Office’s personnel expenses, yet asserts that the same term in the 1839 Act cannot bear the same meaning. Br. 33-34. That result cannot be squared with ordinary principles of statutory interpretation.

NantKwest and the panel dissent contend that, at the time of the drafting of the predecessor to § 145, the terms “expenses,” “costs,” and “damages” all had similar meanings. But as the panel explained, the 1836 Patent Act used these three

284, 316 (2011); *see* NantKwest Br. 40, casts no doubt on Congress’s specific instruction that applicants who elect § 145 proceedings must pay all the expenses of those proceedings. The whole point of § 145’s expenses provision is that those proceedings should be expense-neutral for the agency.

distinct terms in different contexts to convey different meanings. 860 F.3d at 1356 (citing examples). NantKwest and the dissent’s suggestion (Br. 20, n.13; 860 F.3d at 1362-63 (Stoll, J., dissenting)) that “expenses of the proceeding” should be limited to “damages” makes little sense in the modern version of the statute, but it is even less coherent in light of the original usage of the term. As noted, Congress provided in the original 1836 Patent Act for applicant fees to be used to pay the “*expenses of the Patent Office*” including “salaries.” 5 Stat. at 354 (emphasis added). Notwithstanding the similarities between the terms in dictionaries at the time, it is clear that Congress did not provide for the “damages of the Patent Office, including salaries.”

At bottom, NantKwest articulates no reason why other USPTO users, rather than NantKwest itself, should be required to bear the burden of NantKwest’s voluntary choice to pursue the more expensive and burdensome option of district court review under § 145. As this Court emphasized in its en banc decision in *Hyatt v. Kappos*, the manifold procedural benefits of § 145 proceedings come at a price: the applicant must bear the “heavy economic burden of paying ‘[a]ll the expenses of the proceedings’ regardless of the outcome.” 625 F.3d 1320, 1337 (Fed. Cir. 2010) (en banc) (alteration in original), *aff’d*, 556 U.S. 431 (2012). The USPTO is committed to full enforcement of that requirement in the era of the

America Invents Act, in which Congress has directed the agency to operate on a user-funded basis.

NantKwest and amici object that requiring applicants to offset the actual expenses to the agency of litigating § 145 actions would undermine the strategic benefit of such proceedings and deter applicants from pursuing them. They stress that § 145 provides an invaluable opportunity for patent applicants to introduce new testimony and evidence and obtain de novo review of the USPTO's findings. But that rare opportunity comes at a price: "All the expenses of the proceedings shall be paid by the applicant." 35 U.S.C. § 145. Just as there is nothing unfair in the USPTO setting its patent examination fees to cover the agency's aggregate expenses, there is nothing unfair or punitive about holding NantKwest to its obligations under the statute it voluntarily elected to invoke.⁵

Finally, NantKwest asserts that the USPTO's request for reimbursement of the full expenses of § 145 proceedings is recent and thus, according to NantKwest, wrong. As we explained in our opening en banc brief (at 29-30), however, that contention confuses the exercise of discretion with a lack of authority. The USPTO has historically refrained from seeking reimbursement of its personnel

⁵ There is no merit to amicus Intellectual Property Owners Association's suggestion that agency proceedings without live testimony are constitutionally suspect, *see* Br. 18-19, or, in any event, that the remedy for such a constitutional violation would be to rewrite the provision allocating the expenses for subsequent district court proceedings.

expenses under § 145, but it has never affirmatively disclaimed that authority. This case is therefore unlike the cases on which NantKwest relies, which involved disruptions of affirmative and long-settled agency constructions. *See Zenith Radio Corp. v. United States*, 437 U.S. 443, 457-58 (1978) (relying on settled interpretation of language in Tariff Act made in Treasury Department decisions since 1898); *Singh v. Brake*, 222 F.3d 1362, 1371 (Fed. Cir. 2000) (examining reliance interests affected by a new procedural rule adopted by the USPTO); *cf. Immersion Corp. v. HTC Corp.*, 826 F.3d 1357, 1359 (Fed. Cir. 2016) (noting that “clearly articulated agency practice [that] . . . has plausibly engendered large-scale reliance” supported the agency’s authority to continue that position). Now, in an era in which Congress has required the USPTO to operate on a user-funded basis, the USPTO has concluded that it can no longer refrain from seeking reimbursement of all the expenses incurred by the agency in defending § 145 proceedings.

B. NantKwest erroneously relies on the American Rule.

NantKwest’s argument rests almost entirely on the contention that § 145 is a conventional cost-shifting statute whose scope is governed by the “American Rule” presumption. But § 145 is not such a statute, and the American Rule has no application to § 145’s mandatory, win-or-lose expense-recoupment scheme. And

in any event, as the panel explained, the plain language of § 145 would satisfy the American Rule even if it applied. 860 F.3d at 1359.

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

NantKwest fails to cite any example of a case in which the American Rule has been applied to a statute that shifts *all* expenses to a specified party in *every* circumstance, regardless of who prevails. *Cf.* Br. 25-31 (discussing statutes that authorize attorney's fees awards where "appropriate" or in the court's discretion); *see also* 860 F.3d at 1363-64 (Stoll, J., dissenting). As amicus American Bar Association explains, § 145's expenses provision operates in only one direction, requiring payments from the applicant to the USPTO. That the provision "would shift only the PTO's fees, and never the applicant's, strongly suggests it is not a fee-shifting statute." Br. 15-16. That observation is precisely what undergirds the

Fourth Circuit's recognition that the American Rule has no relevance in these circumstances. Indeed, even if NantKwest had prevailed on the merits of its § 145 action and obtained a judgment that its invention is patentable, NantKwest would *still* have been required to pay "[a]ll the expenses of the proceeding[]" in district court. That is the opposite of the American Rule.

Unsurprisingly, none of the American Rule cases on which NantKwest relies involves a remotely similar scheme. NantKwest principally relies on *Baker Botts LLP v. ASARCO LLC*, 135 S. Ct. 2158, 2165 (2015). That case "does not stand for a general proposition that courts must apply the American Rule's specific and explicit requirements to *all* fee statutes irrespective of a prevailing party." 860 F.3d at 1355. Rather, in *Baker Botts*, the parties did not dispute, nor did the Court question, that the Bankruptcy Code permitted the trustee in a bankruptcy proceeding to recover attorney's fees as part of "reasonable compensation for actual, necessary services rendered" to the estate. 135 S. Ct. at 2164-65. At issue was the more attenuated question of whether the statute permitted an award of attorney's fees for success in ancillary litigation over the size of a fee award under that provision. Noting that the American Rule generally governs the payment of fees in such "adversarial litigation," the Court applied the American Rule in declining to read the statutory authorization for reasonable compensation in bankruptcy cases to authorize fee-shifting in related fee litigation. *Id.* *Baker Botts*

thus involved an entirely conventional application of the American Rule: the Court held that, in the absence of statutory authorization, the losing party in attorney's fee litigation would not be required to pay the prevailing party's attorney's fees for that litigation.

NantKwest also relies (Br. 45-46) on *Hardt v. Reliance Standard Life Insurance Co.*, 560 U.S. 242 (2010). But NantKwest misses the point of that case, which only underscores the traditional concern of the American Rule with prevailing party status. As NantKwest notes, the statute at issue in *Hardt* did not on its face limit fee awards to prevailing parties. But because the statute was ambiguous about the circumstances in which fee awards would be permitted, the Court invoked the American Rule to hold that a claimant must at least obtain "some degree of success on the merits" to justify a fee award. *Hardt*, 560 U.S. at 255 (quoting *Ruckelshaus v. Sierra Club*, 463 U.S. 680 (1983)). In other words, the Supreme Court applied the American Rule (1) in the face of ambiguity over when the fee-shifting provision applied, and (2) to reinforce the traditional concern of fee-shifting statutes with prevailing party status. Section 145, by contrast, does not implicate either of those concerns: the expenses provision applies in *every* case, and it applies *regardless* whether the applicant succeeds or fails.

If any case is analogous, it is not *Baker Botts* or *Hardt*, but *Sebelius v. Cloer*, 569 U.S. 369 (2013). *Cloer* involved the interpretation of a provision of the

Vaccine Act that authorized attorney’s fees for “any proceeding on . . . [a] petition.” 569 U.S. at 374. The Supreme Court concluded that fees incurred in prosecuting even an untimely petition were compensable under the Act’s “broad[]” and “unambiguous” terms. *Id.* at 376, 380. The Court reached that conclusion, moreover, without resort to the American Rule—despite the explicit invocation of the Rule in the government’s merits brief in the Supreme Court and in Judge Bryson’s dissenting opinion in this Court. *See Cloer v. Secretary of Health & Human Servs.*, 675 F.3d 1358, 1366-67 (Fed. Cir. 2012) (en banc) (Bryson, J., dissenting) (arguing that the American Rule should bar compensation for fees for an untimely application); U.S. Br., *Sebelius v. Cloer*, No. 12-236, 2013 WL 75285, at *32 (U.S. Jan. 4, 2013) (arguing that an interpretation “that authorizes an award of attorneys’ fees and costs on an untimely petition is disfavored because it would substantially depart from the common law,” including the American Rule). The Supreme Court concluded that any background presumptions “g[a]ve way” in the face of the broad and unambiguous language chosen by Congress. *Cloer*, 569 U.S. at 381.⁶

⁶ NantKwest relies (Br. 18 n.11) on *York Research Corp. v. Landgarten*, 927 F.2d 119, 123 (2d Cir. 1991), to argue that § 145 is ambiguous. That case is inapposite. There, the court of appeals court noted that the ordinary meaning of an indemnification provision in an arbitrator’s award for “any and all . . . expenses” likely included attorney’s fees, but that the arbitrator’s intent was unclear. *Id.* Even in those circumstances, the court did not apply the American Rule to preclude an attorney’s fees award. *See id.* (remanding for clarification).

For the same reasons, the American Rule has no application to § 145, which categorically requires the applicant in a § 145 case to pay “[a]ll the expenses of the proceedings” regardless of the result. As in *Cloer*, the plain language of the statute answers any question about congressional intent.

2. For essentially the same reasons, the panel correctly held that § 145 would satisfy the requirements of the American Rule even if it applied. As already discussed, there is no serious dispute that the term “expenses” encompasses the USPTO’s personnel expenses. And the statute unambiguously requires NantKwest to shoulder *all* of those expenses.

There is, accordingly, no ambiguity for the American Rule to resolve. If Congress had merely provided that the applicant should pay “expenses of the proceeding,” for example, leaving open the question of *which* expenses, the American Rule might inform the answer to that question. But Congress did not leave that question open: “All the expenses of the proceedings shall be paid by the applicant.” 35 U.S.C. § 145.

Nothing more is required. The American Rule is not a magic-words requirement. It is simply a presumption about congressional intent. *See Alyeska Pipeline*, 421 U.S. at 260. The Supreme Court has recognized that departures from the American Rule take “various forms,” depending on the statutory scheme at issue. *Baker Botts*, 135 S. Ct. at 2164. As the panel explained, “[t]he 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.” 860 F.3d at 1358. Unlike other provisions of the Patent Act that provide narrowly for the payment of specific expenses, *e.g.*, 35 U.S.C. § 2 (authorizing the agency to pay “subsistence expenses” and “travel-related expenses”); 35 U.S.C. § 24 (authorizing “fees and traveling expenses” for witnesses), section 145 provides that “[a]ll the expenses of the proceedings,” without limitation or qualification, shall be paid by the applicant. By coupling the broad phrase “expenses of the proceedings” with the categorical “all,” Congress provided the clear direction that the American Rule demands.

Under NantKwest’s cramped view, by contrast, nothing short of the words “attorney’s fees” would satisfy the American Rule. Indeed, NantKwest even denies that the phrase “litigation costs” would suffice (Br. 24-25), notwithstanding that the Supreme Court specifically cited that phrase in *Baker Botts* as an example of language that would satisfy the American Rule, *see* 135 S. Ct. at 2164.

NantKwest’s insistence that the phrase “attorney’s fees” must appear on the face of the statute is particularly anomalous in the context of § 145. It would have been strange if Congress had used that phrase to describe the USPTO’s personnel expenses. As NantKwest acknowledges, “Section 145 *only* applies to actions against the PTO” (Br. 33), and the statute’s expenses provision operates

unilaterally for the benefit of the agency. The USPTO, however, does not typically have “attorney’s fees”: its salaried attorneys and paralegals do not collect “fees” from the agency. Rather, as the panel explained, the USPTO’s expenditures for the labor of its personnel in § 145 cases are naturally described in precisely the terms that Congress chose: as “expenses of the proceeding.” 860 F.3d at 1358.

NantKwest also fails to explain (Br. 39 n.20) why the language “all the expenses” in § 145 satisfies the American Rule with respect to witness expenses, yet not for the agency’s personnel expenses. *Cf.* American Intellectual Prop. Law Ass’n Amicus Br. 3-4 (discussing general presumption against departing from common law). The Supreme Court has described a rule permitting a prevailing party to recover its expert witness fees from the losing party as a departure from the American Rule. *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.”). No one disputes that expert witness fees are among “[a]ll the expenses of the proceedings” under § 145, and that consequently the applicant must pay the USPTO’s expert witness fees regardless of the outcome of the case. Yet NantKwest argues that the same words are somehow insufficient to overcome the American Rule with respect to personnel expenses.

In sum, the USPTO’s personnel expenses in § 145 actions are among the “expenses of the proceedings” under any definition of that phrase. Congress provided that NantKwest must bear “all” of those expenses. There is no principled reason why other USPTO users should have to bear the economic consequences of NantKwest’s voluntary choice to proceed under § 145.

CONCLUSION

For the foregoing reasons and those given in our opening brief, the order of the district court denying the USPTO’s personnel expenses should be reversed.

Respectfully submitted,

CHAD A. READLER
Acting Assistant Attorney General
TRACY DOHERTY-McCORMICK
Acting United States Attorney

Of Counsel:
NATHAN K. KELLEY
Solicitor
THOMAS W. KRAUSE
Deputy Solicitor
THOMAS L. CASAGRANDE
Associate Solicitor

MARK R. FREEMAN

s/ Jaynie Lilley
JAYNIE LILLEY
*Attorneys, Appellate Staff
Civil Division, Room 7321
U.S. Department of Justice
950 Pennsylvania Avenue NW
Washington, DC 20530
(202) 514-3542
jaynie.lilley2@usdoj.gov*

*United States Patent and Trademark
Office*

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CERTIFICATE OF SERVICE

I hereby certify that on January 31, 2018, I electronically filed the foregoing brief with the Clerk of the Court for the United States Court of Appeals for the Federal Circuit by using the appellate CM/ECF system. Participants in the case are registered CM/ECF users, and service will be accomplished by the appellate CM/ECF system.

s/ Jaynie Lilley

Jaynie Lilley

CERTIFICATE OF COMPLIANCE

I hereby certify 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 4,980 words, excluding the parts of the brief exempted under Rule 32(a)(7)(B)(iii), according to the count of Microsoft Word.

s/ Jaynie Lilley

Jaynie Lilley