

No. 2016-1794

**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.

BRIEF FOR THE APPELLANT ON REHEARING EN BANC

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STATEMENT OF RELATED CASES

This Court decided the companion appeal to this case in *NantKwest, Inc. v. Lee*, 686 F. App'x 864 (Fed. Cir. 2017). The Court also stayed the appeal in *Realvirt v. Matal*, 17-1159, pending the resolution of this appeal. The government is not aware of any other related cases within the meaning of Federal Circuit Rule 47.5(b).

INTRODUCTION

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

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

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

A panel of this Court correctly held that NantKwest must comply with its obligation to pay “*all* the expenses of the proceedings,” including the USPTO’s personnel expenses. Congress required plaintiffs who elect to proceed in district court under § 145 to bear the “heavy economic burden of paying ‘[a]ll the expenses of the proceedings’ regardless of the outcome.” *Hyatt v. Kappos*, 625 F.3d 1320, 1337 (Fed. Cir. 2010) (en banc) (alteration in original), *aff’d*, 566 U.S. 431 (2012). The expenses provision ensures that the economic burden of conducting § 145 proceedings falls entirely on the applicants who elect those proceedings, rather than on the public or on the other USPTO users whose fees fund the agency’s operations.

QUESTION PRESENTED

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

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

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

STATEMENT OF THE CASE

A disappointed patent applicant who chooses to commence a district court proceeding under 35 U.S.C. § 145 must pay “[a]ll the expenses of the proceedings.” The question presented in this case is whether “[a]ll the expenses of the proceedings” include the personnel expenses incurred by the USPTO in defending the proceeding.

A. Statutory Background

A disappointed patent applicant may obtain judicial review of an adverse decision of the Patent Trial and Appeal Board (Board) in either of two ways. First, under 35 U.S.C. § 141, the applicant may appeal directly to this Court. In such an appeal, the court of appeals reviews the decision from which the appeal is taken on the record before the USPTO. *See id.* §§ 143, 144; *Kappos v. Hyatt*, 566 U.S. 431, 433 (2012). Alternatively, the applicant may elect to initiate a civil action against the USPTO in federal district court under 35 U.S.C. § 145.¹

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

As this Court and the Supreme Court have explained, electing to proceed under § 145 carries both advantages and disadvantages for the applicant. On the one hand, the district court is not constrained by the administrative record before the agency, so the applicant may introduce new evidence and obtain a de novo judicial determination of the significance of that evidence. *See Hyatt*, 566 U.S. at 433. On the other hand, Congress stipulated that, win or lose, “[a]ll the expenses of the proceedings shall be paid by the applicant.” 35 U.S.C. § 145; *see Hyatt v. Kappos*, 625 F.3d 1320, 1337 (Fed. Cir. 2010) (en banc) (observing that Congress imposed on applicants who elect to proceed in district court the “heavy economic burden of paying ‘[a]ll the expenses of the proceedings’ regardless of the outcome”) (alteration in the original), *aff’d*, 566 U.S. 431 (2012).

The requirement that the applicant pay all the expenses associated with a proceeding under § 145 has a long history. The Patent Act of 1836 created a right to commence a proceeding in equity in federal court to challenge a decision of the Patent Office. *See* Act of July 4, 1836 (1836 Act), ch. 357, § 16, 5 Stat. 117, 123. In 1839, Congress amended the Patent Act to require the party commencing such a litigation to pay “the whole of the expenses of the proceeding.” *See* Act of Mar. 3, 1839 (1839 Amendments), ch. 88, § 10, 5 Stat. 353, 354 (“[In] all cases where patents are refused for any reason whatever . . . where there is no opposing party . . . the whole of the expenses of the proceeding shall be paid by the applicant,

whether the final decision shall be in his favor or otherwise.”). And, in 1870, Congress revised the Act and retained the expense-reimbursement provision. Act of July 8, 1870, ch. 230, § 52, 16 Stat. 198, 205 (“[I]n all cases where there is no opposing party a copy of the bill shall be served on the commissioner, and all the expenses of the proceeding shall be paid by the applicant, whether the final decision is in his favor or not.”).² The expenses provision remained virtually unchanged through subsequent amendment to the Patent Act and the review provisions.

Congress subsequently incorporated a materially identical “all the expenses of the proceeding” requirement into the parallel provision of the Lanham Act. *See* 15 U.S.C. § 1071(b)(3) (if a disappointed trademark applicant elects to seek review by civil action in district court, “all the expenses of the proceeding shall be paid by the party bringing the case, whether the final decision is in favor of such party or not”). In adopting that language in 1962, Congress explained that the provision was intended to mirror the expenses requirement for civil actions under § 145. *See* S. Rep. No. 87-2107, at 6-7 (1962) (explaining that the prior trademark expenses provision “incorporates by reference the procedure of appeals to the Court of

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

Customs and Patent Appeals and review by civil action in patent cases”). *Cf. American Steel Foundries v. Robertson*, 262 U.S. 209, 213-15 (1923) (construing predecessor to § 1071(b) to include same procedures as the predecessor to § 145).

The Fourth Circuit recently interpreted the expenses provision of the Lanham Act in *Shammas v. Focarino*, 784 F.3d 219 (4th Cir. 2015), *cert. denied sub nom. Shammas v. Hirshfield*, 136 S. Ct. 1376 (2016).³ There, the district court granted the USPTO’s request for personnel expenses, holding that the text of the expenses provision was “pellucidly clear” in requiring a plaintiff to reimburse the USPTO its attorney and paralegal expenses. *Shammas v. Focarino*, 990 F. Supp. 2d 587, 591-92 (E.D. Va. 2014). The court of appeals reasoned that the ordinary meaning of the term “expenses” encompassed attorney and paralegal expenses. *Shammas*, 784 F.3d at 222; *id.* at 224 (construing the “plain language” of the provision to mean that a plaintiff who elects a district court proceeding must pay all of the expenses, including the USPTO’s personnel expenses). And, the court emphasized, “Congress modified the term ‘expenses’ with the term ‘all,’ clearly indicating that the common meaning of the term ‘expenses’ should not be limited.” *Id.* at 222. The Fourth Circuit rejected the contention that the expenses provision must explicitly provide for “attorney’s fees” in order for the USPTO to recover its

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

personnel expenses because the Lanham Act’s expenses provision was not a fee-shifting provision. *Id.* at 223-24. “Because the [USPTO] is entitled to recover its expenses even when it completely fails, § 1071(b)(3) need not be interpreted against the backdrop” of the American Rule—that is, the traditional presumption in the United States against requiring losing parties in litigation to pay the winner’s attorney’s fees. *Id.* at 223.

The Fourth Circuit found that the structure and history of the statute confirmed the plain meaning of the phrase “all the expenses.” By attaching the expense payment provision only to the option to pursue a more “fulsome and expensive” district court proceeding, Congress “obviously intended to reduce the financial burden on the USPTO in defending such a proceeding” by requiring the applicant to pay all of those expenses. *Shammas*, 784 F.3d at 225 (“Of course, if the dissatisfied applicant does not wish to pay the expenses of a de novo civil action, he may appeal the adverse decision of the [USPTO] to the Federal Circuit.”). The legislative history, the court determined, indicates that the expenses provision was “intended as a straightforward funding provision, designed to relieve the USPTO of the financial burden that results from an applicant’s election to pursue the more expensive district court litigation,” and the “original understanding” of the predecessor provision in the 1839 Patent Act provides

support for the conclusion that “expenses” included the USPTO’s salary expenses.

Id. at 226-27.

B. Factual Background and Prior Proceedings

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

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

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

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

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

The district court granted summary judgment in favor of the USPTO, holding that the application's claims were obvious. The court concluded, like the patent examiner and the Board, that two prior art references "disclose[d] all the elements of the claimed invention . . . [and that] it is clear that a person of skill in the art in 1997 would have had a reasonable expectation of success and a motivation to combine the [two] prior art references." Appx048. The court found

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

2. Following the entry of judgment, the USPTO filed a motion for reimbursement of the “expenses of the proceedings,” under § 145, including \$78,592.50 of personnel expenses calculated as the pro rata share of the salaries of the two attorneys and one paralegal who worked on the case. *See* Appx083-084.⁴ The USPTO also requested certain expert witness expenses for the expert it retained to assist in the defense of the district court action.

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

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

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

Addressing the text of § 145, the district court reasoned that the term “expenses” does not encompass personnel expenses because the statute does not clearly address the shifting of attorney's fees. The court declared that the phrase “*all of the expenses*” means “a *collection* of the expenses used, commonly understood to encompass as [sic] printing, travel, and reasonable expert witness expenses.” Appx004. The court concluded that the term “expenses” alone was too “broad” overcome the American Rule's presumption against fee-shifting. Appx006-007. Acknowledging that a statute need not use the magic phrase “attorney's fees” to deviate from the American Rule, the district court nonetheless found the phrase “all the expenses of the proceedings” insufficiently specific. Finally, the district court declared that the Fourth Circuit's then-recent interpretation of the materially identical provision in the Lanham Act in *Shammas* was “[e]rroneous.” Appx008.

C. This Court's Decision

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

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

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

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

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

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

SUMMARY OF ARGUMENT

As the panel recognized, the USPTO’s personnel expenses are part of “all the expenses of the proceedings” under any interpretation of the plain language of § 145. By using the broad term “expenses” and specifying that the applicant must

pay “all” of those expenses, Congress left no doubt that § 145 requires a patent applicant who pursues de novo proceedings in district court to reimburse the USPTO for the expenses at issue here. The statute’s purposes, as recognized by this Court, underscore this interpretation: Congress intended the heavy burden of the expenses associated with § 145 proceedings to fall on those who voluntarily elect to pursue those proceedings, rather than on the public or the other USPTO users whose fees fund the agency’s operations.

The contrary interpretation offered by NantKwest and the panel dissent disregards the text and history of § 145 and creates an unfounded tension with the application of virtually identical language in the Lanham Act. The American Rule does not govern the interpretation of a statute that, like § 145, requires the plaintiff to reimburse all the expenses of a proceeding regardless of the outcome. And in any event, the clear language of § 145 would satisfy the American Rule even if it applied: Congress unambiguously expressed its intent to require a patent applicant to pay “*all* the expenses” associated with the applicant’s decision to proceed under § 145. The American Rule requires nothing more.

ARGUMENT

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

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

statute. Requiring plaintiffs to reimburse those expenses, moreover, comports with the history and purpose of § 145's expense-reimbursement provision, which is designed to ensure that the burden of litigating optional § 145 proceedings falls on the applicants who elect those proceedings, rather than on the public or on the other USPTO users whose fees fund the agency's operations. The panel's conclusion is consistent with the only other court of appeals to construe the same language, and neither *NantKwest* nor the dissent have offered a compelling reason for this Court to reach a conflicting conclusion.

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

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

1. The personnel expenses proximately incurred by the USPTO in defending a § 145 proceeding are part of "the expenses of the proceedings" under any straightforward reading of that phrase. The ordinary dictionary meaning of "expenses" encompasses expenditures for personnel. *NantKwest*, 860 F.3d at 1356 (citing dictionary definitions); *cf. Xianli Zhang v. United States*, 640 F.3d 1358, 1364 (Fed. Cir. 2011) ("Dictionary definitions can elucidate the ordinary meaning of statutory terms."). According to *Black's Law Dictionary*, an "expense" is an

“expenditure of money, time, labor, or resources to accomplish a result.” *Black’s Law Dictionary* 698 (10th ed. 2014). Dictionaries contemporaneous with the original enactment of § 145’s predecessors provide similar definitions. *See, e.g.*, Noah Webster, *American Dictionary of the English Language* (1st ed. 1828) (“A laying out or expending; the disbursing of money, or the employment and consumption, as of time or labor.”). The personnel expenditures that the USPTO incurs in litigating a § 145 suit are “expenditure[s] of money, time, labor, or resources” and involve “the disbursing of money.”

As the Supreme Court has stressed, Congress employs the broad term “expenses” when it means to capture the full range of expenditures a party must make in litigation, including expenses of “attorneys.” *Taniguchi v. Kan Pacific Saipan, Ltd.*, 566 U.S. 560, 573 (2012); *see NantKwest*, 860 F.3d at 1352. In this respect, the Court noted, “expenses” stands in juxtaposition to more limited terms such as “costs,” which represent only “a fraction of the nontaxable *expenses* borne by litigants.” *Taniguchi*, 556 U.S. at 573 (emphasis added). *See also* 10 Charles Alan Wright et al., *Federal Practice and Procedure* § 2666 (3d ed. 1998) (“‘[e]xpenses,’ of course, include all the expenditures actually made by a litigant in connection with the action,” including expenses for attorneys); *see also United States v. 110-118 Riverside Tenants Corp.*, 886 F.2d 514, 520 (2d Cir. 1989) (including attorney’s fees as “expenses of the [foreclosure] proceeding”).

That Congress has clarified that the term “expenses” includes attorney’s fees in conventional fee-shifting statutes confirms the natural breadth of that term. The examples collected by the panel dissent of statutes that use the phrase “expenses, including attorney’s fees,” *see NantKwest*, 860 F.3d at 1363-64 (Stoll, J., dissenting) (listing examples), establish that the term “expenses” includes attorney’s fees. These examples thus underscore that attorney’s fees and other expenses for labor in litigation are a well-established subset of “expenses.” *See Shammas*, 784 F.3d at 222 (Congress “clearly indicat[ed] that the common meaning of the term ‘expenses’ should not be limited.”).

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

Nor does the fact that the USPTO diverted salaried employees to handle the § 145 litigation, rather than hire contractors specifically for the case, detract from the reality of the expenditure. This Court concluded in an analogous context that litigants represented by salaried union counsel, like the salaried government

counsel here, could recover expenses for their attorneys under a provision providing for such compensation. *Raney v. Federal Bureau of Prisons*, 222 F.3d 927, 934-35 (Fed. Cir. 2000) (en banc); *see also id.* at 942 (Rader, J., dissenting) (disputing whether salaried counsel should receive fees at market rates or prorated amounts of counsel's salary, but not questioning whether the expenses of salaried counsel were reimbursable); *Wisconsin v. Hotline Indus., Inc.*, 236 F.3d 363, 365-66 (7th Cir. 2000) (holding that a state government agency could recover the salary expenses it incurred in opposing an improper removal of a state court case).

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

2. Congress did not simply provide that a plaintiff under § 145 must pay "expenses," without specifying *which* expenses. It said that the plaintiff must pay "*all* the expenses of the proceedings." As the Fourth Circuit explained, the word "all" establishes that the term "expenses" "should not be limited." *Shammas*, 784 F.3d at 222. When Congress specified that a party who files a civil action under § 145 must pay "all the expenses of the proceedings," it meant exactly that—*all* the expenses incurred in connection with the proceedings, not merely some subset of

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

The Fourth Circuit construed the virtually identical language in the companion provision of the Lanham Act, 15 U.S.C. § 1071(b)(3), to permit the USPTO to recover its personnel expenses. The court of appeals found that, in using the phrase “all the expenses,” Congress “obviously intended” to reduce the financial burden of these proceedings on the USPTO, including the USPTO’s personnel expenses. *See Shammis*, 784 F.3d at 225. The ordinary meaning of “expenses,” the court of appeals reasoned, “is sufficiently broad” to include salary expenses for attorneys and paralegals. *Id.* at 222. And any remaining doubt about what expenditures Congress intended to include was clarified by modifying the term “expenses” with the term “all,” “clearly indicating that the common meaning of the term ‘expenses’ should not be limited.” *Id.* And, the USPTO incurred personnel expenses when its employees were diverted from other tasks to defend the USPTO in these proceedings. *See id.* at 223 (The USPTO “incurred expenses when its attorneys were required to defend the Director in the district court proceedings, because their engagement diverted the [USPTO’s] resources from other endeavors.”); *Raney*, 222 F.3d at 934-35.

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

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

1. As this Court recognized in its en banc decision interpreting § 145, the unusual opportunity that § 145 offers comes with a price: Congress required plaintiffs who elect to proceed in district court to bear the “heavy economic burden of paying ‘[a]ll the expenses of the proceedings’ regardless of the outcome.” *Hyatt* 625 F.3d at 1337. The expenses provision ensures that the burden of conducting § 145 proceedings falls on the applicants who elect those proceedings, rather than on the public or on the other USPTO users whose fees fund the agency’s operations. “Without shouldering these expenses itself,” as the statute requires, *NantKwest* “seeks a ruling that essentially requires other applicants to fund its own appeal.” *NantKwest*, 860 F.3d at 1360 n.9.

Section 145 proceedings are entirely optional. Every applicant for a patent has the right to appeal an adverse decision of the USPTO directly to this Court and obtain review of the agency’s decision on the administrative record. *See* 35 U.S.C. §§ 141, 143. An applicant in such an appeal is responsible only for paying its own expenses. Alternatively, the applicant may elect to proceed under § 145 and

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

But litigation in district court is expensive and time-consuming, much more so than direct appeals limited to the administrative record. Suits under §145 force the USPTO and its employees to dedicate time and effort to conducting discovery, interviewing witnesses, filing and responding to motions, and addressing new evidence. Section 145 proceedings can last several years and ensnare the parties in full-blown trials, with the attendant costs and burdens. *See, e.g., SD3, LLC v. Lee*, 205 F. Supp. 3d 37 (D.D.C. 2016) (§ 145 action involving bench trial on anticipation); *Halozyme, Inc. v. Matal*, No. 16-1580 (E.D. Va) (bench trial on obviousness and double patenting); *Hyatt v. Matal*, Nos. 09-1864, -1869, -1872-, 05-2310 (bench trial on prosecution laches, written description requirement, and anticipation/obviousness rejections); *Taylor v. Matal*, No. 16-12 (and consolidated cases) (E.D. Va.) (bench trial concerning rejections for obviousness and under 35 U.S.C. § 112). And, as this case demonstrates, even § 145 actions short of a trial can involve extensive discovery and motions practice, consuming significant

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

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

That principle is particularly important now that the USPTO, at Congress's direction, operates entirely as a user-funded agency. *See Leahy-Smith America*

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

The expense-reimbursement requirement also serves the related purpose of deterring gamesmanship by plaintiffs who might withhold evidence during USPTO proceedings and then present it to the district court later. *See Hyatt*, 625 F.3d at 1330. In *Hyatt*, this Court rejected the government’s argument that evidence strategically withheld from the USPTO should be inadmissible in district court in a civil action under § 145. *Id.* at 1337. But the Court emphasized: “To deter applicants from exactly the type of procedural gaming that concerns the [USPTO], Congress imposed on the applicant the heavy economic burden of paying ‘[a]ll the

expenses of the proceedings’ regardless of the outcome.” *Id.* (second alteration in original). The Court reasoned that an applicant would have no incentive to withhold evidence from the USPTO in favor of a later district court proceeding “when the party (as plaintiff) would be obligated to pay all the expenses—including the defendant [USPTO’s] expenses.” *Id.* Creating an atextual exception for personnel expenses—which constitute the bulk of the expenditures born by the USPTO in these proceedings—would undermine the purpose of the provision and unfairly require other USPTO users to bear the burden of tactical litigation choices by § 145 plaintiffs.

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

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

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

Indeed, this Court and others have confirmed that requiring a plaintiff to pay the full share of expenses of these elective proceedings is what Congress intended, even when the result is “harsh.” *Cook v. Watson*, 208 F.2d 529, 530 (D.C. Cir. 1953) (holding that Congress clearly intended a plaintiff to pay the USPTO’s printing expenses even though it was “harsh”); *Robertson v. Cooper*, 46 F.2d 766, 769 (4th Cir. 1931) (the same phrase was “clearly . . . intended” to include attorney travel expenses, rejecting the plaintiff’s argument that allowing the USPTO to recoup attorney travel expenses would mean “there would be absolutely no end to the charges” a plaintiff would be asked to pay, Appx417 (emphasis omitted)); *see also Hyatt*, 625 F.3d at 1337.

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

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

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

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

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

the officers and clerks herein provided for, *and all other expenses of the Patent Office.*” (emphasis added)). It is therefore telling that Congress directed in the 1839 amendments that a party seeking review of a Patent Office decision by an original suit was required to reimburse “the whole of the *expenses* of the proceeding.” Congress thus provided that the applicant would pay “the whole of the expenses of the proceeding,” against the background of a Patent Act that employed the term “expenses” in the broad sense of the expenses of the Patent Office, including salaries, that were to be funded by application fees. As the Fourth Circuit observed, “Congress’ original understanding of ‘expenses’ with respect to the 1836 Patent Act and the 1839 amendments provides substantial support” for the interpretation of “expenses” to include the USPTO’s personnel expenses. *Shammas*, 784 F.3d at 227.⁵

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

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

Finally, the dissent suggested that interpreting § 145 to include the USPTO’s personnel expenses would be novel and, therefore, erroneous. *NantKwest*, 860 F.3d at 1363-64 (Stoll, J., dissenting); *see also* Appx004. This reasoning conflates discretion and authority. Neither *NantKwest* nor the dissent has pointed to any other case in which the USPTO has been *denied* personnel expenses under § 145 or its trademark law analog, 15 U.S.C. § 1071(b)(3). The USPTO’s recent efforts to

recover personnel expenses under both § 145 and § 1071(b) reflect the fact that, as district court proceedings under these statutes have grown more common and more expensive, *cf. Hyatt*, 625 F.3d at 1337, the USPTO has become increasingly reluctant to require other USPTO users to subsidize the expenses of these optional proceedings, in light of Congress's mandate that the USPTO fund itself exclusively through fees.

II. NANTKWEST'S RELIANCE ON THE AMERICAN RULE IS MISPLACED.

As the Fourth Circuit explained, the American Rule has no application to a statute that does not shift attorney's fees from prevailing parties to losing parties, but instead categorically requires one party to pay the whole expenses of a litigation regardless of the outcome. The panel here likewise expressed "substantial doubts" that the American Rule has any relevance to § 145. *NantKwest*, 860 F.3d at 1355. But as the panel also correctly recognized, the language of § 145 is specific and explicit enough to overcome the American Rule in any event.

A. Section 145 does not implicate the American Rule.

1. Requiring a patent applicant who elects to proceed in district court under § 145 to reimburse all the expenses incurred by the USPTO in defending that action, including its personnel expenses, does not implicate the American Rule. The American Rule provides that "the prevailing litigant is ordinarily not entitled

to collect a reasonable attorneys' fee from the loser." *Alyeska Pipeline Serv. Co. v. Wilderness Soc'y*, 421 U.S. 240, 247 (1975). Under § 145, by contrast, it is irrelevant which party prevails and which party loses. Instead, "Congress imposed on the applicant the heavy economic burden of paying '[a]ll the expenses of the proceedings' regardless of the outcome." *Hyatt*, 625 F.3d at 1337. No decision of the Supreme Court or this Court applies the American Rule to any similar statutory scheme.

As the Fourth Circuit explained with respect to the parallel provision of the trademark laws, "the imposition of all expenses on a plaintiff in an ex parte proceeding, *regardless of whether he wins or loses*, does not constitute fee-shifting that implicates the American Rule." *Shammas*, 784 F.3d at 221. Rather, the court explained, it is "an unconditional compensatory charge imposed on a dissatisfied applicant who elects to engage the" USPTO in the more expensive and burdensome district court proceedings. *Id.*

This Court and the Supreme Court have repeatedly recognized that the American Rule applies to the interpretation of statutes that shift the prevailing party's responsibility to pay its own attorney's fees to the losing party. *See e.g.*, *Buckhannon Bd. & Care Home, Inc. v. West Va. Dep't of Health & Human Res.*, 532 U.S. 598, 602 (2001) (explaining that, under the "American Rule," we follow 'a general practice of not awarding fees to a prevailing party absent explicit

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

For this reason, as the Supreme Court has recognized, statutory departures from the American Rule typically speak in terms of “prevailing” parties. *Baker Botts, LLC v. ASARCO*, 135 S. Ct. 2158, 2164 (2015) (“Although these ‘[s]tatutory changes to [the American Rule] take various forms,’ they . . . usually refer to a ‘prevailing party’ in the context of an adversarial ‘action.’”) (brackets in original; citation omitted). Indeed, “when Congress has chosen to depart from the American Rule by statute, virtually every one of the more than 150 existing federal fee-shifting provisions predicates fee awards on some success by the claimant; while these statutes contain varying standards as to the precise degree of success necessary for an award of fees—such as whether the fee claimant was the ‘prevailing party,’ the ‘substantially prevailing’ party, or ‘successful’—the consistent rule is that complete failure will not justify shifting fees from the losing party to the winning party.” *Ruckelshaus v. Sierra Club*, 463 U.S. 680, 684 (1983)

(footnotes omitted); *see also Hardt v. Reliance Standard Life Ins. Co.*, 560 U.S. 242, 254-56 (2010) (discretionary fee-shifting statutes implicitly require an assessment whether the claimant achieved some degree of success on the merits). Even the Patent Act fee-shifting provision for private infringement litigation reflects this feature of the American Rule: “The court in exceptional cases may award reasonable attorney fees to the prevailing party.” 35 U.S.C. § 285. *See Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749, 1753 (2014) (noting that, until the Patent Act’s amendments in 1946, courts applied the American Rule to preclude fee-shifting in the Patent Act in private litigation); *Rohm & Haas*, 736 F.2d at 690 (describing history).

NantKwest has cited no example of a case applying the American Rule to a statute that requires one party to pay all the expenses of the proceeding regardless of the outcome, and we are aware of none. As the dissent notes, *NantKwest*, 860 F.3d at 1365, it would be particularly anomalous to apply the American Rule in the context of § 145. But that is because the unique nature of these proceedings and their relationship to the USPTO application process demonstrate that the American Rule does not apply—not, as the dissent suggests, that some form of hyper-clarity is required beyond the constraints of the American Rule, *id.*

Section 145 actions are, in both historical and functional terms, an extension of the ex parte patent application process. During the nineteenth century, the

Supreme Court described the de novo proceeding provided by §145's predecessor provision as distinct from "a technical appeal" of the USPTO's decision. Rather, the Court explained, "the proceeding is, in fact and necessarily, a part of the application for the patent." *Gandy v. Marble*, 122 U.S. 432, 439 (1887). The de novo proceeding was treated in practical effect as a continuation of the examination proceeding, in which the applicant could receive an adjudication of his entitlement to a patent based on new evidence.

In this sense, the expense-reimbursement provision of § 145 is a direct counterpart to the application fees that are designed to reimburse the USPTO's examination expenses. Like an application fee, the requirement to pay the USPTO's expenses applies whether the application is successful or not. And like the application fee, it is intended to cover the USPTO's entire expenses for the proceeding, including the agency's personnel expenses. As already discussed, the 1836 Patent Act required the applicant to pay an application fee designed to help cover the cost of the USPTO's examination—that is, to pay the "expenses of the Patent Office," including "the salaries of the officers and clerks herein provided for." 1836 Act § 9, 5 Stat. at 121. Thus, requiring the applicant to pay the "expenses of the proceedings" logically included the agency's personnel expenses.

Because the proceeding authorized by § 145 takes place before a court, the USPTO's expenses necessarily include expenses for USPTO personnel who are

attorneys, rather than patent examiners. But that does not transform an order requiring an applicant to fulfill its obligations under the expenses-reimbursement requirement of § 145 into an award of “attorney’s fees” within the scope of the American Rule. It is, instead, an “unconditional compensatory charge imposed on a dissatisfied applicant who elects to engage” the USPTO in de novo district court proceedings, in order to ensure that those expenses are borne by the applicant rather than the public or other USPTO users. *Shammas*, 784 F.3d at 221. And, accordingly, the USPTO has not sought personnel expenses at market or judicially-established hourly rates applicable to awards of attorney’s fees.

2. NantKwest cites the Supreme Court’s decision in *Baker Botts* to argue that the American Rule applies to § 145’s expense reimbursement scheme. *Baker Botts* construed a provision of the Bankruptcy Code, 11 U.S.C. § 330(a)(1), that authorized payment for “compensation for services rendered” to the estate administrator in a bankruptcy proceeding, including legal services. It was undisputed that the statute authorized an award of attorney’s fees for services provided in the successful bankruptcy proceeding; the question was whether the statute also permitted a supplemental award of attorney’s fees for defending the fee application itself against the estate’s trustee. The Court held that the statute did not. *Baker Botts*, 135 S. Ct. at 2165-66. The Court rejected the statutory construction advanced by the petitioner in *Baker Botts* because it would “extend

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

Nothing in *Baker Botts* suggests that the American Rule plays any role or would govern the interpretation of all reimbursement statutes “irrespective of a prevailing party,” *NantKwest*, 860 F.3d at 1355, much less a statute that, like § 145, requires a specific party to bear all of the expenses of a case regardless of the outcome of the underlying litigation. Rather, as the Court explained in *Baker Botts*, such a provision would involve a “particularly unusual deviation from the American Rule,” because most fee-shifting statutes “permit a court to award attorney’s fees “only to a ‘prevailing party,’ a ‘substantially prevailing’ party, or a ‘successful’ litigant.” 135 S.Ct. at 2166 (quoting *Hardt*, 560 U.S. at 253) (quotation marks omitted).

Section 145, by contrast, involves exactly such an unusual scheme: the plaintiff must bear all the expenses of the proceeding “regardless of the outcome.” *Hyatt*, 625 F.3d at 1337. The American Rule has no bearing on such a scheme, which wholly ousts the default rules that the American Rule presumes to apply absent a statutory exception. *See Shammas*, 784 F.3d at 223 (A “statute that mandates the payment of attorneys fees without regard to a party’s success is not a fee-shifting statute that operates against the backdrop of the American Rule.”).

Indeed, when the Supreme Court recently addressed a statutory scheme that required the payment of attorney's fees regardless of a litigant's success, the Court did not even mention the American Rule. In *Sebelius v. Cloer*, 569 U.S. 369 (2013), the Court considered the fees provision of the National Childhood Vaccine Injury Act of 1986, 42 U.S.C. § 300aa-15(e), which provides for reasonable attorney's fees for successful as well as unsuccessful claims, as long as they are not frivolous. *See Cloer*, 569 U.S. at 373 (describing the "unusual" compensation scheme). The issue in the Supreme Court was whether the statute requires payment on an untimely application. The Court held that it does, affirming this Court's en banc decision. And it did so without reference to the American Rule, notwithstanding the contention of the dissenting judges of this Court who argued that the American Rule should preclude fee awards for untimely applications absent express statutory authorization. *See Cloer v. Secretary of Health & Human Servs.*, 675 F.3d 1358, 1366-67 (Fed. Cir. 2012) (Bryson J., dissenting) (arguing that the American Rule should bar compensation for fees for an untimely application); *see also* United States Br., *Sebelius v. Cloer*, No. 12-236, 2013 WL 75285, at *32 (arguing that an interpretation "that authorizes an award of attorneys' fees and costs on an untimely petition is disfavored because it would substantially depart from the common law," including the American Rule).

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

In any event, as the panel correctly concluded, the specific and express language of § 145 satisfies the American Rule's requirement that Congress speak clearly when it authorizes an award of attorney's fees to a prevailing party. Section 145 clearly evinces Congress's intent to place the full economic burden of district court proceedings on a plaintiff who elects that path. Under the view of NantKwest and the dissent, nothing short of the words "attorney's fees" would satisfy the American Rule. But the American Rule is not a magic-words requirement; it is simply a presumption about congressional intent. Congress must speak clearly when it authorizes fee-shifting. *See Alyeska Pipeline*, 421 U.S. at 260. And it has done so here.

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

The term "expenses" is a broad and includes attorney's fees under any ordinary reading of the term. *See Taniguchi*, 566 U.S. at 573 (explaining that the term "costs" generally encompasses only "a fraction of the nontaxable expenses

borne by litigants for attorneys, experts, consultants, and investigators”). In *Arlington Central School District Board of Education v. Murphy*, 548 U.S. 291 (2006), the Supreme Court rejected an effort to recover the fees of expert consultants under the cost-shifting provisions of the Individuals with Disabilities Education Act, holding that such fees are not compensable “costs.” *Id.* at 297. The Court emphasized that “[t]he use of this term of art, rather than a term such as ‘expenses,’ strongly suggests that [the statute] was not meant to be an open-ended provision that makes participating States liable for all expenses incurred.” *Id.*

The term “expenses” is both broad and specific enough to overcome the American Rule without explicit reference to “attorney’s fees.” Appx006-007 (citing examples of statutes). The Supreme Court has not required Congress to use particular magic words in authorizing an award of attorney’s fees. Rather, it has simply required that the statutory text reflect congressional intent to authorize fees. *See Baker Botts*, 135 S. Ct. at 2164 (noting variety of phrases used in statutes that displace the American Rule, and suggesting that a reference to “litigation costs” would constitute sufficiently clear evidence of congressional intent). The American Rule is a tool for the resolution of ambiguity. Here, there is no such ambiguity. Congress did not simply provide that a plaintiff under § 145 must pay “expenses,” without specifying *which* expenses. It said that the plaintiff must pay “*all* the expenses of the proceedings.”

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

More fundamentally, NantKwest's interpretation defies the plain meaning of the term "all" in the statute. Under its reading, "all of the expenses" does not mean "all" of the expenses, but rather only a subset of the expenses of the proceeding. But Congress plainly did not use the categorical term "all" to mean only "some" of the expenses of the proceeding. As the Fourth Circuit explained, the word "all" establishes that the term "expenses" "should not be limited." *Shammas*, 784 F.3d at 222. When Congress specified that a party who files a civil action under § 145

must pay “all the expenses of the proceedings,” it meant exactly that—*all* the expenses incurred in connection with the proceedings. *Id.* at 221.

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

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

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

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

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

CONCLUSION

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

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CERTIFICATE OF SERVICE

I hereby certify that on November 15, 2017, I electronically filed the foregoing brief with the Clerk of the Court for the United States Court of Appeals for the Federal Circuit by using the appellate CM/ECF system. Participants in the case are registered CM/ECF users, and service will be accomplished by the appellate CM/ECF system.

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CERTIFICATE OF COMPLIANCE

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

s/ Jaynie Lilley

Jaynie Lilley

Appeal No. 2016-1794

United States Court of Appeals
for the
Federal Circuit

NANTKWEST, INC.,

Plaintiff-Appellee,

- v. -

JOSEPH MATAL, Performing the Functions and Duties of
the Under Secretary of Commerce for Intellectual Property and
Director, U.S. Patent and Trademark Office,

Defendant-Appellant.

ON 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

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AMICUS CURIAE IN SUPPORT OF NEITHER PARTY**

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CERTIFICATE OF INTEREST

Counsel for the Federal Circuit Bar Association certifies the following:

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

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2. The name of the real party in interest (if the party named in the caption is not the real party in interest) represented by us is:

N/A

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

None

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5. The title and number of any case known to counsel to be pending in this or any other court or agency that will directly affect or be directly affected by this court's decision in the pending appeal.

None

Dated: November 22, 2017

/s/ William P. Atkins

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CONSENT TO FILE

Pursuant to Federal Rule of Appellate Procedure 29(a) and Federal Circuit Rule 29(c), all parties have consented to the filing of this brief.

STATEMENT OF INTEREST OF *AMICUS CURIAE*

Amicus curiae Federal Circuit Bar Association (“FCBA”) is a national bar organization with over 2,600 members from across the country, all of whom practice or have an interest in the decisions of the Court of Appeals for the Federal Circuit (“Federal Circuit”). The FCBA provides a forum for common concerns and dialogue between the bar and judges of the Federal Circuit. One of the FCBA’s purposes is to offer assistance and advice to the federal courts, including briefs amicus curiae, on matters affecting practice before the Federal Circuit and other tribunals that address comparable subject matter.

The FCBA has a substantial interest in this case because of the need to reflect the important views of the Federal Circuit bar, the patent bar, patent holders, and industry. This submission seeks to assist the court in interpreting 35 U.S.C. § 145 in the manner most consistent with the language of the statute itself, the legislative history, and the longstanding practice of the United States Patent and Trademark Office.

Pursuant to Federal Circuit Rule 29 and Federal Rule of Appellate Procedure 29(c)(5), counsel for the FCBA certifies that:

- No party’s counsel authored this brief in whole or in part;
- No party’s counsel contributed money that was intended to fund the preparation or submission of this brief; and

- No person—other than the amicus curiae, its members, or its counsel—contributed money that was intended to fund the preparation or submission of this brief.
- FCBA members and leaders who are employees of the federal government have not participated in Association decision-making on whether to participate as an amicus in this litigation, in development of the content of this brief, or in the decision to file this brief.

SUMMARY OF THE ARGUMENT

According to our research, the United States Patent and Trademark Office (“USPTO”) did not seek attorneys’ fees under 35 U.S.C. § 145 or its predecessor statutes before 2015, a span of well over a century. For these many years, Congress knew that the USPTO was not claiming awards of attorney fees under these statutes, and did nothing to change § 145 to clarify that the statute’s “expenses” should include attorneys’ fees. In light of this history, arguments over various definitions of the word “expenses” are inapposite.

ARGUMENT

1. “Expenses” Is Ambiguous, at Best

From the dawn of patent law in the United States until 2015, the USPTO never sought attorneys’ fees from a dissatisfied patent applicant who appealed an unfavorable decision. In 2015, the USPTO changed course, moving to recover the prorated salaries of two attorneys and one paralegal for defending a suit against the Commissioner of Patents under § 145. *NantKwest, Inc. v. Matal*, 860 F.3d 1352, 1353 (Fed. Cir. 2017). The history of 35 U.S.C. § 145 suggests that “expenses” was never meant to, nor was it ever previously understood to, include attorneys’ fees.

(a) 1839: Congress First Adds “Expenses” to the Patent Act

In 1839, Congress amended § 16 of the 1836 Act, adding that:

upon appeals from the decision of [the Commissioner of Patents], ... and 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, 5 Stat. 353-355 § 10 (1839)(emphasis added).

(b) 1870: Congress Requires Legal Qualifications within the USPTO and the USPTO Appears in Court

In 1870, the Patent Act specified the USPTO officers' qualifications for the first time; "the examiners-in-chief shall be persons of competent legal knowledge and scientific ability" Patent Act of 1870, 16 Stat. 198-217 § 10 (1870). Thus examiners-in-chief, at least, were required to have legal knowledge.

The 1870 Act, as then amended, read "in all cases where there is no opposing party a copy of the bill shall be served on the commissioner, and all the expenses of the proceeding shall be paid by the applicant, whether the final decision is in his favor or not." *Id.* at § 52 (1870) (emphasis added). Thus, although attorney examiners-in-chief were specifically provided for in the Act, Congress said nothing about including fees for them within "all the expenses."¹

The activities of the Patent Office extended into courts. For example, Webster S. Ruckman joined the Patent Office in 1893 and during his eight years as a Law

¹ The Brief for the Appellant (D.E. 54) mentions outside counsel fees incurred by the Commissioner of the USPTO in 1845 in connection with two suits in equity by patent applicants and then references those fees as "[t]he expenses of the office" in 1846. Report of the Commissioner of Patents for the Year 1846, H. Doc. No. 29-52 at 1 (2d Sess. 1847) (cited in Appellant's Br. at pg. 28, footnote 50). Those attorneys' fees do not appear to have been asserted against or billed to the patent applicants involved in the two suits in equity in 1845.

Examiner, he “represented the Patent Office in some seventy cases before the courts.” *Changes in Personnel in the Patent Office*, 18 J. Pat. Off. Soc’y 79, 81 (1936) (article on Judge Ruckman’s retirement). In 1922, Theodore A. Hostetler became the first Solicitor of the USPTO, when the Office of Solicitor was created. *New Editor/Retirement of Mr. Hostetler*, 17 J. Pat. Off. Soc’y 607, 608 (1935); *see also Of General and Personal Interest*, 4 J. Pat. Off. Soc’y 507, [ii] (1922). He “had been a Law Examiner” prior to becoming Solicitor and “[t]he nature of Mr. Hostetler’s duties [was] the same, but the official designation of his position [as Solicitor was] made to correspond with his duties.” *Id.* “As solicitor he handled all the court work for the Patent Office – mostly appeals from the Patent Office decisions and bills of equity under R.S. 4915, in the Supreme Court of the District of Columbia, the Court of Appeals of the District of Columbia, the Court of Customs and Patent Appeals and the Federal Courts of the Fourth Circuit.” *Id.*

(c) 1946: Congress Added Attorneys’ Fees in the Predecessor of 35 U.S.C. § 285, but Not for USPTO Attorneys

In 1946, Congress amended 35 U.S.C. § 70, the predecessor of § 285, giving courts the “discretion [to] award reasonable attorney’s fees to the prevailing party upon the entry of judgment on any patent case.” Pub. L. No. 587, Ch. 726, 60 Stat. 778 (1946). The accompanying Senate Report 1503 provides little guidance, but states that “[i]t is not contemplated that the recovery of attorney’s fees will become an ordinary thing in patent suits, but the discretion given the court in this respect ...

will discourage an infringer of the patent thinking all he would be required to pay if he loses the suit would be a royalty.” See Daniel G. Cullen, *Recovery of Profits Under R.S. 4921, as Amended*, 29 J. Pat. Off. Soc’y 148, 150 (Feb. 1947). Thus, even where Congress explicitly authorized attorneys’ fees in the Patent Act, Congress limited the availability of those fees.

(d) 1952: Patent Act Includes 35 U.S.C. §§ 145 and 285

35 U.S.C. § 145 established recourse for an “applicant dissatisfied with the decision of the Board of Appeals,” allowing the applicant a “remedy by civil action against the Commissioner in the United States District Court for District of Columbia.” 35 U.S.C. § 145. Here, Congress continued to provide that “[a]ll the expenses of the proceedings shall be paid by the applicant,” but again expressly omitted any reference to attorneys’ fees. Patent Act of 1952, 66 Stat. 792 § 145 (1952).

There is no indication that the USPTO had ever previously sought attorneys’ fees, or requested that they be covered by the statute. See, e.g., *Robertson v. Cooper*, 46 F.2d 766, 769 (4th Cir. 1931) (noting Congress intended “expenses” to include more than what is ordinarily included in “costs” under 35 U.S.C. § 63, and identifying the issue as only whether the applicant was liable for “the *traveling expenses* incurred by counsel for the Commissioner in attending to the taking of

depositions on behalf of the plaintiff in California.” (emphasis added). No mention is made of attorneys’ fees.).

In contrast to the “expenses” language of § 145, Congress provided in § 285 that “[t]he court in *exceptional* cases may award reasonable attorney fees to the prevailing party.” 35 U.S.C. § 285 (emphasis added). And, “[f]rom 1874 to 1952 over sixty Acts of Congress relating to patents have been passed.” P.J. Federico, *Commentary on the New Patent Act*, 75 J. Pat. & Trademark Off. Soc’y 161, 166 (Nov. 1975). Given the comprehensive scope of the 1952 Act, Congress could have amended “expenses” in § 145, as it did in § 285, to specify the inclusion of attorneys’ fees if that is what Congress intended, but Congress did not do so.

(e) 1984: Patent Act Adds Another Attorneys’ Fees Provision

In 1952, § 285 contained the only provision for attorneys’ fees within the Patent Act. In 1984, the Act was amended again, adding § 271(e)(4), which provides “[t]he 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.” Pub. L. No. 98-417, 98 Stat. 1603 § 202 (1984). Again, no reference was made to § 145 or to including attorneys’ fees under that section.

(f) 1999: Congress Adds More Attorneys Fees Provisions, Not in § 145

In 1999, Congress added two more provisions referring to attorneys' fees. Section 273(f), like § 271(e)(4), newly provided for attorneys' fees by reference to § 285. Pub. L. No. 106-113, 113 Stat. 1536, 1501A-555 (1999) ("If the defense under this section is pleaded by a person who is found to infringe the patent and who subsequently fails to demonstrate a reasonable basis for asserting the defense, the court shall find the case exceptional for the purpose of awarding attorney fees under section 285.>").

The second attorneys' fees provision added to the Act in 1999 appears in 35 U.S.C. § 297(b)(1), Pub. L. No. 106-113, 113 Stat. 1536, 1501A-552 (1999). Section 297(b)(1) establishes a civil remedy for an injured customer who enters into a contract with an invention promoter. In addition to actual or statutory damages, the injured party may also recover "reasonable costs and attorneys' fees." 35 U.S.C. § 297(b)(1). In contrast to §§ 271(e)(4) and 273, § 297(b)(1) provides for attorneys' fees *without* reference to § 285. Again, Congress demonstrated its ability to specify an intent to include attorneys' fees, and chose *not* to specify such an intent for the "all expenses" language in § 145.

(g) 2015: USPTO Seeks Attorneys' Fees Under § 145

According to legal research by various members of the amicus, the USPTO did not seek attorneys' fees under § 145 or its predecessor statutes from 1870 until

2015, a span of 145 years.² That is when the USPTO first moved for expenses, including attorneys' fees, against NantKwest in this case. Since adopting this new practice, the USPTO has sought attorneys' fees under § 145 at least two more times. *See, e.g., Booking.com B.V. v. Matal*, No. 1:16-cv-425 (LMB/IDD), 2017 WL 4853755 (E.D. Va. 2017); *Realvirt, LLC v. Lee*, 220 F. Supp. 3d 695 (E.D. Va. 2016). This new practice contrasts with the absence of such efforts in the preceding 145 years, where the USPTO must have historically understood "expenses" within § 145 (and its predecessor statutes) to not include "attorneys' fees."

2. The American Rule

(a) The American Rule Is That Each Party Pays its Own Attorneys' Fees, Unless Congress Clearly Directs Otherwise

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." *Baker Botts v. ASARCO*, 135 S. Ct. 2158, 2164 (2015) (quoting *Hardt v. Reliance Standard Life Ins. Co.*, 560 U.S. 242, 252-53 (2010)). "The American Rule has roots in our common law reaching back to at least the 18th century." *Baker Botts*, 135 S. Ct. at 2163.

² The members of the amicus reviewed citing references of §§ 145 and 146 and found no prior cases at the appellate or trial courts that mention the USPTO seeking attorneys' fees. *See also* footnote 1 on page 4 of this brief.

The American Rule applies here. In *Shammas v. Focarino*, the court relied upon a restrictive description of the American Rule: “*the prevailing party may not recover attorneys’ fees from the losing party.*” 784 F.3d 219, 223 (4th Cir. 2015) (quoting *Alyeska Pipeline Service Co. v. Wilderness Society*, 421 U.S. 240, 245 (1975) (emphasis added)). This reading is unnecessarily narrow, particularly where the Supreme Court, in its more recent *Baker Botts* decision, defined the American Rule as an affirmative obligation of “each party,” rather than as a limitation on a prevailing party. *Baker Botts*, 135 S. Ct. at 2164 (citing *Arcambel v. Wiseman*, 3 U.S. 306 (1796)).

There is a strong presumption favoring the American Rule. “[W]here the American Rule applies, Congress may displace it only by expressing its intent to do so ‘clearly and directly.’” *Shammas*, 784 F.3d at 223. The Supreme Court has only recognized departures from the American Rule in “*specific and explicit provisions for the allowance of attorneys’ fees under selected statutes.*” *Baker Botts*, 135 S. Ct. at 2164 (quoting *Alyeska Pipeline*, 421 U.S. at 260). Because the legislative history strongly suggests that “expenses” in § 145 is exclusive of attorneys’ fees, § 145 is insufficient to overcome the American Rule’s presumption that each party pays its own attorneys’ fees.

3. “Expenses” Does Not Include Attorneys’ Fees

(a) Congress Does Not Include Attorneys’ Fees in the Statute

(i) Section 145 does not say attorneys’ fees

Congress had many opportunities to include attorneys’ fees language between 1836, when Congress first added the remedy bill in equity to the Patent Act, and 2015, when the USPTO first sought attorneys’ fees from a dissatisfied patent applicant. And yet, § 145 does not state that it includes attorneys’ fees. Other statutes within 35 U.S.C. certainly and clearly do include attorneys’ fees.

(ii) Section 285 does say attorneys’ fees

In contrast to § 145, Congress explicitly added “attorney fees” in § 285. The § 285 statute was created in 1946, and at that time Congress did not modify § 145’s predecessor to include the same attorneys’ fees language. Pub. L. No. 587, 60 Stat. 778 (1946).

The Patent Act was amended again in 1952, and at that time Congress split the predecessor of § 145 into two sections, §§ 145 and 146. P.J. Federico, *Commentary on the New Patent Act*, 75 J. Pat. & Trademark Off. Soc’y 161, 200 (Nov. 1975). Congress chose to retain the express reference to “attorney fees” in § 285, but chose *not* to easily write “attorneys’ fees” into § 145.

“Where Congress includes particular language in one section of a statute but omits it in another section of the same Act, it is generally presumed that Congress acts intentionally and purposely in the disparate inclusion or exclusion.” *Russello v.*

United States, 464 U.S. 16, 23 (1983); *United States v. Wong Kim Bo*, 472 F.2d 720, 722 (5th Cir. 1972); *see also Keene Corp. v. United States*, 508 U.S. 200, 208 (1993) (noting the “duty to refrain from reading a phrase into the statute when Congress has left it out.”). Again, Congress had multiple opportunities to amend the Patent Act. Although Congress added and amended § 285 and others to include specific attorneys’ fees language, the exclusion of that language from §145 must be presumed to be intentional.

“The starting point in every case involving construction of a statute is the language itself.” *United States v. Hohri*, 482 U.S. 64, 68 (1987). “[W]hen the statute’s language is plain, the sole function of the courts—at least where the disposition required by the text is not absurd—is to enforce it according to its terms.” *Dodd v. United States*, 545 U.S. 353, 359-60 (2005) (*quoting Hartford Underwriters Ins. Co. v. Union Planters Bank, N.A.*, 530 U.S. 1, 6 (2000)).

A comparison of the various sections of the Patent Act is illustrative. Congress specified that “the court . . . may award reasonable *attorney fees*” in § 285. 35 U.S.C. § 285 (emphasis added). However, like § 145, § 2 of the Patent Act uses “expenses” in the context of subsistence and travel expenses. 35 U.S.C. § 2 (“Office is authorized to expend funds to cover the *subsistence expenses* and *travel-related expenses*, including per diem, lodging costs, and transportation costs, of persons attending such programs who are not Federal employees.”) (emphasis added). There,

Congress understood that rather than attorneys' fees, "expenses" refers to expenditures collateral to legal services, not the legal services themselves. *See also* 35 U.S.C. § 5 ("While away from such member's home or regular place of business such member shall be allowed travel expenses, including per diem in lieu of subsistence."); 35 U.S.C. § 24 ("Every witness subpoenaed and in attendance shall be allowed the fees and traveling expenses allowed to witnesses attending the United States district courts."). Similarly, § 146 provides that in derivation proceedings, "the record in the Patent and Trademark Office shall be admitted on motion of either party upon the terms and conditions as to costs, expenses, and the further cross-examination of the witnesses as the court imposes." 35 U.S.C. § 146. In none of these examples does the Patent Act provide for attorneys' fees; just like in § 145. Finally, Congress again demonstrated its ability to provide for attorneys' fees in § 297, allowing for recovery of damages "in addition to reasonable costs and attorneys' fees." 35 U.S.C. § 297(b).

Congress has repeatedly distinguished between "expenses" and "attorneys' fees" by clarifying within statutes whether attorneys' fees are available separate from expenses. *See, e.g.*, 12 U.S.C. § 1786(p) ("Any court having jurisdiction ... may allow to any such party such reasonable expenses and attorneys' fees..."); 42 U.S.C. § 4654(a) (providing for reimbursement of "reasonable costs, disbursements, and expenses, including reasonable attorney, appraisal, and engineering fees,

actually incurred because of the condemnation proceedings.”). Here, Congress’ decision to specify “expenses” without any suggestion of “attorneys’ fees” in § 145 is a clear indication of Congress’ intent to exclude attorneys’ fees, especially over the immense amount of time that the statute has been in force. Further, courts should “ordinarily resist reading words or elements into a statute that do not appear on its face.” *Bates v. United States*, 522 U.S. 23, 29 (1977). Again, Congress did not provide for attorneys’ fees in § 145. Congress knew how to distinguish between expenses and attorneys’ fees, and did not do so here. This Court need not read “attorneys’ fees” into § 145 where Congress chose not to include such fees and the USPTO has not asserted the inclusion of such in 145 years.

Whereas the *NantKwest* majority asserted that “Congress will not confine itself to a single word or phrase when referencing attorneys’ fees,” the possibility that various terms may or may not include attorneys’ fees supports the ambiguity in § 145. This is particularly true where, as discussed above, Congress has repeatedly clarified the word “expenses” with the addition of the phrase “attorneys’ fees” and purposely omitted including “attorneys’ fees” in § 145.

(iii) Section 145 lacks the “clear support” required to overcome the American Rule presumption

There is a strong presumption in favor of applying the American Rule. *See Shammas*, 784 F.3d at 223. When determining whether a statute overcomes that presumption, courts will look for “clear support” for such a construction on the

statute's face or in the legislative history. *Summit Valley Indus. Inc. v. Local 112*, 456 U.S. 717, 724 (1982). Absent such clear support, the statute will not overcome the presumption. *See id.*

The *NantKwest* majority merely constructs a plausible reading of “expenses.” For the reasons discussed above, the meaning of “expenses” in § 145 is ambiguous at best, has no support in Congress’ many amendments of the patent Acts, and thus cannot overcome the American Rule presumption. The majority, *NantKwest*, 860 F.3d at 1359, n.8, found that the use of the term “attorneys’ fees” in § 285 shows that “Congress chose not to award all expenses to the prevailing party, but only attorneys’ fees.” But this finding presumes, without support, that “attorneys’ fees” is necessarily a subset of “expenses” while ignoring that (a) Congress could have simply added “including attorney fees” in the past 100+ years and (b) a choice to be indirect and allusive—rather than direct and specific—fails the test of explicitness required to overcome the presumption that the American Rule applies.

(b) Arguments over Various Historical Definitions of the Word “Expenses” Are Inapposite

“It is a ‘fundamental canon of statutory construction’ that, ‘unless otherwise defined, words will be interpreted as taking their ordinary, contemporary, common meaning.’” *Sandifer v. U.S. Steel Corp.*, 134 S.Ct. 870, 876 (2014) (quoting *Perrin v. United States*, 444 U.S. 37, 42 (1979)). Attempting to apply that canon to the question at bar, the majority and the dissent cite various meanings at different points

of the 181-year history of the statute. Unfortunately, these many definitions supply only conflicting evidence that merely serves to obscure, we submit, the true answer—the answer given by Congress’ long history of declining to insert “attorneys’ fees” into the statute in question—and also the USPTO’s long history of administrative interpretation.

(c) The Longstanding Practice of the USPTO Has Been to Not Ask for Attorney’s Fees

A “longstanding and consistent administrative interpretation is entitled to considerable weight.” *Zenith Radio Corp. v. United States*, 437 U.S. 443, 450 (1978). For 145 years until 2015, the USPTO appears to have never sought attorneys’ fees under the “expenses” provision of § 145. It is difficult to imagine a more “longstanding and consistent administrative interpretation,” and under that interpretation, “expenses” must not include attorneys’ fees.

(d) Awarding Attorneys’ Fees to the USPTO Conflicts with the Provisions and Purpose of the Equal Access to Justice Act

The Equal Access to Justice Act (“EAJA”) is a statutory exception to the American Rule. It allows private litigants to recover attorneys’ fees in successful actions brought by or against federal agencies. The EAJA also serves to prevent unsuccessful litigants from being further burdened by having to pay the government’s attorneys’ fees. *See* 28 U.S.C. § 2412. Whereas the purpose of the EAJA is to avoid penalizing parties for prosecuting lawsuits, including attorneys’

fees is contrary to that purpose. This is particularly applicable where a central reason for pursuing an appeal under § 145 is to admit additional evidence into the record. A dissatisfied patent applicant should not have to pay the USPTO's attorneys' fees merely for trying to complete the record.

CONCLUSION

For the reasons provided above, the Court should hold that the "expenses" provision in 35 U.S.C. § 145 does not authorize an award attorneys' fees of the USPTO to the USPTO.

November 22, 2017

Respectfully submitted,

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CERTIFICATE OF COMPLIANCE

I certify that this paper complies with the type-volume limitation of Fed. R. App. P. 29(a)(5) because it contains 3,568 words, excluding the parts of the brief exempted by Fed. R. App. P. 32(f). This paper complies with the typeface requirements of Fed. R. App. P. 32(a)(5) and the typestyle requirements of Fed. R. App. P. 32(a)(6) because it has been prepared in 14-point, proportionally spaced typeface using Microsoft Word.

Dated: November 22, 2017

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**United States Court of Appeals
for the Federal Circuit**
NantKwest, Inc. v. Lee, Case No. 16-1794

CERTIFICATE OF SERVICE

I, Simone Cintron, being duly sworn according to law and being over the age of 18, upon my oath depose and say that:

Counsel Press was retained by PILLSBURY WINTHROP SHAW PITTMAN LLP, counsel for Amicus Curiae to print this document. I am an employee of Counsel Press.

On **November 22, 2017**, counsel has authorized me to electronically file the foregoing **BRIEF OF THE FEDERAL CIRCUIT BAR ASSOCIATION AS AMICUS CURIAE IN SUPPORT OF NEITHER PARTY** with the Clerk of Court using the CM/ECF System, which will serve via e-mail notice of such filing to all counsel registered as CM/ECF users, including any of the following:

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November 22, 2017

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Case No. 16-1794

In the
United States Court of Appeals
for the
Federal Circuit

NANTKWEST, INC.,

Plaintiff-Appellee,

v.

JOSEPH MATAL,

Performing the Functions & Duties of the Under Secretary of Commerce for
Intellectual Property and Director, U.S. Patent and Trademark Office,

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*

**CORRECTED BRIEF OF AMICUS CURIAE
AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION
IN SUPPORT OF NEITHER PARTY ON REHEARING EN BANC**

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In accordance with FED. CIR. R. 47.4, 47.5 and FED. R. APP. P. 26.1, counsel for Amicus Curiae American Intellectual Property Law Association certifies the following:

1. The full name of every party represented by me is:
American Intellectual Property Law Association.
2. The name of the real party in interest represented by me is:
N/A.
3. All parent corporations and any publicly held companies that own 10 percent or more of the stock of the parties represented by me are:
None.
4. The names of all law firms and the partners or associates that appeared for the party now represented by me and that are expected to appear in this Court are:
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5. The title and number of any case known to counsel to be pending in this or

any other court or agency that will directly affect or be directly affected by this court's decision in the pending appeal:

None.

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I. STATEMENT OF INTEREST OF AMICUS CURIAE

The American Intellectual Property Law Association (“AIPLA”) is a national bar association of approximately 13,500 members engaged in private and corporate practice, in government service, and in the academic community. AIPLA’s members represent a wide and diverse spectrum of individuals, companies, and institutions involved directly or indirectly in the practice of patent, trademark, copyright, and unfair competition law, as well as other fields of law affecting intellectual property. Our members represent both owners and users of intellectual property. AIPLA’s mission includes providing courts with objective analysis to promote an intellectual property system that stimulates and rewards invention while balancing the public’s interest in healthy competition, reasonable costs, and basic fairness.

AIPLA has no stake in any of the parties to this litigation or in the result of this case.¹ AIPLA’s only interest is in seeking correct and consistent interpretation of the law as it relates to intellectual property issues.²

¹ After reasonable investigation, AIPLA believes that (a) no member of its Board or Amicus Committee who voted to prepare this brief, or any attorney in the law firm or corporation of such a member, represents a party to this litigation in this matter, (b) no representative of any party to this litigation participated in the authorship of this brief, and (c) no one other than AIPLA, its members who authored this brief, and their law firms or employees, made a monetary contribution to the preparation or submission of this brief.

² Permission to file amicus briefs in this case without the consent of the parties was given in the *en banc* Court’s order dated August 31, 2017.

II. INTRODUCTION

Under 35 U.S.C. § 134(a), a patent applicant whose claims have twice been rejected by a patent examiner may appeal to the Patent Trial and Appeal Board (“PTAB”). If unsuccessful before the PTAB, the applicant has the option of bringing an action for review in the U.S. District Court for the Eastern District of Virginia under 35 U.S.C. § 145. In *Hyatt v. Kappos*, 625 F.3d 1320 (2010), *aff’d* 566 U.S. 431 (2012), this Court recognized the importance of this right of district court review with the opportunity to introduce new evidence as “the hallmark of a § 145 action.” *Id.* at 1322. This decision also recognized that Section 145 is not without its burdens. In particular, the statute provides that an applicant—win or lose—is responsible for paying, “[a]ll the expenses of the proceedings....”

Since the mid-Nineteenth Century, the PTO has interpreted this language as covering only out-of-pocket expenses, including printing costs, counsel’s deposition travel costs, court reporter fees and expert witness fees, but not attorney’s fees. In 2013, however, the PTO concluded that its long-held reading of the statutory language was incorrect and that the required payment of “[a]ll the expenses of the proceedings” also includes *pro rata* reimbursement for PTO staff time. As the PTO now reads the statute, even an applicant who proves in district court that the Office was wrong in rejecting its claims must pay for the privilege of vindicating these

rights by reimbursing the PTO for *pro rata* staff salaries incurred by the Office in the district court proceedings.

As detailed below, no reasonable application of basic statutory interpretation principles supports this reading. Congress did not articulate any intent, let alone clearly express such intent as required by law, to impose on Section 145 plaintiffs a *pro rata* reimbursement of PTO staff salaries. This Court should reject the PTO's new-found position. It is critically important that intellectual property owners of all means have equal opportunity to exercise all rights and remedies provided by Congress in the Patent Act. The PTO's sudden attempt to shift a portion of its fixed costs to Section 145 plaintiffs will effectively bar many applicants from exercising an important congressionally created right.

III. SUMMARY OF ARGUMENT

On its face, the statutory phrase "all expenses of the proceedings" does not include attorneys' fees. Nor does Section 145 define "expenses" or otherwise indicate that the word includes reimbursement of PTO fixed costs. Because the statutory language is silent on the issue of attorneys' fees, the Court must determine the applicable principle of statutory interpretation before it construes the language of the statute.

A critical statutory interpretation principle is that in certain circumstances a clear and express statement of Congressional intent is required to support a proffered

interpretation. Two such circumstances relevant here are where the interpretation would contravene common law, and where the interpretation would contravene the strong presumption favoring the American Rule that parties pay their own attorneys' fees. In this case, the PTO's interpretation can be rejected on the basis of the former principle alone, but it also fails under the latter principle.

The Supreme Court has repeatedly held that Congress must be clear and explicit when it intends legislation to deviate from common law. Because cost shifting of any stripe was unknown at common law, legislation to require cost shifting must do so with clear and explicit language. The PTO's interpretation of Section 145 to require that plaintiffs pay the fees of PTO staff attorneys participating in the proceeding, win or lose, is the kind of dramatic departure from common law that must be supported by a clear and express statement of Congressional intent to do so. This statutory interpretation principle provides an independent basis for rejecting the PTO's interpretation, dispensing with the need to decide whether the American Rule on fee shifting is implicated by this provision.

Notwithstanding the force of this statutory interpretation principle, the second principle referenced above applies with equal force to repudiate the PTO's interpretation of Section 145. As with deviations from common law, deviations from the American Rule's bar against fee shifting may not be sustained without specific and explicit evidence that Congress intended such a deviation. There is no explicit

reference to attorneys' fees in Section 145, and the phrase "all expenses" relied on by the PTO is not sufficiently specific or explicit to overcome the strong presumption that the American Rule applies.

As explained in the dissenting opinion at the panel stage of this case, the terms of a statute must be given their ordinary meaning as understood when Congress enacted the statute. When Section 145's precursor was adopted in 1839, the words "expense," "costs" and "damage" were considered synonymous. Because the Supreme Court has held that the word "damages" does not include attorneys' fees, there is no basis to conclude that the synonym "expense" includes them either. Moreover, the Supreme Court has noted that in construing the words of a statute a court should look at how they are used in common parlance. The best available evidence of 1839 "common parlance" are the actions of the Patent Office in 1839. There is no evidence to suggest that in 1839 (or at any time since), Patent Office employees—the people skilled in the language of 1839—viewed the term "expenses" as including reimbursement of its staff's salaries.

IV. ARGUMENT

This case involves the statutory interpretation of language in 35 U.S.C. § 145, which has been in force for well over a century: "All the expenses of the proceedings shall be paid by the applicant." Until 2013, the PTO read those words as entitling it to recover only its outlays incurred in district court proceedings, such as expert

fees, transcript costs, and the like. Whatever the merits of the PTO's new interpretation, this much is indisputable: for decades, reasonable minds at the PTO did not read the statute as including PTO staff time.

Moreover, imposing the *pro rata* costs of a government agency's staff on a private party seeking to enforce a constitutionally grounded property right is unusual. Indeed, other than the ruling on a similar provision under the Lanham Act in *Shammas v. Focarino*, 784 F.3d 219 (4th Cir. 2015), AIPLA has been unable to find any court decision that interprets a statutory provision to require litigants to pay government salaries when asserting such rights in the district court.

A. No Principle of Statutory Construction Allows the PTO to Read into Section 145 a Right to Reimbursement of its Staff Salaries.

The plain language in Section 145 does not expressly provide for an award of attorney's fees. It merely states that an applicant must pay "all expenses of the proceedings," but neither defines nor details just what "expenses" means. The statute is silent on whether such expenses include the "value of the PTO staff time," "attorney's fees" or a *pro rata* share of the PTO's attorney's salaries. Accordingly, in discerning whether Congress intended the words "[a]ll expenses of the proceedings" to include "reimbursement of PTO fixed costs" as advanced by the Office, the first step is to determine the relevant rule of construction to apply to that language. Under these statutory interpretation principles, the absence of a clear directive by Congress handily refutes the PTO's position.

1. Absent “clear” and “explicit” direction from Congress, Section 145 cannot be read to provide for attorney’s fees.

Much of the focus in earlier submissions and in the few cases construing this part of Section 145 or similar language in other statutes has centered on whether the “all expenses” language runs afoul of the American Rule, which requires parties in lawsuits to bear their own attorney’s fees.³ If so, the argument goes, the statutory construction principles attendant to the American Rule apply and “Congress may displace it only by expressing its intent to do so ‘clearly and directly.’” *Shammas*, 784 F.3d at 223.

However, there is another reason for requiring a clear and direct statement of Congressional intent in this case. For purposes of statutory construction, an interpretation of a statute that contravenes the common law must be supported by a clear and direct statement by Congress that it intended to do so. Thus, the PTO interpretation must be supported by a clear and direct statement by Congress that it intended to impose attorneys’ fees on Section 145 plaintiffs, and this requirement exists independent of any consideration of the American Rule.

That is because the Supreme Court has made clear that cost-shifting of any stripe did not exist at common law. *Taniguchi v. Kan Pacific Saipan, Ltd.*, 566 U.S. 560, 564 (2012) (citing *Alyeska Pipeline Service Co. v. Wilderness Society*, 421 U.S.

³ See, e.g. panel decision and *Shammas*, 784 F.3d 219.

240, 247-248 (1975)). Accordingly, this Court need not decide whether the American Rule applies, an issue that has bedeviled earlier tribunals. Any statute awarding costs, expenses or fees departs from the common law, and, accordingly, must be strictly construed.

The Supreme Court has repeatedly emphasized that interpretations of statutes that conflict with the common law must be supported by clear and explicit language that Congress intended to displace the common law. *Norfolk Redevelopment and Housing Authority v. Chesapeake and Potomac Telephone Company of Virginia*, 464 U.S. 30, 35 (1983). *Norfolk* involved eminent domain law, but the same principle has been applied or discussed in numerous contexts. *See, e.g., U.S. v. Texas*, 507 U.S. 529, 534 (1993) (Federal Debt Collection Act) (Statutes which invade common law presume “favor[ing] the retention of long-established and familiar principles, *except when the statutory purpose to the contrary is evident*.... In order to abrogate a common-law principle, the *statute must ‘speak directly’* to the question addressed by the common law.”) (emphasis added) (citations omitted); *Samantar v. Yousuf*, 560 U.S. 305, 320, n.13 (2010) (sovereign immunity) (“We interpret the statute with the presumption that Congress intended to retain the substance of common law.”); *Nken v. Holder*, 556 U.S. 418, 433 (2009) (immigration) (government failed to overcome presumption that common law prevailed absent “evident” statutory expression to the contrary).

This principle has been repeatedly applied in fee-shifting cases as well. *See, Baker Botts L.L.P. v. ASARCO LLC*, 135 S.Ct. 2158, 2164 (2015) (collecting cases) (“The American Rule has roots in our common law reaching back to at least the 18th century... and ‘[s]tatutes which invade the common law are to be read with a presumption favoring the retention of long-established and familiar [legal] principles.’”) (citations omitted). Thus, the “explicit expression” requirement in the American Rule cases discussed at the panel level and by the Fourth Circuit in *Shammas* exists because it is at odds with the common law and not simply because it may or may not involve application of the American Rule.

As the foregoing representative cases show, statutes which deviate from the common law must “speak directly,” be “clear and explicit” and “clearly express” how they are meant to stray from the common law. That deviation also must be “evident.” It is not enough that the phrase “all the expenses of the proceedings...” *may* be read to include the reimbursement of the *pro rata* share of PTO staff salaries or *could* mean that PTO staff salaries are included; rather, the repayment of staff salaries *must* be evident.

The PTO’s own conduct in changing its interpretation of this language in Section 145 shows that the statute is not clear and explicit. If, in fact, Section 145’s requirement that “all expenses of the proceeding shall be paid by the applicant” “clearly expressed” an obligation to repay the Office for staff time, the PTO would

not have taken nearly two centuries to recognize it. Whatever arguments the PTO may employ today to conclude that Section 145 requires applicants to pay staff wages, the fact remains that for decades the PTO read the same words and thought otherwise. There are no words in the statute that expressly mandate shifting the PTO's internal costs to applicants.

2. Other basic statutory construction principles render the PTO's interpretation untenable.

Other fundamental principles of statutory construction also make the PTO's interpretation incorrect. When Congress adopted the America Invents Act, it made substantive changes to Section 145 (*e.g.*, changing the venue from the District of Columbia to the Eastern District of Virginia). Nevertheless, it kept the language "all the expenses of the proceedings shall be paid by the applicant." That occurred in 2011, two years before the PTO adopted its current position. Congress knew then that the PTO was not interpreting "all the expenses of the proceedings" to include PTO staff salaries and Congress did nothing to change this language. "Congress is presumed to be aware of an administrative or judicial interpretation of a statute and to adopt that interpretation when it reenacts a statute without change...." *Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 527 (1994) (citations omitted). If Congress sought to expand the definition of "expenses of the proceedings," it would have said so.

Moreover, when it intends to do so, Congress knows how to express a party's obligations to pay attorney's fees. Section 285 of the patent statute expressly

provides for attorneys' fees, and Congress could have also provided for attorneys' fees when it amended Section 145 in 2011. "Where Congress includes particular language in one section of a statute but omits it in another section of the same Act, it is generally presumed that Congress acts intentionally and purposely in the disparate inclusion or exclusion." *Russello v. United States*, 464 U.S. 16, 23 (1983) (citation omitted). Of particular significance under the Patent Act, Congress expressly provided for awards of attorneys' fees to prevailing parties under 35 U.S.C. §285, and limited such awards to cases deemed "exceptional" by the courts. Congress could easily have explicitly provided for attorneys' fees when it amended Section 145 in 2011, *but it did not*.

3. *Shammas* was decided on a faulty premise.

The panel majority relied heavily on *Shammas*, 784 F.3d 219. In *Shammas*, the Fourth Circuit construed Section 21(b)(3) of the Lanham Act, 15 U.S.C. § 1071(b)(3), a trademark provision that is very similar to Section 145. Under that section, a trademark applicant who is unsuccessful before the PTO has the right to file an action in district court. The statute provides that "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).

There, like here, the PTO sought to transfer its in-house fixed costs to the applicant. And there, like here, the parties focused on the faulty premise that a court

must strictly construe the statutory language only if the statute violates the American Rule. *Id.* at 223. The *Shammas* court concluded that the American Rule did not apply because, in its view, the American Rule refers to prevailing parties only, whereas the trademark statute in that case shifted costs regardless of outcome. *Id.* However, the *Shammas* court readily acknowledged that if the American Rule applied, the PTO's argument would fail: "To be sure, where the American Rule applies, Congress may displace it only by expressing its intent 'clearly and directly.'" *Id.*

As explained above, the requirement of a "clear and explicit" expression by Congress applies not only where a statutory interpretation is at odds with the American Rule, but also where that interpretation conflicts with the common law. In *Alyeska Pipeline*, the Supreme Court recognized that cost shifting did not exist at common law: "At common law, costs were not allowed; but for centuries in England there had been statutory authorization to award costs, including attorneys' fees." 421 U.S. at 247. Had the Fourth Circuit applied the proper statutory construction standard, it could not have reached the decision it did. *Shammas* was wrongly decided.

4. The PTO interpretation of Section 145, in any case, deviates from the American Rule.

The language of Section 145 as read by the PTO also departs from the American Rule. In *Hardt v. Reliance Standard Life Ins. Co.*, 560 U.S. 242, 253 (2010), the Supreme Court identified a range of deviations from the American Rule,

citing statutes for awarding attorneys' fees to the prevailing party, to a substantially prevailing party, to a successful litigant, or where appropriate, in the district court's discretion. The Court held that the statute at issue, which allowed fees to be awarded to either party in the district court's discretion, while not limited to a prevailing party, nonetheless required "some degree of success on the merits." *Id.* at 253-255.

Hardt discusses the statutory conditions that Congress has applied to awards of attorneys' fees, but none of the examples on that spectrum of "deviations" from the American Rule approaches the radical deviation of unconditional fee awards to the government that is advocated by the PTO.

B. No Reading of "All Expenses of the Proceedings" Can Mean Reimbursement of Staff Salaries.

Congress has the power to shift a portion of PTO fixed costs to an applicant, but the issue is whether the phrase "all expenses of the proceedings" "expressly" and "clearly" provides for that reimbursement. The panel majority pointed to cases in which attorney's fees were awarded *pro rata* on behalf of government lawyers. In those cases, however, the issue was whether the government could recover fees under statutes that expressly provide for attorney's fees. That is not at issue here.

As the panel dissent explained, in construing terms in a statute, the words should be interpreted as taking their ordinary, contemporary, common meaning at the time Congress enacted the statute. *NantKwest, Inc. v. Matal*, 860 F. 3d 1352, 1360 (Fed. Cir. 2017). When the section initially was adopted in 1839, however, the

words “expense,” “cost” and “damage” were considered synonymous. *Id.* The Supreme Court has held at least twice that “damages” does not include attorney’s fees. *Id.* at 1363. If “damages” cannot mean attorney’s fees as a matter of law, then nothing suggests the synonym “expense” includes them.

Moreover, the Supreme Court has noted that in construing the words of a statute, a court should look at how that word is used in common parlance. “That a definition is broad enough to encompass one sense of a word does not establish that the word is *ordinarily* understood in that sense.” *Taniguchi*, 566 U.S. at 568 (emphasis in original). In most cases, the best available evidence of 1839 “common parlance” would be an 1839 dictionary. Here, however, the Court has something even better: the actions of the Patent Office. Not only did the people in the Patent Office in 1839 not read “expense of the proceedings” as including the *pro rata* cost of the office’s staff, but apparently nobody did when the Patent Act was amended in 1870, 1927, 1952 or 2011. That, in 2013, some in the Office seek to reinterpret the statute after a different part of the statute was amended in 2011 to include staff salary reimbursement hardly constitutes evidence that this is what the drafters of the original and unchanged language had in mind nearly 200 years ago.

The panel pointed to a contemporary edition of Black’s Law Dictionary as defining “expenses” as “expenditure[s] of money, time, labor or resources to accomplish a result.” *Id.* at 1356. That definition, of course, simply begs the question

because it fails to define “expenditure.” Black’s actually defines “expenditure” as “spending or payment of money; the act of expending, disbursing or laying out of money; payment.” *Black’s Law Dictionary* 698 (10th ed. 2014). Moreover, in “common parlance” “expenses” is almost always defined in terms of payments made or specific outlays or out-of-pocket payments, not fixed costs like salaries.

Similarly, whenever Congress believed that the term “expenses” should include attorney’s fees, it has made that distinction apparent. The panel dissent cited well over a dozen examples from the U.S. Code showing that Congress either stated “expenses and attorneys’ fees” or “expenses ... including reasonable attorneys fees” when it chose to provide for attorney’s fees. *Nantkwest*, 860 F.3d at 1363-64. That Congress, at times, has stated that “expenses” includes attorneys’ fees, does not mean the definition of “expenses” ordinarily includes such fees; on the contrary, the need to elucidate “attorneys’ fees” as part of “expenses” underscores that, in common parlance, one would not expect “expenses” to include those charges. This is particularly true where Congress has expressly provided for attorneys’ fees elsewhere in the statute, as in Section 285. It certainly does not suggest that “expenses” could ever mean *pro rata* reimbursement of the Office’s fixed costs. Nor does the modifier “all” extend the term “expenses” to include attorneys’ fees where there is no basis for concluding that Congress intended that term, modified or unmodified, to include attorneys’ fees.

In short, even a plain reading of the phrase “All the expenses of the proceedings” does not lead to the PTO’s desired conclusion. The strict construction necessary here shows that reading to be incorrect.

C. The PTO’s Position Creates a Significant Barrier to Exercise of an Important Right.

Section 145 provides important rights to a patent applicant that are otherwise unavailable under the Act. As this Court recognized in *Hyatt*, Section 145 not only permits an applicant to introduce new evidence in the district court action, it also allows the district court judge to make *de novo* fact findings if the evidence conflicts with any related Patent Office finding. *Hyatt*, 625 F.3d at 1336. Adoption of the PTO’s staff-reimbursement reading of the statute will make it impossible for some applicants to pursue an action in the district court.

According to the *AIPLA 2017 Report of the Economic Survey*, the average cost of the preparation and filing of an original patent application, amendment, and appeal to the Board with oral argument totals roughly \$25,000 in a relatively complex biotechnology/chemical matter. *Survey* at I-94 to I-97. On the high end (90th percentile), the total cost runs roughly \$38,000 and, on the low end (10th percentile), about \$15,000. The costs for complex electrical computer and mechanical are fairly consistent with those numbers as well. *Id.* In short, the average applicant should expect to spend \$25,000 in costs through appeal and rarely more than \$40,000.

In the current case, the PTO sought reimbursement of nearly \$112,000. 860 F. 3d at 1354, n.1. Nearly \$79,000 of that reimbursement constituted the *pro-rata* share of the salaries of two PTO attorneys and a paralegal. Assuming this case reflects typical PTO reimbursement costs, an applicant seeking to exercise its Section 145 rights easily could expect to pay the PTO multiple times the cost of what it already had paid to prosecute its patent application, not including the cost of its own attorneys in pursuing the appeal.⁴

The PTO's reimbursement request here does not appear to be an anomaly. In the recently decided *Booking.com, B.V., v. Matal*, No. 1:16-cv-425 (LMB/IDD), 2017 WL 4853755 (E.D. Va. October 26, 2017), the PTO sought a little over \$51,000 in attorney's fees, reflecting the cost of *five* PTO lawyers and one paralegal who worked on the matter. Notably, *Booking.com* was a trademark case, which may be less time intensive for the PTO than a patent case. (*Cf. Survey* at I-175; I-120. Average attorneys' fees for typical \$1 million to \$10 million trademark case total \$626,000 vs. \$1.4 million for patent case of same size.)

The PTO's position renders a practitioner's ability to counsel a client on basic budgeting extraordinarily difficult. Rarely does a client tell its lawyer to proceed regardless of cost. Counsel has no control over how the PTO will staff a matter, let

⁴ PTO reimbursement fees alone were three times the amount of an average prosecution.

alone how many hours the Office will spend on a given matter. Thus, the lawyer's ability to estimate costs for the client will be based on guesswork. Absent a clear directive from Congress, no applicant should be exposed to such financial uncertainty.

The long history and importance of the rights contained in Section 145 were recognized by this Court and by the Supreme Court in *Hyatt*, particularly with respect to the ability to introduce new evidence in the proceeding. *Hyatt* acknowledged the risk of procedural gamesmanship presented by the options of district court or Federal Circuit review. However, it concluded that the imposition of expenses on the plaintiff in the district court was the statute's way of addressing that risk, and rejected the PTO's position that prohibiting new evidence would provide additional necessary deterrence. *Hyatt*, 625 F.2d at 1337. Nothing in *Hyatt* (nor in the PTO's 2010 submissions in that case) suggests that the risk of gamesmanship should also be deterred by expanding the understanding of "expenses" to include attorneys' fees. Imposing the costs of experts and transcripts on applicants is one thing; exponentially inflating the cost of exercising a statutory right is quite another. As noted in *Boddie v. Connecticut*, 401 U.S. 371 (1971), pricing a court action out of reach for an applicant is an inappropriate bar to court access:

[O]ther alternatives exists to fees and cost requirements as a means for conserving the time of courts and protecting parties from frivolous

litigation, such as penalties for false pleading or affidavits, and actions for malicious prosecution or abuse of process, to mention only a few.

Boddie, 401 U.S. at 381-82. Today, the PTO also has Fed. R. Civ. P. 11 to protect itself from frivolous litigation. Without a clear direction of Congress, the PTO should not be permitted to set the price of admission so high that many applicants will be forced to choose not to exercise their rights.

V. CONCLUSION

For the reasons set forth above, AIPLA respectfully requests that this Court find that 35 U.S.C. § 145 does not provide for attorneys' fees or *pro rata* reimbursement of PTO staff salaries.

Date: November 22, 2017

Respectfully submitted,

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CERTIFICATE OF COMPLIANCE

Pursuant to Fed. R. App.P. 32(a)(7)(C), I certify that according to the word-processing system used in preparing it, the foregoing BRIEF OF AMICUS CURIAE AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION IN SUPPORT OF NEITHER PARTY ON REHEARING EN BANC is 4,556 words in length, excluding those portions exempted by Fed. R. App. P. 32(a)(7)(B)(iii) and Fed. Cir. R. 32(b), and therefore complies with the type-volume limitation set forth in Fed. R. App. P. 29(d).

Date: November 22, 2017

/s/ Kevin Tottis

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CERTIFICATE OF SERVICE

I certify that on this 22nd day of November, 2017, the foregoing CORRECTED BRIEF OF AMICUS CURIAE AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION IN SUPPORT OF NEITHER PARTY ON REHEARING EN BANC was served upon registered counsel, including counsel for the parties set forth below, by operation of the Court's CM/ECF system on the date set forth below:

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Case No. 16-1794

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.

*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*

EN BANC BRIEF OF PLAINTIFF-APPELLEE NANTKWEST, INC.

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January 16, 2018

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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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5. The title and number of any case known to us to be pending in this or any other court or agency that will directly affect or be directly affected by this court's decision in the pending appeal are:

The Court decided another appeal in this case. *NantKwest, Inc. v. Lee*, 686 F. App'x 864 (Fed. Cir. 2017). The Court has also stayed the appeal in *Realvirt v. Matal*, No. 17-1159, pending resolution of this appeal. *See Realvirt*, D.I. 55. NantKwest is not aware of any other pending or related cases within the meaning of Federal Circuit Rule 47.5(b).

Dated: January 16, 2017

/s/ Morgan Chu

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STATEMENT OF RELATED CASE

When this appeal was docketed, 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 was pending before this Court. Appeal No. 15-2095. This Court has since issued its opinion in that case. See *NantKwest, Inc. v. Lee*, 686 Fed. App’x 864 (Fed. Cir. May 3, 2017). Additionally, the Court has stayed the appeal in *Realvirt v. Matal*, No. 17-1159, pending resolution of this case. See *Realvirt*, D.I. 55. NantKwest is not aware of any other pending or related cases within the meaning of Federal Circuit Rule 47.5(b).

INTRODUCTION

This is an appeal from a civil action pursuant to 35 U.S.C. § 145 that NantKwest commenced against the PTO. Section 145 permits a dissatisfied patent applicant whose application has been denied by the Patent Trial and Appeal Board (the “PTAB”) to have his application adjudicated *de novo* in the United States District Court for the Eastern District of Virginia. *Kappos v. Hyatt*, 566 U.S. 431, 434 & n.1 (2012). To obtain this benefit, the dissatisfied applicant must pay a price: “All the expenses of the proceedings shall be paid by the applicant.” 35 U.S.C. § 145.

For over 170 years,¹ the PTO *never* interpreted this language—in § 145, a related trademark provision, or their predecessor statutes—to encompass its attorneys’ fees. In 2013, the PTO reversed course. For the first time, it sought and was awarded attorneys’ fees as a component of its “expenses” pursuant to § 145’s trademark analog, 15 U.S.C. § 1071(b)(3). *Shammas v. Focarino*, 990 F. Supp. 2d 587, 594 (E.D. Va. 2014). A divided Fourth Circuit affirmed. *Shammas v. Focarino*, 784 F.3d 219 (4th Cir. 2015), *cert. denied sub nom. Shammas v. Hirshfeld*, 136 S. Ct. 1376 (2016).

The *Shammas* majority held that the American Rule’s presumption that each party bear its own attorneys’ fees does not apply to statutes that, like § 1071(b)(3)

¹ This includes the over 145 years since PTO officers were required to have legal knowledge. FCBA.Br.4-8.

and § 145, award attorneys' fees without regard to whether the benefitting party has substantively prevailed. But, as the Supreme Court made clear two months later in *Baker Botts LLP v. ASARCO LLC*, 135 S. Ct. 2158 (2015), this premise is incorrect. The American Rule applies *whenever* a litigant seeks to recover attorneys' fees. *Id.* at 2165-66.

The American Rule—described by the Supreme Court as “[o]ur basic point of reference when considering the award of attorney’s fees”—is a presumption that “[e]ach litigant pays his own attorney’s fees, win or lose, unless a statute or contract provides otherwise.” *Id.* at 2164. Per the American Rule, absent a “specific and explicit provision[]” to the contrary, no statute will be interpreted to permit fee-shifting. *Id.* (quotation marks omitted).

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’s presumption, *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 panel was wrong to conclude otherwise, and the district court should be affirmed.

STATEMENT OF THE FACTS AND CASE

I. 35 U.S.C. § 145

Upon receiving a decision from the PTAB affirming an examiner's rejection, an unsatisfied patent applicant has two options. "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." *Hyatt*, 566 U.S. at 434.

Each method has advantages and disadvantages. Proceeding under § 141 generally results in a faster adjudication, but the Federal Circuit does not review the PTO's decision *de novo*, and applicants must rely on the record developed before the PTO. *Id.* at 434-35. By contrast, review under § 145 is *de novo* and provides the applicant an opportunity to introduce new evidence, but is more time consuming, *id.*, and requires the applicant to pay "[a]ll the expenses of the proceedings":

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, an applicant who proceeds under § 145 must shoulder his own expenses and fees, in addition the PTO's "expenses of the proceedings."

In the 170 years that § 145 and its predecessors have been in force, the courts have identified specific, covered "expenses," including printing expenses,² counsel's deposition travel expenses,³ court reporter fees,⁴ and money paid to necessary expert witnesses.⁵ And, courts have done so despite the recognition that such expenses may be "harsh" on patent applicants. *Cook*, 208 F.2d at 530.

However, before this case, no court had ever awarded the PTO attorneys' fees pursuant to § 145. In fact, in those 170 years, the PTO has never even sought such fees. And in those years, Congress has never seen fit to amend § 145 or its predecessors to specifically or explicitly provide for the recovery of attorneys'

² *Cook v. Watson*, 208 F.2d 529, 530-31 (D.C. Cir. 1953).

³ *Robertson v. Cooper*, 46 F.2d 766, 769 (4th Cir. 1931).

⁴ *Sandvik Aktiebolag v. Samuels*, No. CIV. A. 89-3127-LFO, 1991 WL 25774, at *2 (D.D.C. Feb. 7, 1991).

⁵ *Id.* at *1-2.

fees, including in 2011, when it required the PTO to operate as a user-funded agency.⁶

II. The PTO's About-Face And The District Court Proceeding

On December 20, 2013, NantKwest filed suit in the Eastern District of Virginia seeking a judgment that NantKwest was entitled to a patent for the invention claimed in three rejected claims of U.S. Patent Application Serial No. 10/008,955 (the “’955 application”). Appx024-033. On February 19, 2014, the PTO answered and asserted that it was entitled to its “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.

The proceedings that followed were, contrary to the PTO’s characterization, far from extensive. PTO.EnBanc.Br.9-10. The district court’s 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, including only three depositions. Appx015 (Dkt. No. 18); *see also* Appx056-057, Appx075, Appx080. Additionally,

⁶ Leahy-Smith America Invents Act, Pub. L. No. 112-29, § 10, 125 Stat. 284, 316 (2011) (requiring the PTO to operate as a revenue-neutral agency by setting fees to recover the “aggregate estimated costs” of operation).

the parties filed a limited number of motions *in limine*. Appx016-017 (Dkt. Nos. 33, 35, 38, and 39).

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). Four months later, on September 2, 2015, the district court granted the PTO's motion 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 district court's summary judgment decision. *Id.* (Dkt. No. 82). This Court has since heard argument in that case and affirmed. *NantKwest, Inc v. Lee*, 686 Fed. App'x 864 (Fed. Cir. 2017).

III. The District Court Rejects The PTO's Motion For Attorneys' Fees

Following entry of judgment, the PTO filed a motion seeking \$111,696.39 in "expenses of the proceedings" pursuant to § 145, including \$78,592.50 in attorneys' fees. Appx021 (Dkt. No. 78). These fees were calculated based on "a proportional share of the salaries" of the PTO attorneys and paralegal assigned to this matter. Appx083 (citation and quotation marks omitted).⁷

⁷ The panel and PTO state that NantKwest did not dispute the amount of expenses for which the PTO sought reimbursement. *NantKwest*, 860 F.3d at 1354 n.1; PTO.EnBanc.Br.11 n.4. This is not the case. Before the district court, NantKwest argued that the PTO failed to present the requisite "clearly documented and well-justified" support for its request for 1,022 hours of fees."

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 court noted that, "[u]nder the 'American Rule,' parties are responsible for their own attorneys' fees" unless a statute "requires another party to pay [his adversary's] attorney's fees in specific and explicit provisions." Appx002; *see also* Appx003-004 ("In other words, absent explicit statutory authority, to the contrary," courts must not award attorneys' fees.) (quotation marks omitted).

In its analysis, the district court correctly recognized that the American Rule's presumption "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. "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). Because "[t]he language of § 145 neither

Appx138 (quoting *Sandvik Aktiebolag*, 1991 WL 25774, at *2); *see also id.* ("[T]he USPTO has not satisfied its burden to show, with supporting documentation, that its requested expenses and attorney's fees are both related to this proceeding and reasonable in amount."). The district court had no occasion to address this argument because it correctly found that the American Rule barred the PTO's request for attorneys' fees entirely. *See* Appx010.

specifically nor expressly requires plaintiffs to pay their opponent’s attorneys’ fees,” the district court concluded, “[s]ection 145 does not justify a deviation from the American Rule.” *Id.* The district court therefore denied the PTO’s motion insofar as it sought attorneys’ fees, and instead—consistent with the PTO’s interpretation of § 145 throughout its “entire two-hundred-year existence”—awarded as “[a]ll the expenses” the “*collection* of the expenses used, commonly understood to encompass [] printing, travel, and reasonable expert witness expenses.” *Id.* (emphasis in original).

IV. The Panel’s Opinion

A. Majority

The PTO appealed, and a divided panel of this Court reversed, holding that § 145 authorized an award of the “pro-rata share of the attorneys’ fees the USPTO incurred to defend applicant’s appeal.” *Nantkwest*, 860 F.3d at 1360.

The panel expressed “substantial doubts” that § 145 implicates the American Rule, but “assum[ed] the Rule applies,” and held that “the expenses at issue here include the USPTO’s attorneys’ fees.” *Id.* at 1355. The panel explained that “[c]ourts uniformly recognize an exception to [the American Rule], however: when the statute itself specifically and explicitly authorizes an award of fees.” *Id.* at 1356 (citations and quotation marks omitted). And in purported “agreement with two other circuits,” the panel concluded “that ‘expenses’ here includes attorneys’

fees.” *Id.* (citing *Shammas*, 784 F.3d at 222-23; *United States v. 110-118 Riverside Tenants Corp.*, 886 F.2d 514, 520 (2d Cir. 1989)).

The panel looked to modern “definitions and explanations that standard legal dictionaries and treatises provide for the term ‘expense’”—for example, “expenditure[s] of money, time, *labor* or resources to accomplish a result”—to “support this conclusion.” *Id.* at 1356 (emphasis in original). The panel also looked to the Supreme Court’s dicta in *Taniguchi v. Kan Pacific Saipan, Ltd.*, 566 U.S. 560 (2012), regarding the “distinction between ‘expenses’ and ‘costs,’” which it found to “comport[] with the[se] modern definitions.” *NantKwest*, 860 F.3d at 1356-57.

That “Congress on occasion employed the term ‘expenses’ to authorize attorneys’ fees *in addition to* expenses in other” statutes was not “sufficient to dislodge” the “ordinary meaning as defined in dictionaries and the Supreme Court’s interpretation of [‘expenses’].” *Id.* 1357-58 (emphasis in original). Instead the panel found that “these examples demonstrate that Congress will not confine itself to a single word or phrase when referencing attorneys’ fees.” *Id.* at 1358. And the panel rejected what it characterized as “Nant[K]west’s narrow view” that “a statute could not meet the American Rule’s heightened demands without using the precise words ‘attorneys’ fees’ or some equivalent” because “[t]he Supreme

Court ... has provided other suitable alternatives without using any of these words.” *Id.* at 1358.

Beyond holding that § 145’s “expenses” permitted an award of attorneys’ fees, the panel rejected NantKwest’s argument that the PTO’s attorneys’ fees are not expenses “of the proceedings.” *Id.* at 1359. While acknowledging that the PTO’s attorneys would be paid salaries regardless of whether NantKwest initiated its § 145 action, the panel refused to subscribe to an interpretation of § 145 that would “ignor[e] the vast majority of the expenses the USPTO incurred as the proximate cause of Nant[K]west’s appeal.” *Id.* at 1360.

B. Dissent

Judge Stoll dissented. In contrast to the majority’s “substantial doubts,” Judge Stoll found that “Supreme Court precedent makes clear that the American Rule marks the starting point for any analysis that shifts fees from one litigant to another.” *Id.* at 1360 (Stoll, J., dissenting). “While Congress remains free to draft statutes providing for the award of attorneys’ fees, any such deviation from the American Rule must be ‘specific and explicit’” *Id.* at 1361. This does not mean that the statute must reference “attorneys’ fees.” *Id.* But absent such express authority, “the statute must ‘otherwise evince[] an intent to provide for such fees.’” *Id.* (quoting *Key Tronic Corp. v. United States*, 511 U.S. 809, 815 (1994)).

As § 145 provides no “express authority” to award attorneys’ fees, Judge Stoll performed a “searching review” of “the ordinary meaning of ‘expenses’ [and] § 145’s legislative history,” but found no authorization for an award of attorneys’ fees. *Id.* “The phrase ‘attorneys’ fees’ is not mentioned, and Congress’s use of ‘expenses’ is not the type of ‘specific and explicit’ language that permits the award of attorneys’ fees.” *Id.* (citations omitted).

Judge Stoll found the “omission of ‘attorneys’ fees’ from § 145 [] particularly telling” as “[w]hen Congress wanted to make attorneys’ fees available in a patent litigation, it knew how to do so”—and had done so elsewhere in the Patent Act. *Id.* at 1361-62. “The omission” in § 145 evidenced a “deliberate decision not to authorize such awards.” *Id.* at 1362 (quotation marks omitted).

Absent “specific and explicit statutory authority” to award attorneys’ fees, Judge Stoll considered whether congressional intent to authorize such an award could be “glean[ed] ... from the ordinary meaning of ‘expenses’ or the legislative history of § 145.” *Id.* Judge Stoll found—after examining contemporaneous dictionary definitions—that “at the time Congress introduced the word ‘expenses’ into the Patent Act, its ordinary meaning did not include attorneys’ fees.” *Id.* at 1363. “That the PTO did not rely on this provision to seek attorneys’ fees for over 170 years” supported Judge Stoll’s conclusion that “it is far from clear whether ‘[a]ll the expenses of the proceedings’ includes attorneys’ fees.” *Id.* So did

Congress's reference to both "expenses" and "attorneys' fees" in other statutory provisions—including, provisions permitting recovery by salaried, government attorneys. *Id.* at 1363-64. This ambiguity was particularly fatal given that, "if § 145 were a fee-shifting statute, it would represent a particularly unusual divergence from the American Rule because it obligates even successful plaintiffs to pay the PTO's attorneys' fees." *Id.* at 1364-65. "In these atypical circumstances" Judge Stoll found that "Congress's intent to award the PTO attorneys' fees in every case should have been *more clear.*" *Id.* at 1365 (emphasis added).

Judge Stoll noted "[t]he maintenance of a robust American Rule also finds support in public policy." *Id.* Specifically, the "high and uncertain costs" the PTO may seek as attorneys' fees "will likely deter applicants, particularly solo inventors and other smaller entities, from pursuing review under § 145," especially when that litigation would now almost always include an assessment of reasonableness of the PTO's attorneys' fees. *Id.* at 1365-66. Further, Judge Stoll found the majority's reliance on *Hyatt* and its reference to "the heavy economic burden" associated with § 145 actions to be misplaced, as *Hyatt* was decided before the PTO had ever sought to recover attorneys' fees under § 145. *Id.* at 1366. Indeed, the "expenses" traditionally sought by the PTO—expert fees, court reporter fees, deposition travel expenses, and printing expenses—can themselves "be significant and pose a 'heavy economic burden' in district court litigation." *Id.*

Judge Stoll also found the majority's reliance on *Shammas* and *110-118 Riverside* to be misplaced. Unlike the majority, the Fourth Circuit in *Shammas* did **not** apply the American Rule; accordingly, “[s]imply reaching the same result [did] not make the majority’s opinion consistent with *Shammas*.” *Id.* And *110-118 Riverside* was inapposite. *Id.* at 1366-67. *110-118 Riverside* was “a case where a private party performed the legal obligations of the government and was made whole for its efforts” and did “not involve the interpretation of a statute in the context of adversarial litigation to determine whether Congress specifically and explicitly provided for the recovery of attorneys’ fees by one party against the other based on its use of the word ‘expenses.’” *Id.* at 1367.

Further, Judge Stoll found that the panel’s modern dictionary definitions “shed no light on the ordinary meaning of ‘expenses’ more than 175 years ago.” *Id.* Finally, Judge Stoll rejected the majority’s argument “that the litany of statutory provisions separately specifying both ‘expenses’ and ‘attorneys’ fees’ demonstrates Congress’s desire not to be restricted to a single word or phrase when awarding attorneys’ fees.” *Id.* Instead, these statutes “compel the opposite conclusion”: “there would be no reason for Congress to provide for the award of ‘attorneys’ fees’ in numerous statutory provisions where it also permits the award of expenses if the contemporaneous, ordinary, and well-known meaning of ‘expenses’ necessarily included attorneys’ fees.” *Id.*

C. Sua Sponte Rehearing En Banc

This Court sua sponte decided to consider this case en banc. *NantKwest, Inc. v. Matal*, 869 F.3d 1327, 1327 (Fed. Cir. 2017). The panel opinion was accordingly vacated. *Id.*

SUMMARY OF THE ARGUMENT

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). That rule applies *whenever* a litigant seeks to recover attorneys’ fees. *Baker Botts*, 135 S. Ct. at 2165-66. And, only “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 can displace this time-honored presumption. *Alyeska Pipeline*, 421 U.S. at 260.

Section 145 contains no such specific and explicit language. Only “expenses” are compensable under § 145. “Fees” are never mentioned, let alone “attorneys’ fees” or any other equivalent that would suggest that such fees are recoupable. Nor does the language or legislative history of § 145 otherwise demonstrate clear Congressional intent to deviate from the American Rule.

Indeed, in the nearly two-centuries that applicants have been entitled by statute to file civil actions pursuant to § 145 and its predecessors, the PTO has

never before been awarded, or (prior to this case) even sought, attorneys' fees under that provision. And despite the PTO's centuries-long failure to seek attorneys' fees pursuant to § 145 and its predecessors, and despite multiple amendments to the Patent Act during this time, Congress has never amended § 145 to specifically or explicitly provide for attorneys' fees.

ARGUMENT

I. The American Rule Precludes The PTO's Request For Attorneys' Fees Because § 145 Does Not "Specifically And Explicitly" Authorize Attorneys' Fees

The American Rule precludes the award of attorneys' fees that the PTO now seeks pursuant to the ambiguous "expenses" language in § 145.⁸ That rule states that "[e]ach litigant pays his own attorney's fees, win or lose, unless a statute or contract provides otherwise." *Baker Botts*, 135 S. Ct. at 2164 (quotation marks omitted). Recognized for over two-hundred years, the American Rule provides the "basic point of reference when considering the award of attorney's fees." *Hardt*, 560 U.S. at 252-53 (quotation marks omitted). Indeed, even if "redistributing litigation costs" may be sensible as a matter of policy, the American Rule makes clear that "it is not for [the courts] to invade the legislature's province by"

⁸ Additionally, "[i]t is a well-established principle of statutory construction" that the common law "ought not to be deemed repealed, unless the language of a statute be clear and explicit for this purpose." *Norfolk Redev. & Housing Auth. v. Chesapeake & Potomac Tele. Co. of Va.*, 464 U.S. 30, 35 (1983) (quotation marks omitted). Accordingly, no statute may permit fee-shifting absent clear and explicit language providing for the same. *See generally* D.I. 73 (AIPLA.Br.).

awarding fees where the legislature authorized none. *Alyeska Pipeline*, 421 U.S. at 271.

This is not to say that attorneys' fee awards are altogether prohibited. Rather, the effect of the American Rule is to require Congress to draft "specific and explicit provisions for the allowance of attorneys' fees." *Baker Botts*, 135 S. Ct. at 2164. And historically, Congress has had no difficulty doing just that. Using phrases such as "attorneys' fees," "reasonable compensation for actual, necessary services rendered by the ... attorney," and "reasonable expenses incurred ... including a reasonable attorney's fee," Congress has repeatedly provided the requisite specificity to authorize attorneys' fee awards despite the American Rule's presumption.⁹ But Congress did not do so here.

Contrary to the panel's holding, § 145 contains no such "specific and explicit" language. While "[a]ll the expenses of the proceedings" could plausibly be interpreted to encompass attorneys' fees, whether in the form of PTO legal employee salaries or otherwise, the language does not require such a

⁹ See, e.g., 18 U.S.C. § 2707(b)(3) (providing for "a reasonable attorney's fee and other litigation costs reasonably incurred"); 11 U.S.C. § 330(a)(1)(A) (providing for "reasonable compensation for actual, necessary services rendered by the ... attorney"); 42 U.S.C. § 247d-6d(e)(9) (providing for recovery of "reasonable expenses incurred as a direct result of the filing of the pleading, motion, or other paper ..., including a reasonable attorney's fee").

reading.¹⁰ That Congress prefaced “expenses” with “[a]ll” does nothing to eliminate that ambiguity.

A. The Language Of § 145 Does Not Authorize Attorneys’ Fees

When it desires to do so, Congress has had no difficulty drafting statutes that permit the recovery of attorneys’ fees. *See, e.g.*, 35 U.S.C. § 285. This is true even when it is the government seeking fees for its salaried employees. *See, e.g.*, 42 U.S.C. § 7413(d)(5)(B) (permitting the government to recover “the United States enforcement expenses, including but not limited to attorneys fees”). Congress has not done so here.

1. The Term “Expenses” Does Not Specifically Or Explicitly Include Attorneys’ Fees

Both the panel and the PTO argue that § 145 authorizes fee shifting because “the ordinary meaning” of “expenses” is sufficiently broad to encompass attorneys’ fees. *NantKwest*, 860 F.3d at 1357-58 (“As noted above, the ordinary meaning [of expenses] as defined in dictionaries” supports the argument that “expenses” is a specific and explicit reference to attorneys’ fees); PTO.EnBanc.Br.38 (arguing that “expenses” satisfies the American Rule because it “is a broad [sic] and includes attorney’s fees under any ordinary reading of the

¹⁰ 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.”).

term”). That a statute is susceptible to an interpretation does not mean that that statute specifically and explicitly mandates that interpretation—as required to overcome the American Rule’s presumption.

Despite the panel’s suggestion to the contrary, no circuit court has held that the term “expenses” or the phrase “expenses of the proceedings” is sufficient to overcome the American Rule—including, the Second Circuit in *110-118 Riverside Tenants* or Fourth Circuit in *Shammas. NantKwest*, 860 F.3d at 1356 (citing *110-118 Riverside Tenants* and *Shammas*).¹¹

In *110-118 Riverside Tenants*, the Second Circuit found that an apartment corporation was entitled to recover the expenses it incurred in foreclosing a lien that the government was responsible for foreclosing. 886 F.2d at 520. These expenses included attorneys’ fees, and reimbursement was required as a matter of fairness. *See id.* at 521. *110-118 Riverside Tenants* “does not involve the interpretation of a statute in the context of an adversarial litigation to determine whether Congress specifically and explicitly provided for the recovery of

¹¹ At least one circuit court determined that the term “expenses” is too ambiguous to support an award of attorneys’ fees. *York Research Corp. v. Landgarten*, 927 F.2d 119, 123 (2d Cir. 1991) (finding phrase “any and all ... expenses” ambiguous with respect to whether attorneys’ fees were included).

attorneys' fees by one party against the other based on its use of the word 'expenses.'" *Nantkwest*, 860 F.3d at 1367 (Stoll, J., dissenting).¹²

In *Shammas*, after erroneously concluding that the American Rule did not apply to § 1071(b)(3), the Fourth Circuit did not require a "specific" or "explicit" authorization for attorneys' fees, but instead interpreted § 1071(b)(3) by "giving the phrase 'all the expenses of the proceeding' its ordinary meaning *without regard to the American Rule*." *Shammas*, 784 F.3d at 224 (emphasis added); *see also NantKwest*, 860 F.3d at 1366 (Stoll, J., dissenting) ("Only after dispatching with the strong presumption against fee shifting embodied in the American Rule—a rule that the majority here assumes is applicable—was the *Shammas* court able to interpret the ordinary meaning of 'expenses' to cover attorneys' fees."). Because

¹² The panel majority states that "[t]he court in *Riverside* relied on the statutory language of [26 U.S.C. § 6342] 'expenses of the [foreclosure] proceedings' when awarding the Apartment Corporation its attorneys' fees." *NantKwest*, 860 F3d at 1356 n.4. But these "attorneys' fees" were not "attorneys' fees" in the traditional sense. Section 6342 simply allows the government to recover "the expenses of the proceeding." The apartment corporation was only entitled to recover "attorneys' fees" because the corporation used attorneys in foreclosing the lien. *See 110-118 Riverside Tenants*, 886 F.2d at 520 ("The attorneys' fees incurred by the Corporation for selling the shares for the Government are in the same category as expenses of foreclosure and sale proceedings which the Government would have been required to incur."). "***These fees are not attorneys' fees of a third party or of the Apartment Corporation in foreclosing its claim.*** They are, in reality, attorneys' fees and expenses which would be charged to the Government if it had foreclosed its own lien and sold the shares of stock." *Id.* (emphasis added).

the ordinary meaning of “expenses” was sufficiently broad to encompass attorneys’ fees, the Fourth Circuit held that § 1071(b)(3) authorized the same.

The panel (and the PTO) proffers this same interpretation—specifically, that “expenses” *can* be read to encompass attorneys’ fees. *NantKwest*, 860 F.3d at 1356-58; PTO.EnBanc.Br.16-17, 38-39. But the conclusion in *Shammas* depends on the American Rule *not* applying. *Shammas*, 784 F.3d at 223-24. And the panel here assumed (correctly) that the American Rule *does* apply to § 145. *NantKwest*, 860 F.3d at 1355. Because the American Rule applies, it is not enough that the plain and ordinary meaning of “expenses” is sufficiently broad to encompass attorneys’ fees. Only language that specifically or explicitly signals Congressional intent to award attorneys’ fees will do.

None of the PTO’s or panel’s plain and ordinary definitions of “expenses” evidence such intent. Finding dictionary definitions for “expenses” that might plausibly include attorneys’ fees is not sufficient to overcome the presumption of the American Rule. *Baker Botts*, 135 S. Ct. at 2168 (“The 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].”) (quoting *Alyeska Pipeline*, 421 U.S. at 260).¹³

¹³ Further, the definitions relied on by the panel do not reflect the meaning of “expenses” in 1836 or 1839—the years when Congress introduced that word into the Patent Act and § 145’s predecessor, respectively. “[U]nless otherwise defined,

In addition to modern dictionary definitions, the panel (and the PTO) relies on dicta from *Taniguchi* to support its interpretation of “expenses.” *NantKwest*, 860 F.3d at 1357; PTO.EnBanc.Br.38-39. In *Taniguchi*, the Supreme Court declined to interpret “costs” to include costs for document translation. 566 U.S. at 572. The Supreme Court reasoned that “[a]lthough ‘costs’ has an everyday meaning synonymous with ‘expenses,’” taxable costs 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 573. The Supreme Court did not “interpret[] a statutory provision containing the word ‘expenses’ to include attorneys’ fees.” *NantKwest*, 860 F.3d at 1366 n.5 (Stoll, J., dissenting).¹⁴

words will be interpreted as taking their ordinary, contemporary, common meaning at the time Congress enacted the statute.” *NantKwest*, 860 F.3d at 1362-63 (Stoll, J., dissenting) (quotations and alterations omitted) (citing *Amoco Prod. Co. v. S. Ute Indian Tribe*, 526 U.S. 865, 873-74 (1999)). And the explanation set forth in Wright & Miller, a treatise, is not even a definition. *See Telecare Corp. v. Leavitt*, 409 F.3d 1345, 1353 (Fed. Cir. 2005) (“[T]he Supreme Court has held that plain meaning of a statute is to be ascertained using standard dictionaries in effect at the time of the statute’s enactment.”).

¹⁴ Even if it had, this interpretation could not simply be imported to § 145. *Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 522-24 (1994) (rejecting efforts to interpret 17 U.S.C. § 505’s reference to “a reasonable attorney’s fee ... as part of the costs” consistently with interpretations of “a reasonable attorney’s fee as part of the costs” under 42 U.S.C. § 2000e-5(k) because “[t]he goals and objectives of the Acts” differed, and their similar language needed to be interpreted differently).

Similarly, the PTO relies on *Arlington Central School District Board of Education v. Murphy*, 548 U.S. 291 (2006). PTO.EnBanc.Br.39. In *Arlington*, 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 expert witness fees. 548 U.S. at 293-94. The Supreme Court reasoned that “‘costs’ is a term of art that generally does not include expert fees” and that “[t]he 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 from work.” *Id.* at 297 (citations and quotation marks omitted). Again, the Supreme Court did not interpret a statutory provision containing the word “expenses” to include attorneys’ fees—the statute at issue explicitly included “attorneys’ fees.”

That “expenses” is generally broader than “costs,” does not mean that “expenses” is somehow sufficiently specific and explicit to overcome the presumption of the American Rule. Without clear language authorizing the award of attorneys’ fees, the word “expenses,” like “costs,” cannot be read to authorize an award of those fees. *See Lewis v. Pension Benefit Guar. Corp.*, 197 F. Supp. 3d 16, 29 (D.D.C. 2016) (language “all or a portion of the costs and

expenses incurred in connection with such action” in 29 U.S.C. § 1303(f) “does not authorize the recovery of attorney’s fees”); *Stephens v. US Airways Grp.*, 555 F. Supp. 2d 112, 121-22 (D.D.C. 2008), *aff’d in part sub nom. Stephens v. U.S. Airways Grp., Inc.*, 644 F.3d 437 (D.C. Cir. 2011) (“A prevailing party in a suit against PBGC may receive a discretionary award of the ‘costs and expenses incurred in connection with such action,’” but section “1303(f) does not provide for attorneys’ fees.”); *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 attorneys’ fees).

The panel complains that “under Nant[K]west’s narrow view, a statute could not meet the American Rule’s heightened demands without using the precise words ‘attorneys’ fees’ or some equivalent.” *NantKwest*, 860 F.3d at 1358. None of NantKwest, the dissent, or the district court ever suggested that only the phrase “attorneys’ fees” may overcome the American Rule’s presumption. NantKwest.Panel.Br.30-31; *NantKwest*, 860 F.3d at 1365 n.3 (Stoll, J., dissenting) (“The majority repeatedly mischaracterizes the dissent as advocating for a rigid requirement that would bar the award of attorneys’ fees unless Congress invoked those exact words.”); Appx.004 (“This deviation from the American Rule does not require a statute to specifically state ‘attorneys’ fees’”).

Congress *can* displace the American Rule without using the phrase “attorneys’ fees.” For example, in *Baker Botts* the phrase “reasonable compensation for actual, necessary services rendered by the ... attorney” was sufficient to overcome the American Rule. *Baker Botts*, 135 S. Ct. at 2165. But “[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].” *Id.* at 2168 (quoting *Alyeska Pipeline*, 421 U.S. at 260). The broad phrase “all expenses,” like the open-ended phrase “reasonable compensation,” is not sufficiently specific, by itself, to overcome the American Rule. *See id.*

The panel relies on “litigation costs” as an example of statutory language that is as broad as “expenses” yet still satisfies the American Rule. *NantKwest*, 860 F.3d at 1358. But the Supreme Court’s statement that departures from the American Rule have been recognized in provisions usually containing language “authoriz[ing] the award of ‘a reasonable attorney’s fee,’ ‘fees,’ or ‘litigation costs,’ and usually refer to a ‘prevailing party’ in the context of an adversarial ‘action,’” *Baker Botts*, 135 S. Ct. at 2164, does not equate to a “conclusion” that the term “litigation costs” on its own is sufficient to overcome the American Rule. The statute at issue in *Baker Botts* did not even refer to “litigation costs.” *Baker Botts*, 135 S. Ct. at 2163. And *none* of the statutes addressed in the cases cited by

Baker Botts or the panel provides for an award of attorneys' fees based solely on the phrase "litigation costs." Instead, each instance of "litigation costs" or "costs of litigation" is accompanied by a reference to "attorney(s)" and "fee(s)." *See, e.g.*, 16 U.S.C. § 1540(g)(4) (cited by *Ruckelshaus v. Sierra Club*, 463 U.S. 680, 682 n.1 (1983)) (providing for "costs of litigation (including reasonable attorney and expert witness fees) to any party"); 18 U.S.C. § 2707(c) (cited by *Hardt*, 560 U.S. at 253 n.5) (providing for "a reasonable attorney's fee and other litigation costs reasonably incurred"); 42 U.S.C. § 2000aa-6(f) (cited by *Hardt*, 560 U.S. at 253 n.7) (providing for "such reasonable attorneys' fees and other litigation costs reasonably incurred"); *see also* 42 U.S.C. § 12205 (cited by *Buckhannon Bd. & Care Home, Inc. v. W. Va. Dep't of Health & Hum. Resources*, 532 U.S. 598, 601 (2001)) (providing for "a reasonable attorney's fee, including litigation expenses, and costs"). If anything, these statutes support the point the panel resists: when Congress intends to authorize an award of attorneys' fees, it does so clearly and explicitly.

2. When Allowing Attorneys' Fees In Addition To Or As A Component Of "Expenses," Congress Uses Specific And Explicit Language

When Congress actually intends to authorize attorneys' fees in addition to or as a component of "expenses," it modifies that term to provide both clarity and specificity. For example, Congress has authorized attorneys' fees *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 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)(1) (authorizing, in false claims suits, “reasonable expenses which the court finds to have been actually incurred, plus reasonable attorneys’ fees and costs”); 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). Likewise, when Congress desires to award attorneys’ fees in addition to “litigation costs,” it provides explicit and specific clarification. *See, e.g.*, 5 U.S.C. § 552b(i) (providing for “reasonable attorney fees and other litigation costs”); 42 U.S.C. § 2000aa-6(f) (providing for “attorneys’ fees and other litigation costs”); *see also* 12 U.S.C. § 2607(d)(5) (providing for the “costs of the action together with reasonable attorneys fees”).

Congress has also authorized fees *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)”); 5 U.S.C. § 504(a)(1) (authorizing recovery of “fees and other

expenses,” including “reasonable attorney or agent fees”); *Shammas*, 784 F.3d at 228-29 (King, J., dissenting). Similarly, when Congress desires to award attorneys’ fees as a component of litigation costs, it says as much. *See, e.g.*, 30 U.S.C. § 1427(c) (permitting an award of the “costs of litigation, including reasonable attorney and expert witness fees”); 42 U.S.C. § 300j-8(d) (permitting an award of the “costs of litigation (including reasonable attorney and expert witness fees)”).¹⁵

Confronted with these and other statutes, the panel noted that “[r]oughly fifty percent of those statutes cited do not support [NantKwest’s] view because they treat attorneys’ fees as part of expenses.” *NantKwest*, 860 F.3d at 1357 n.6. But all of the cited statutes support NantKwest’s “view”: given the variety of ways in which Congress has drafted attorneys’ fees statutes that mention “expenses,” it would be inappropriate to divine any specific or explicit meaning from that word

¹⁵ The panel notes that “neither the dissent nor Nant[K]west provide any indication regarding which—if any—of these cited provisions Congress enacted prior to the Supreme Court’s creation of the ‘explicit’ and ‘specific’ criteria under the American Rule.” *Nantkwest*, 860 F.3d at 1357 n.6. But the American Rule applies regardless of whether the statute was enacted before or after the Supreme Court emphasized the “specific and explicit” requirement in *Alyeska Pipeline*. *See Crawford Fitting Co. v. J.T. Gibbons, Inc.*, 482 U.S. 437, 444-45 (1987) (noting that “Congress responded to our decision in *Alyeska* by broadening the availability of attorney’s fees in the federal courts” and refusing to award fees “absent explicit statutory or contractual authorization”). Regardless, many of these statutes were enacted before *Alyeska Pipeline*. *See, e.g.*, 12 U.S.C. § 1464(d)(8) (1970) (providing for “reasonable expenses and attorneys’ fees”); 15 U.S.C. § 1117 (1970) (providing for “reasonable attorney fees”).

absent clarifying context or language. *Nantkwest*, 860 F.3d at 1367 (Stoll, J., dissenting); *see also Marek v. Chesny*, 473 U.S. 1, 20 (1985) (“When particular provisions of the Federal Rules are *intended* to encompass attorney’s fees, they do so *explicitly*. Eleven different provisions of the Rules authorize a court to award attorney’s fees as ‘expenses’ in particular circumstances, demonstrating that the drafters knew the difference, and intended a difference, between ‘costs,’ ‘expenses,’ and ‘attorney’s fees.’”) (Brennan, J., dissenting) (emphasis in original). These examples demonstrate that the meaning Congress intends when it uses the term “expenses” (or “litigation costs”) alone is variable and often unclear. But when Congress actually intends to authorize attorneys’ fees, it can and does say so with precision.

This is also 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. 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 inconsistent, Congress is explicit when it intends to authorize attorneys’ fees.

3. Congress Has Specifically And Explicitly Authorized Attorneys’ Fees Elsewhere In The Patent Act

Congress’ provision for “attorneys’ fees” elsewhere in the Patent Act further supports that “expenses” as used in § 145 excludes these fees. *Clay v. United States*, 537 U.S. 522, 528 (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)); *cf. Baker Botts*, 135 S. Ct. at 2165-66 (refusing to award certain attorneys’ fees based on broad language in 11 U.S.C. § 330(a)(1) where “other provisions of the Bankruptcy Code” expressly required paying the debtor’s “reasonable attorneys’ fees and costs”). Congress has used “attorneys’ fees” throughout the Patent Act to overcome the American Rule’s presumption. *See, e.g.*, 35 U.S.C. § 285 (authorizing in “exceptional cases,” awards of “reasonable attorney fees”); 35 U.S.C. § 271(e)(4); 35 U.S.C. § 273(f); 35 U.S.C.

§ 296(b); 35 U.S.C. § 297(b)(1). “[T]he omission of ‘attorneys’ fees’ from § 145 is particularly telling. When Congress wanted to make attorneys’ fees available in a patent litigation, it knew how to do so.” *NantKwest*, 860 F.3d at 1361 (Stoll, J., dissenting).

The panel and PTO attempt to justify this omission on the basis that the hourly work performed by the PTO’s attorneys more closely resembles “expenses” than attorneys’ fees. *See NantKwest*, 860 F.3d at 1358-59 (“As salaried employees, they do not bill individual hours for their work, nor do they collect fees from those whom they represent. In this context, we characterize the overhead associated with their work more precisely as an ‘expense’ to the government than a ‘fee.’”); PTO.EnBanc.Br.42-43. But even when Congress drafts statutes that can *only* benefit the government (including by reimbursing staff attorney salaries), it nevertheless employs specific and explicit language. *See* 42 U.S.C. § 7413(d)(5)(B) (awarding the United States its “enforcement expenses, including but not limited to attorneys fees and costs incurred by the United States for collection proceedings”); 33 U.S.C. § 1319(g)(9) (permitting the Attorney General to collect “attorneys fees and costs for collection proceedings”).

Further, the panel asserts that “Congress’s contrasting use of the term ‘attorneys’ fees’ under 35 U.S.C. § 285” demonstrates that “Congress could have intended a broader compensation scheme under § 145 than § 285”—specifically,

the panel asserts that Congress chose to award all expenses in § 145 and only attorneys' fees in § 285. *Nantkwest*, 860 F.3d 1359 n.8. But even when Congress drafts statutes that award "all expenses," it (again) nevertheless includes a specific and explicit authorization for attorneys' fees. *See* 50 U.S.C. § 4531(b)(4) (authorizing reimbursement of "***all expenses*** ..., including ... ***attorneys' fees and expenses of litigation***") (emphasis added).

4. The Inclusion Of The Word "All" In "All The Expenses Of The Proceedings" Does Not Provide The Clarity That "Expenses" Lacks

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 attorneys' fees. A catchall-phrase like "all" does not define what it catches. *See Flora v. United States*, 362 U.S. 145, 149 (1960) (noting that "'any sum,'" while a "catchall" phrase, does not "define what it catches"); *see also York Research Corp*, 927 F.2d at 123 (finding the phrase "any and ***all ... expenses***" ambiguous with respect to whether attorneys' fees were included) (emphasis added); *Lewis*, 197 F. Supp. 3d at 29 (language "***all*** or a portion of the ***costs and expenses*** incurred in connection with such action" in 29 U.S.C. § 1303(f) "does not authorize the recovery of attorney's fees") (emphasis added).

5. “Expenses” Are Limited To “Expenses Of The Proceedings”

Section 145 does not provide for “expenses” *simpliciter*, but “expenses of the proceedings.” 35 U.S.C. § 145. The PTO asserts that personnel expenses for the attorneys and paralegals that it assigned to the litigation “represent concrete expenditures by the agency—*i.e.*, resources otherwise available to the agency that were expended as a result of the litigation.” PTO.EnBanc.Br.18. But the PTO provides no support for this *ipse dixit*. Indeed, the PTO has not shown that the particular personnel involved (and for which it seeks attorneys’ fees) would have actually been employed on other matters, or received any lower compensation, had NantKwest never initiated this litigation. *See Hotline Industries*, 236 F.3d at 365 (noting the government incurs expenses for salaried employees “*if* the time and resources they devote to one case are not available for other work”) (emphasis added).

NantKwest does not, as the panel suggests, “endorse[] a rule that would theoretically permit an award if the USPTO retained outside counsel to defend its interests but not if it elected to proceed on its own.” *Nantkwest*, 860 F.3d at 1360. Section 145 does not authorize attorneys’ fees regardless of the type of attorneys retained.

The PTO’s citations 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) are misplaced. PTO.EnBanc.Br.18-19. The statutes at issue in *Raney* and *Hotline Industries* explicitly provided for the recovery of “attorneys’ 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.” *Hotline Industries*, 236 F.3d 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—whether those salaries are characterized as “fees” or “personnel expenses”—it would have explicitly allowed for such a recovery. It did not.

Nor does the “[t]he history of § 145 reinforce[] the conclusion that personnel expenses are ‘expenses of the proceedings.’” PTO.EnBanc.Br.27-28. The PTO argues that the 1836 Patent Act evidences a Congressional understanding that “expenses” includes PTO personnel expenses. *Id.* at 28. It does not. The 1836 Patent Act required applicants to pay the “expenses of the Patent Office” and defined “expenses of the Patent Office” to include “the salaries of the officers and clerks herein provided for.” Act of July 4, 1836, § 9, 5 Stat. 117, 121 (emphasis added). But the 1839 Patent Act does not refer to “expenses of the Patent Office.” *See* Act of Mar. 3, 1839, § 10, 5 Stat. 353, 354 (emphasis added). Instead the 1839 Patent Act refers to “the whole of the expenses of the proceeding.” *Id.* (emphasis added). Far from helping the PTO, this undermines its point.

Even assuming that “expenses of the Patent Office” is appropriately construed to include the salaries of PTO attorneys and paralegals, the 1839 Patent Act does not refer to “expenses of the Patent Office.” And “expenses of the proceeding” in the 1839 Patent Act—unlike “expenses of the Patent Office” in the 1836 Act—is not defined to include the salaries of PTO attorneys and paralegals. The 1836 Patent Act only serves to highlight that if Congress had intended “expenses of the proceeding” to encompass attorneys’ fees it would have been explicit. Congress made no such explicit provision for attorneys’ fees, despite the fact that as early as 1796 Congress was legislating against the backdrop of the American Rule and its presumption that attorneys’ fees could not be recouped absent explicit authorization. *See Arcambel v. Wiseman*, 3 U.S. 306, 306 (1796) (“We do not think that this charge [of attorneys’ 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.”).

B. Neither The PTO, Nor Congress, Nor The Courts Have Ever Interpreted § 145 To Authorize Any Attorneys’ 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., 826 F.3d 1357, 1359 (Fed. Cir. 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 Before Interpreted § 145 To Authorize Any Attorneys’ Fees

History belies the PTO’s new attempt to stretch the ambiguous “expenses” language to include attorneys’ fees. The PTO offers no explanation for *why for over 170 years* it failed to seek any attorneys’ fees in these sorts of cases if, as it argues, the statutory “expenses” so clearly include such a recovery.¹⁶ “That the PTO did not previously rely on this provision to seek attorneys’ fees supports the understanding that it is far from clear whether ‘[a]ll the expenses of the proceedings’ includes attorneys’ fees.” *Nantkwest*, 860 F.3d at 1363 (Stoll, J., dissenting).

¹⁶ The Report of the Commissioner of Patents for the Year 1845 and the same for 1846 do not provide a contrary example. *See* Report of the Commissioner of Patents for the Year 1846, H. Doc. No. 29-52 (2d Sess. 1847). That report states that “[t]he expenses of the office during the year 1846 are as follows, viz.: ... contingent expenses, including postage and fees paid to counsel in two equity [illegible] pending against the Commissioner. *Id.* at 1. These counsel were “employed” by the Commissioner. Report of the Commissioner of Patents for the Year 1845, H. Doc. No. 29-140, at 8 (1st Sess. 1846). But there is nothing in the Report to suggest that the “fees paid to counsel” were asserted against or billed to any patent applicants such that the American Rule would be implicated. Nor does this statement suggest that the PTO understood “expenses” in § 145’s predecessor to include attorneys’ fees. If it had, it (presumably) would have sought such fees during the nearly 170 years between that statement and this case. It did not.

Beyond failing to *ever* seek attorneys' fees pursuant to § 145, the PTO has on multiple occasions intimated that such fees were not recoverable. For example, in *Robertson v. Cooper*, the district court denied the PTO's recovery for the travel expenses of one of its lawyers to attend an out-of-state deposition. 46 F.2d 766, 769 (4th Cir. 1931). 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 noted that 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 (Def.-Appellant's Reply to Pl.-Appellee's Br. at 10, *Robertson v. Cooper*, No. 3066 (4th Cir. Oct. 31, 1930)).

Similarly, in *Cook v. Watson*, 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 a predecessor to § 145, R.S. § 4915. 208 F.2d 529, 530 (D.C. Cir. 1953) (per curiam). In its brief, the PTO characterized the "expenses incident to ... trial in the District Court" as "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)).

“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.*, 826 F.3d at 1364. The PTO should be held to its nearly two-century construction of “expenses.”

2. Congress Has Never Interpreted § 145 To Authorize Any Attorneys’ Fees

Even assuming (contrary to fact) that Congress intended that the PTO receive its attorneys’ 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 2011 amendment to § 145 changing the venue for actions under that section,¹⁷ Congress’s formation of subcommittees to study “the general issue of attorneys’ fees,”¹⁸ and “broadening the availability of attorney’s fees in the federal

¹⁷ Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 (2011); *see also Kappos*, 566 U.S. at 434 n.1; *see also* FCBA.Br.3-9.

¹⁸ *See F. D. Rich Co. v. U. S. for Use of Indus. Lumber Co.*, 417 U.S. 116, 131 n.20 (1974).

courts” in response to the Supreme Court’s *Alyeska Pipeline* decision,¹⁹ Congress has never revised § 145 to specifically or explicitly provide for attorneys’ 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) (quotation marks omitted); *Immersion Corp.*, 826 F.3d at 1365 (“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 attorneys’ fees were not recoverable as “expenses” pursuant to § 145, it would have addressed the issue. It did not. This Court should defer to Congress’s decision. *Nantkwest*, 860 F.3d at 1362 (Stoll, J., dissenting) (citing *Gross v. FBL Fin. Servs., Inc.*, 557 U.S. 167, 174 (2009) (“When Congress amends one statutory provision but not another, it is presumed to have acted intentionally.”)).

3. District Courts Have Never Interpreted § 145 To Authorize Any Attorneys’ Fees

District courts have similarly never interpreted § 145 as allowing the recovery of attorneys’ fees. While courts have allowed the PTO to recover printing

¹⁹ *Crawford Fitting*, 482 U.S. at 444.

expenses, counsel's deposition travel expenses, court reporter fees, and money paid to necessary expert witnesses, the PTO fails to cite a single prior decision interpreting "expenses" in § 145 to include "attorneys' fees."²⁰ To the contrary, at least one court has expressly excluded "attorneys fees" from the "expenses" recoverable under § 145. Appx171-172 (*Encyclopedia Britannica v. 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")).

C. Neither The Leahy-Smith America Invents Act Nor Other Policy Considerations Justify The PTO's About-Face

Finally, 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.EnBanc.Br.23-24 (citing the Leahy-Smith America Invents Act, Pub. L. No. 112-29, § 10, 125 Stat. 284, 316 (2011) as requiring the PTO to operate as a revenue-neutral agency by setting fees to recover the "aggregate estimated costs" of operation). Accordingly, the PTO argues,

²⁰ That NantKwest did not challenge the PTO's past practice of seeking expert witness fees does not "suggest[] that the language 'all the expenses' satisfies the American Rule with respect to witness expenses, yet not for personnel expenses." PTO.EnBanc.Br.40. NantKwest has never stated that § 145 satisfies the American Rule with respect to expert witness fees. But unlike attorneys' fees which the PTO has *never* previously sought, the PTO has historically sought and obtained its expert witness fees. *See, e.g., Sandvik Aktiebolag*, 1991 WL 25774, at *1-2.

“NantKwest’s position, therefore, amounts to a request that *other USPTO users* pay the personnel expenses incurred by the agency in response to NantKwest’s complaint under § 145, rather than NantKwest itself.” PTO.EnBanc.Br.24 (emphasis in original).

First, this justification ignores that in the face of the PTO *never* seeking attorneys’ fees, Congress mandated that the PTO become an entirely user-funded agency *without amending* § 145 to authorize attorneys’ fees.

Second, this justification ignores the fact that through the fee-setting provisions of the Leahy-Smith America Invents Act, Congress already provided the mechanism through which the PTO is to recover the attorneys’ 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 attorneys’ fees sought here—through fees charged to applicants.²¹

²¹ The PTO purportedly dislikes § 145 proceedings because “[a]n applicant’s choice to proceed under § 145 [] diverts the agency’s resources from the USPTO’s principal mission of examining patent and trademark applications.” PTO.EnBanc.Br.23. However, the PTO acknowledges that § 145 proceedings are, “in fact and necessarily, a part of the application for the patent.” PTO.EnBanc.Br.34 (quotation marks omitted).

This justification in fact reveals what appears to be the PTO's true intention. "These high and uncertain costs will likely deter applicants, particularly solo inventors and other smaller entities, from pursuing review under § 145." *Nantkwest*, 860 F.3d at 1365-66 (Stoll, J., dissenting). Far from an "unconditional compensatory charge imposed on a dissatisfied applicant who elects to engage" the PTO in *de novo* district court proceedings, *see* PTO.EnBanc.Br.31, the attorneys' 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 USPTO 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. *See id.* at 24 (emphasis in original).

The panel and the PTO also cite to the need to deter applicant gamesmanship, discussed in *Hyatt*, as a justification for requiring applicants to pay the PTO's attorneys' fees. *NantKwest*, 860 F.3d at 1355; PTO.EnBanc.Br.24. *Hyatt*, however, was decided against a backdrop where, for 170 years, the PTO had only interpreted § 145 as permitting an award of expenses other than attorneys' fees; that is, the Court assumed that the non-attorney-fee "expenses" for which applicants were already responsible provided a sufficient deterrent effect. *See Hyatt*, 625 F.3d at 1337; *cf. Cook*, 208 F.2d at 530 (noting how requiring applicants to pay the PTO's expenses, sans attorneys' fees, was "harsh"). Indeed

the “expenses” traditionally sought by the PTO—expert fees, court reporter fees, deposition travel expenses, and printing expenses—can themselves “be significant and pose a ‘heavy economic burden’ in district court litigation.” *NantKwest*, 860 F.3d at 1366 (Stoll, J., dissenting).

Even if § 145 (properly construed to exclude attorneys’ fees) did not already function as a deterrent, it is not at all clear that there is anything to deter. When the Supreme Court considered the Director’s arguments concerning gamesmanship in *Hyatt*, it found the hypothetical to be “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.” *Hyatt*, 566 U.S. at 445.

Regardless, no amount of purported financial hardship on patent applicants that do not pursue § 145 appeals 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, “*Congress has not granted us ‘roving authority ... to allow counsel fees ... whenever [we] might deem them warranted.’*” *Baker Botts*, 135 S. Ct. at 2169 (emphasis added) (quoting *Alyeska Pipeline*, 421 U.S. at 260). Courts must “follow the text even if doing so will supposedly ‘undercut a basic objective of the statute.’” *Id.* (quotation marks omitted).

Furthermore, policy considerations just as easily counsel rejecting the PTO's newfound theory for attorneys' fees. *See, e.g., NantKwest*, 860 F.3d at 1365 (Stoll, J., dissenting) ("The maintenance of a robust American Rule also finds support in public policy."). 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 attorneys' fees and expenses and the unpredictable attorneys' fees and expenses that the PTO elects to incur. This is precisely the problem the American Rule remedies.

II. The American Rule Applies *Whenever* A Litigant Seeks To Have Another Pay His Attorneys' Fees

As § 145 contains no "specific and explicit" language authorizing an award of attorneys' fees, the PTO attempts to sidestep the American Rule altogether. It argues that "the American Rule has no application to a statute," like § 145, "that does not shift attorney's fees from prevailing parties to losing parties." PTO.EnBanc.Br.30. In doing so, the PTO relies not on the panel—while it expressed "substantial doubts," the panel assumed that the American Rule applied, *NantKwest*, 860 F.3d at 1355—but instead relies on the Fourth Circuit's decision in *Shammas*. PTO.EnBanc.Br.30-31.

That decision is premised on the proposition that the American Rule is applicable only when a statute shifts fees to a prevailing party. *Shammas*, 784 F.3d at 223. But the Supreme Court's subsequent decision in *Baker Botts* makes clear

that the American Rule applies *whenever* a litigant seeks to have another pay his attorneys' fees. *Baker Botts*, 135 S. Ct. at 2164 (stating the rule as “[e]ach litigant pays his own attorney’s fees, win or lose, unless a statute or contract provides otherwise”). Indeed, the American Rule is actually at its *strongest* when a statute is argued to shift fees regardless of who prevails. *Id.*

A. The Shammass Decision Erroneously Rejected The American Rule

In 2013, for the first time, the PTO sought and was awarded attorneys' fees as a component of its “expenses” pursuant to § 145’s trademark analog § 1071(b)(3). *Shammass v. Focarino*, 990 F. Supp. 2d 587, 594 (E.D. Va. 2014).

That provision 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 a divided decision, the Fourth Circuit affirmed. *Shammass*, 784 F.3d at 221. The *Shammass* majority reasoned that the American Rule *did not apply* to § 1071(b)(3). *Id.* at 223. The Fourth Circuit held 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.* Because § 1071(b)(3) “mandates the payment of attorneys fees without regard to a party’s success,” the court reasoned, it “is not a fee-shifting statute that operates against the backdrop of the American Rule.” *Id.*

This was error. The American Rule’s settled presumption that parties shall bear their own legal fees applies to all potential fee-shifting statutes. The Supreme Court has never intimated otherwise.²² Indeed, the Supreme Court has recognized that 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’s presumption applies. *Id.*

In fact, the Supreme Court rejected the PTO’s “prevailing party” argument in *Hardt*. There, the Supreme Court evaluated a fee-shifting statute, 29 U.S.C. § 1132(g)(1), that unambiguously authorized the court, in its discretion, to award attorneys’ fees to “either party.” *Id.* at 251; *see also* 29 U.S.C. § 1132(g)(1) (“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

²² *Buckhannon Bd. & Care Home*, 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 hold that the American Rule only applies in the context of prevailing parties. These cases simply make the uncontroversial point that statutes departing from the American Rule typically award attorneys’ fees to a prevailing party, and in certain instances, only in exceptional cases. *See also Baker Botts*, 135 S. Ct. at 2164 (noting that statutes recognized to depart from the American Rule “usually refer to a ‘prevailing party’”) (emphasis added).

either party.”). At issue was “[w]hether § 1132(g)(1) limits the availability of attorney’s fees to a ‘prevailing party.’” *Hardt*, 560 U.S. at 251. The Supreme Court held that, under the plain language of the statute, “a fee claimant need not be a ‘prevailing party’ to be eligible for an attorney’s fees award under § 1132(g)(1).” *Id.* at 252.

That, however, was not the end of the analysis. Because § 1132(g)(1) was by its text discretionary, the Supreme Court “next consider[ed] the circumstances under which a court may award attorney’s fees pursuant to § 1132(g)(1).” *Id.* The Supreme Court’s “‘basic point of reference’” in making this determination was the “‘bedrock principle known as the ‘American Rule.’” *Id.* at 252-53 (quoting *Ruckelshaus*, 463 U.S. at 683-84). As the Supreme Court noted, 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. at 253 (emphasis added) (footnotes omitted). Accordingly, the Supreme Court analyzed § 1132(g)(1) “*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 (emphasis added).

Were the PTO and Fourth Circuit correct that the American Rule has no relevance to a statute that, like § 145 and § 1132(g)(1), does not purport to condition an award of fees upon the party prevailing, the Supreme Court's American Rule analysis would have been entirely unnecessary. The Supreme Court had already found that "a fee claimant *need not be a 'prevailing party'* to be eligible for an attorney's fees award under § 1132(g)(1)." *Id.* at 252 (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). The American Rule is a general presumption that does not depend on a party's status as a winner or loser.

The Supreme Court's language in both *Hardt* and *Hensley* is unambiguous. It is not the case that, as the *Shammas* majority erroneously 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.

In an attempt to create ambiguity where none exists, the PTO continues to argue 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.EnBanc.Br.37 (referring to *Sebelius v. Cloer*, 569 U.S. 369 (2013)).

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 371 (emphasis added) (quoting 42 U.S.C. §§ 300aa-15(e)(1)). Attorneys’ fees were explicitly and specifically “provided, not only for successful cases, but even for unsuccessful claims that are not frivolous.” *Id.* at 374 (quotation marks omitted).

The Court analyzed “whether an *untimely* petition can garner an award of attorney’s fees.” *Id.* at 371-72 (emphasis added). While the Supreme Court did “not [] mention” the American Rule explicitly, *see* PTO.EnBanc.Br.37, the Supreme Court *did* consider the American Rule but found that the Vaccine Act’s language—providing for “reasonable attorneys’ fees and other costs incurred in any proceeding on [a] petition,” *see id.* at 374—could support such an award. *Id.* at 380 (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 ... is eligible for an award of attorney’s fees.”) (emphasis added) (citation omitted) (quoting *Barnhart v. Sigmon Coal Co.*, 534 U.S. 438, 450 (2002)). In light of this language, the Court rejected the Government’s argument that “the ‘presumption favoring the retention of long-established and familiar [common-law] principles’” prohibited an award. *Id.* (alteration in original) (quoting Br. for Pet’r at 32). As the Court stated, “[t]hese ‘rules of thumb’ give way when ‘the words of a statute are unambiguous,’ as they are here.” *Id.* at 381 (quoting *Conn. Nat’l Bank v. Germain*, 503 U.S. 249, 253-54 (1992)).

The “presumption favoring the retention of long-established and familiar common-law principles” that the Supreme Court found “g[ave] way” to the unambiguous and explicit 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 Pet’r at 32-33 in *Sebelius v. Cloer*, No. 12-236 (S. Ct. Jan. 4, 2013) (emphasis added). While the Supreme Court did “not [] mention” the American Rule explicitly, PTO.EnBanc.Br.37, the Supreme Court did consider the American Rule, but found that the Vaccine Act “unambiguous[ly]” authorized the attorneys’ fees sought. *Sebelius*, 569 U.S. at 381.

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

Before *Shammas*, the Supreme Court had made clear that a deviation from the American Rule’s presumption against fee-shifting requires explicit statutory authorization, irrespective of whether that explicit authorization applies to “prevailing part[ies]” or otherwise. *Hardt*, 560 U.S. at 253-54; *Hensley*, 461 U.S. at 443 n.2. And *Sebelius* did nothing to change this. However, even if the PTO were correct that *Shammas* and *Sebelius* supported its position (they do not), the

Supreme Court has since made clear that the American Rule applies to statutes, like § 145, that do not reference prevailing parties.

In *Baker Botts*, the Court analyzed various provisions of the Bankruptcy Code. Pursuant to 11 U.S.C. § 327(a), a bankruptcy trustee may employ “one or more attorneys ... to represent or assist the trustee in carrying out the trustee’s duties under this title.” And 11 U.S.C. § 330(a)(1) provides compensation for those attorneys:

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).²³ Like

²³ Notably, the Supreme Court did not consider whether the attorneys’ fees sought were compensable as “reimbursement for actual, necessary expenses” pursuant to § 330(a)(1)(B). See generally *Baker Botts*, 135 S. Ct. 2158 (2015).

§ 145, this provision does not condition such awards upon success. *Baker Botts*, 135 S. Ct. at 2166 (declining to authorize attorneys’ fees in part because doing so “would allow courts to pay professionals for arguing for fees they were found never to have been entitled to in the first place”); *see also NantKwest, Inc. v. Matal*, 860 F.3d at 1355 n.3 (noting that “the statute made no reference to prevailing parties”).

There was no dispute that the language at issue in *Baker Botts* entitled attorneys *serving* the debtor to reasonable attorneys’ fees incurred. *Baker Botts*, 135 S. Ct. at 2165 (“No one disputes that § 330(a)(1) authorizes an award of attorney’s fees” for “actual, necessary services rendered” to an estate administrator). Rather, at issue was whether that language authorized courts to award attorneys’ fees for work performed defending a fee application, i.e., for work performed *adverse* to the trustee. *Id.* at 2163.

The Supreme Court held that it did not. And it did so by analyzing the statute under the American Rule. *Id.* at 2164 (beginning its analysis by noting that “[o]ur 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.”) (*quoting Hardt*, 560 U.S. at 252-53). The Supreme Court reiterated that the American Rule’s presumption against fee shifting could only be overcome by

“specific and explicit provisions for the allowance of attorneys’ fees,” *id.*, and held that statute’s provision for “*reasonable compensation for actual, necessary services rendered by the ... attorney*” to the trustee did not displace the American Rule’s presumption because the statute “neither specifically nor explicitly authorizes the courts to shift the costs of adversarial litigation from one side to the other.” *Id.* at 2165 (emphasis added). While the statute was sufficiently clear to permit an award for services rendered by attorneys to the estate, it did not permit an award for defending a fee *against* the estate. *Id.* That is, the Court held that the attorneys could not recover fee awards under § 330(a)(1)—a statute that, like § 145, does not precondition a fee award upon success—because the text was not sufficiently specific and explicit to overcome the American Rule.

The Court did not stop there. It noted the practical effect of adopting the claimants’ interpretation of the statute: Under the claimants’ theory, they would be entitled to fees even for *unsuccessful* fee-defense litigation, given that the statute made no reference to a prevailing party. *Id.* at 2166. The Court noted that such a statute would represent “a particularly unusual deviation from the American Rule” because “[m]ost 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.* (quotation marks omitted). 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,” the presumption against awarding attorneys’ fees applied. *Id.* (emphasis added).

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. 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 illogically asserts that “[s]ection 145 ... involves exactly such an unusual scheme, and “[t]he American Rule has no bearing on such a scheme.” PTO.EnBanc.Br.36. But the Supreme Court did not assert that shifting fees without regard to who prevails is an unusual scheme in the abstract, but rather that it is “a particularly unusual deviation *from the American Rule.*” *Baker Botts*, 135 S. Ct. at 2166 (emphasis added). In answering “whether [§ 330(a)(1)] also permitted a supplemental award of attorney’s fees for defending the fee application itself against the estate’s trustee” even if that fee defense was unsuccessful, PTO.EnBanc.Br.35, the Supreme Court *was* applying the American Rule. And because § 330(a)(1) did not specifically or explicitly provide for the recovery of

attorneys' fees in the context of adversarial litigation, the American Rule's presumption was not overcome. *Baker Botts*, 135 S. Ct. at 2165-66.

While the panel ultimately applied the American Rule, it registered "significant doubts" as to the rule's applicability and questioned NantKwest's reliance on *Baker Botts*. *NantKwest*, 860 F.3d at 1355 & n.3. According to the panel:

Baker Botts, however, 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 as Nantkwest contends. Rather, it demonstrates that a statute must meet these requirements before a party may recover its fees when attempting to extend its reach to ancillary litigation Congress never intended.

Id. at 1355. This analysis, however, is circular. Whether a statute provides for fee shifting is what American Rule analysis illuminates; fee-shifting is not a precondition for applying the American Rule in the first place. And there is no meaningful difference between the panel's understanding that "a statute must meet [the American Rule's requirements] before a party may recover its fees," and NantKwest's argument that "the American Rule's specific and explicit requirements [apply] to *all* fee statutes." *Id.* at 1355. Both require a specific and explicit authorization to award attorneys' fees. Section 145 neither specifically nor explicitly authorizes such an award.

CONCLUSION

That for nearly two-centuries the PTO has never before even sought attorneys' fees under §145 (or its predecessors) confirms that it is far from clear that "[a]ll the expenses of the proceedings" authorizes an award of such fees. Because § 145 and its reference to "[a]ll the expenses of the proceedings" provides no specific or explicit authorization for an award of attorneys' fees, the PTO's recent efforts to recover the same should be denied. The district court's decision should be affirmed.

Dated: January 16, 2018

Respectfully submitted,

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I, Morgan Chu, certify that on January 16, 2018, a copy of the **EN BANC 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 13,457 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.

Dated: January 16, 2018

/s/ Morgan Chu
Morgan Chu

2016-1794

**United States Court of Appeals
for the Federal Circuit**

NANTKWEST, INC.,

Plaintiff-Appellee,

v.

JOSEPH MATAL, Performing the Functions and Duties of
the Under Secretary of Commerce for Intellectual Property and
Director, U.S. Patent and Trademark Office,

Defendant-Appellant.

*Appeal from the United States District Court for the Eastern District of
Virginia in No. 1:13-cv-01566-GBL-TCB, Judge Gerald Bruce Lee.*

**CORRECTED BRIEF OF INTELLECTUAL PROPERTY
OWNERS ASSOCIATION AS AMICUS CURIAE IN
SUPPORT OF PLAINTIFF-APPELLEE**

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UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUITNantKwest, Inc.

v.

Matal,Case No. 2016-1794**CERTIFICATE OF INTEREST**

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(petitioner) (appellant) (respondent) (appellee) (amicus)

(name of party)

Intellectual Property Owners Association

certifies the following (use "None" if applicable; use extra sheets if necessary):

1. Full Name of Party Represented by me	2. Name of party in interest (Please only include any real party in interest NOT identified in Question 3) represented by me is:	3. Parent corporations and publicly held companies that own 10% or more of stock in the party
Intellectual Property Owners Association	Intellectual Property Owners Association	None

4. The names of all law firms and the partners or associates that appeared for the party or amicus now represented by me in the trial court or agency or are expected to appear in this court (**and who have not or will not enter an appearance in this case**) are:

None

5. The title and number of any case known to counsel to be pending in this or any other court or agency that will directly affect or be directly affected by this court's decision in the pending appeal. See Fed. Cir. R. 47.4(a)(5) and 47.5(b).

None

January 16, 2018

Date

/s/ Gregory A. Castanias

Signature of counsel

Please Note: All questions must be answered

Gregory A. Castanias

Printed name of counsel

cc: Counsel of record via CM/ECF

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Intellectual Property Owners Association (“IPO”) submits this brief as an *amicus curiae* pursuant to Federal Rule of Appellate Procedure 29, Federal Circuit Rule 29, and the Court’s Order dated August 31, 2017, authorizing *amicus* briefs in this case. This brief supports NantKwest, Inc.’s position.

INTEREST OF AMICUS CURIAE

IPO is a trade association representing companies and individuals in all industries and fields of technology that own or are interested in intellectual-property rights.¹ IPO’s membership includes nearly 200 companies and more than 10,000 individuals who are involved in the association either through their companies or as an inventor, author, executive, law firm, or attorney member. IPO regularly represents the interests of its members before Congress and the United States Patent and Trademark Office (the “Patent Office”) and has filed *amicus curiae* briefs in this Court and other courts on significant issues of intellectual-property law. The members of IPO’s Board of Directors, which approved the filing of this brief, are listed in the Appendix.²

¹ No counsel for a party authored this brief in whole or in part, and no counsel for a party made a monetary contribution intended to fund the preparation or submission of this brief. IPO files this brief in accordance with the Order issued on August 31, 2017, which states that briefs may be filed without consent or leave of the Court.

² IPO procedures require approval of positions in briefs by a two-thirds

Many of IPO's members, individual inventors and corporations alike, are involved in obtaining patents in the normal course of their businesses. Adopting the view of the now-vacated panel decision in *Nantkwest, Inc. v. Matal*, 860 F.3d 1352 (Fed. Cir.), *reh'g en banc granted, opinion vacated*, 869 F.3d 1327 (Fed. Cir. 2017), will expose individual inventors and corporations to uncertain and potentially crushing attorneys' fees should they exercise their statutory right to seek district-court relief under 35 U.S.C. § 145 and chill their opportunity to seek *de novo* review in the district courts from adverse patentability decisions by the Patent Office.

majority of directors present and voting.

SUMMARY OF THE ARGUMENT

Section 145's final sentence, providing that "[a]ll the expenses of the proceedings shall be paid by the applicant" in civil actions to obtain a patent, does not provide the "explicit statutory authority" needed to overcome "the bedrock principle known as the American Rule: Each litigant pays his own attorney's fees, win or lose." *Baker Botts LLP v. ASARCO LLC*, 135 S. Ct. 2158, 2164 (2015). In 1839, when the predecessor statute to 35 U.S.C. § 145 was enacted, and continuing to this day, "expenses" of litigation proceedings have been generally understood as distinct from "attorneys' fees." Consistent with this understanding, when Congress wishes to allow for fee shifting, it does so clearly, by calling out "attorneys' fees" explicitly, and in a manner typically separate from "expenses." Moreover, even when Congress intends to view attorneys' fees as a component of "expenses," Congress explicitly calls out "attorneys' fees" as a component of such expenses. Section 145 contains no reference whatsoever to "attorneys' fees" or anything equally clear; Congress did not silently intend such fees to be shifted as part of "the expenses of the proceeding."

For 174 years, this was the Patent Office's uniform practice and understanding. But in 2013, that Office adopted what it admits is a "novel," and aggressive, interpretation of section 145's final sentence. This late-coming interpretation is wrong as a legal matter and threatens to impose a serious financial

burden upon patent applicants. In many cases, particularly for individual inventors and small- and micro-entities, the burden can be crippling: These inventors and entities would not only have to pay for their own counsel, but, under the Patent Office's interpretation, they would have to pay for the government's defense as well just to gain access to the federal district courts—even where the Patent Office's decisions are found to be wrong. Requiring the payment of the Patent Office's attorney's fees will also chill the rights of such inventors to seek *de novo* review in district court. The statutory language, history, common sense, and good patent policy all compel rejection of the Patent Office's interpretation of section 145.

ARGUMENT

I. “ALL THE EXPENSES OF THE PROCEEDINGS,” AS USED IN SECTION 145 OF THE PATENT ACT, DOES NOT INCLUDE ATTORNEYS' FEES

The American Rule's presumption that litigants pay their own attorneys' fees applies and is not overcome by section 145.

A. “The Bedrock Principle Known As The American Rule” Applies

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.”

Baker Botts, 135 S. Ct. at 2164 (quoting *Hardt v. Reliance Standard Life Ins. Co.*,

560 U.S. 242, 252-53 (2010)). The Supreme Court has “recognized departures from the American Rule only in ‘specific and explicit provisions for the allowance of attorneys’ fees under selected statutes.’” *Id.* (quoting *Alyeska Pipeline Serv. Co. v. Wilderness Soc’y*, 421 U.S. 240, 260 (1975)). Statutes that depart from the American Rule “tend to authorize the award of ‘a reasonable attorney’s fee,’ ‘fees,’ or ‘litigation costs,’ and usually refer to a ‘prevailing party’ in the context of an adversarial ‘action.’” *Id.* The Patent Act is no exception. *See Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749, 1753 (2014) (“Prior to 1946, the Patent Act did not authorize the awarding of attorney’s fees to the prevailing party in patent litigation. Rather, the ‘American Rule’ governed.”).

The vacated panel decision here expressed “substantial doubts” whether section 145 even implicates the American Rule, because there is “no reference to prevailing parties.” *Nantkwest*, 860 F.3d at 1355 (citing *Shammas v. Focarino*, 784 F.3d 219, 223 (4th Cir. 2015)). The Patent Office likewise makes much of the fact that section 145 applies independent of a prevailing party. *See Br. for Appellant on Rehearing En Banc at 30-37, NantKwest, Inc. v. Matal*, No. 16-1794 (Fed. Cir. Nov. 15, 2017) (“Patent Office Br.”).

That logic is exactly backwards. Supreme Court precedent both before and after *Shammas* (Apr. 23, 2015) is clear that the presumption of the American Rule is only *stronger* where the award of fees would be independent of prevailing-party

status. In *Ruckelshaus v. Sierra Club*, the Supreme Court explained that “when Congress has chosen to depart from the American rule by statute, *virtually every one* of the more than 150 existing federal fee-shifting provisions predicates fee awards on some success by the claimant.” 463 U.S. 680, 684 (1983) (emphasis added). The Solicitor General in that case declared that his office “ha[d] not found” any case to the contrary and noted that Congress rejected a proposal to allow for such fees in the Equal Access for Justice Act, because it was “‘radical’ and ‘unacceptable.’” Br. for Petitioner, *Ruckelshaus v. Sierra Club*, 463 U.S. 680 (1983) (No. 82-242), 1982 U.S. S. Ct. Briefs LEXIS 920, at *24; *id.* at n.6 (quoting *Equal Access to Courts: Hearing on S. 2354 Before the Senate Subcomm. on Improvements in Judicial Machinery of the Comm. on the Judiciary, 95th Cong., 2d Sess.* 31 (1978)). *Baker Botts* similarly explained that statutes that depart from the American Rule “usually refer to a ‘prevailing party.’” 135 S. Ct. at 2164 (June 15, 2015). As a consequence, it would be “particularly unusual” to conclude, as the Patent Office suggests here, that it should be compensated for attorneys’ fees for an “*unsuccessful* defense.” *Id.* at 2166.

In trying to shore up its position, the Patent Office describes the American Rule as providing that “‘the prevailing litigant is ordinarily not entitled to collect a reasonable attorneys’ fee from the loser.’” Patent Office Br. at 30-31 (quoting *Alyeska*, 421 U.S. at 247). The Patent Office interprets this to mean that the

American Rule’s presumption against attorneys’ fees is limited to statutes that depend on a “loser.” *Id.* But that is incorrect: *Alyeska* presented an *application* of what the American Rule prohibits, but it never suggested that the American Rule is *limited* to fee shifting from the loser. The Supreme Court has been clear and consistent in holding that the American Rule simply means this—no fee shifting. Under the ““American Rule: Each litigant pays his own attorney’s fees, win or lose, unless a statute or contract provides otherwise.”” *Baker Botts*, 135 S. Ct. at 2164 (quoting *Hardt*, 560 U.S. at 243). That definition does not depend on a losing party. Any shifting of attorneys’ fees, whether premised on success or not, is in derogation of the presumption created by the American Rule that “[e]ach litigant pays his own attorney’s fees.”

B. Section 145 Does Not Provide The “Explicit Statutory Authority” Required To Deviate From The American Rule

The American Rule can be overcome only with “explicit statutory authority.” *Baker Botts*, 135 S. Ct. at 2164. Section 145 is not that. Its last sentence contains only an oblique reference to “all the expenses of the proceeding,” a phrase that is at best ambiguous as to attorneys’ fees. The sentence’s further limitation to “expenses of the proceeding” makes it outright clear that attorneys’ fees are not to be shifted under this section.

1. **“Expenses” Is At Best Ambiguous As To Attorneys’ Fees**

In the first half of the nineteenth century, when the 1839 predecessor to section 145 was first enacted, American courts and litigants alike commonly spoke of “expenses” as being separate from “attorneys’ fees.” *See Morris v. Way*, 1847 WL 65, at *1 (Ohio Dec. 1847) (referring to a statement of accounts that listed “attorney’s fees and expenses”); *Hayden v. Sample*, 10 Mo. 215, 221 (1846) (defendant asking that the jury be instructed to ignore the testimony regarding “the expenses incurred . . . and the fees paid counsel and attorneys”); *Anderson v. Farns*, 7 Blackf. 343, 343 (Ind. 1845) (citing the party’s request for indemnity from all “attorney’s fees, and expenses”); *State v. Williams*, 1844 WL 53, at *2 (Ohio Dec. 1844) (providing that trustees had the authority to settle “the expense of prosecuting suits, attorney’s fees, etc.”); *Bishop v. Day*, 13 Vt. 81, 83 (1841) (referencing a contract that required that one party “fully indemnify and save harmless the said Benjamin from any costs, lawyers’ fees, and expenses he may have been at in the business aforesaid”); *Overton v. Overton’s Adm’r*, 10 La. 472, 473 (1836) (noting that the defendant claimed damages of “eight hundred dollars damages, for attorneys’ fees, by this proceeding, and one hundred dollars for costs and expenses”); *Hickman v. Quinn*, 14 Tenn. 96, 107 n.1 (1834) (noting that defendants had deducted “their expenses, attorney’s fees, etc.”).

That understanding continues to this day, where courts regularly hold that “[t]he terms ‘costs’ or ‘expenses’ when used in a statute do not ordinarily include attorney’s fees.” *Ark. Dep’t of Human Servs., Div. of Econ. & Med. Servs. v. Kistler*, 320 Ark. 501, 509 (1995); *see Tracy v. T & B Constr. Co.*, 182 N.W.2d 320, 322 (S.D. 1970) (“Ordinarily the terms ‘costs’ and ‘expenses’ as used in a statute are not understood to include attorney’s fees.” (citations omitted)); *accord McAdam v. Dean Witter Reynolds, Inc.*, 896 F.2d 750, 774 (3d Cir. 1990); *Wolf v. Mut. Ben. Health & Accident Ass’n*, 188 Kan. 694, 700 (1961); *Prudential Ins. Co. of Am. v. Goldsmith*, 239 Mo. App. 188, 197 (1945); *Hardware Mut. Cas. Co. v. Butler*, 116 Mont. 73 (1944); *Hayman v. Morris*, 37 N.Y.S.2d 884, 891 (Sup. Ct. 1942).

Congress, too, understands that “expenses” do not include attorneys’ fees. When Congress wishes to award attorneys’ fees, it does so expressly—using the words “attorneys’ fees.” There are at least eight instances in title 12 of the United States Code alone where Congress allows “reasonable expenses and attorneys’ fees” (with “attorneys’ fees” expressly listed separately). *See* 12 U.S.C. §§ 1464(d)(1)(B)(vii); 1786(p); 1818(n); 1844(f); 2273; 3108(b)(5); 4588(d); 4641(d). Other titles of the Code disclose similar usage. *See, e.g.*, 11 U.S.C. § 363(n) (a trustee may recover certain “costs, attorneys’ fees, or expenses”); 15 U.S.C. § 77z-1(a)(6) (restricting “attorneys’ fees and expenses” in certain class-

action securities litigations). Likewise, when the Patent Act wishes to allow “attorneys’ fees,” it provides for them explicitly. *See* 35 U.S.C. §§ 271(e)(4); 273(f); 285; 296(b); 297(b)(1); *see also* 15 U.S.C. § 1117(a)(3) (allowing “attorney fees” in exceptional trademark cases).

To be sure, some statutes define “expenses” as including attorneys’ fees, but they do so explicitly, by using the phrase “attorneys’ fees.” *See, e.g.*, 12 U.S.C. § 5005(b)(2) (allowing “interest and expenses (including costs and reasonable attorney’s fees and other expenses of representation)”); 12 U.S.C. § 5009(a)(1)(B) (same). This is true even for statutes that use the inclusive “all expenses,” such as 50 U.S.C. § 4531(b)(4) (requiring reimbursement “for all expenses . . . including . . . attorneys’ fees and expenses of litigation”). “These statutes confirm that Congress knows how to” award attorneys’ fees “when it so desires,” *Marx v. Gen. Revenue Corp.*, 568 U.S. 371, 384 (2013), and confirms that Congress did not see the word “expenses,” standing on its own—or even preceded by the inclusive “all”—as unambiguously including attorneys’ fees. Thus, the word “expenses” and the phrase “all the expenses,” on their own, are not the “specific and explicit provisio[n]” required to depart from the American Rule. *Baker Botts*, 135 S. Ct. at 2161 (quoting *Alyeska*, 421 U.S. at 260).

The Patent Office ignores the need for specific and explicit provisions, and argues that the fact that Congress sometimes expressly provides for “expenses,

including attorneys' fees . . . establish[es] that the term 'expenses' includes attorney's fees." Patent Office Br. at 18. That is exactly the wrong inference to draw. Rather, those statutes demonstrate that when Congress wishes to shift attorneys' fees, it either lists them as separate from "expenses," or, at least, expressly defines "expenses" as "including attorneys' fees."

Moreover, by the Patent Office's logic, "costs" would also include attorneys' fees, as there are no fewer than 63 different statutes that refer to "attorney's fees" as "costs." *Marek*, 473 U.S. at 44-48 (Brennan, J., dissenting) (cataloguing statutes). Yet, even the Patent Office concedes that the unelaborated term "costs" does not encompass attorneys' fees. Patent Office Br. at 17.

For similar reasons, the Patent Office places too much weight on the 1836 Patent Act's provision requiring that patent-application fees be paid into a "patent fund" to pay "'expenses of the Patent Office,' including 'the salaries of the officers and clerks herein provided for.'" Patent Office Br. at 27 (quoting Act of July 4, 1836, 5 Stat. 117, 121 § 9). That broad usage of the word "expenses," in a statute making no reference to litigation or fee shifting—and thus not implicating the strong presumption of the American Rule—simply confirms that the word "expenses," on its own, "is broad enough to encompass" attorneys' fees, but it "does not establish that the word is *ordinarily* understood in that sense."

Taniguchi v. Kan Pac. Saipan, Ltd., 566 U.S. 560, 568 (2012) (emphasis in

original). Where attorneys' fee shifting is sought, a clearer and more definitive statement than simply "expenses" is required to derogate from the American Rule.

The sources introduced by the Patent Office similarly do not aid its cause. In terms of treatises, the Patent Office cites 10 CHARLES ALAN WRIGHT ET AL., FEDERAL PRACTICE AND PROCEDURE § 2666 (3d ed. 1998) ("WRIGHT"), BLACK'S LAW DICTIONARY 698 (10th ed. 2014) ("BLACK'S 10TH EDITION"), and NOAH WEBSTER, AMERICAN DICTIONARY OF THE ENGLISH LANGUAGE (1st ed. 1828) ("WEBSTER"). Patent Office Br. at 17. WEBSTER is not a legal dictionary at all, and the other two references are not even close to contemporaneous with the 1839 enactment of the original provision allowing "expenses." And all three suffer from the inherent limitation of a dictionary definition—the absence of statutory context. Although "expenses," standing alone, might include "expenditures of money, time, labor, or resources," as the Patent Office argues, when it is used in the context of litigation, it refers to something quite different than attorneys' fees—particularly when the background expectation of the American Rule establishes that attorneys' fees are not ordinarily shifted.

There are, fortunately, dictionaries that provide more contextual definitions. The First Edition of Black's Law Dictionary, published in 1891—which is at least closer to contemporaneous with the statute—defines "*Expensæ Litis*" (literally, "expenses of litigation," which is similar to section 145's "expenses of the

proceeding”) as “Costs or expenses of the suit, which are generally allowed to the successful party.” BLACK’S LAW DICTIONARY 461 (1st ed. 1891) (“BLACK’S 1ST EDITION”). James Whishaw’s 1829 dictionary, which is even more contemporaneous with the 1839 statute, likewise translates “*Expensæ Litis*” as “costs of suit allowed a plaintiff or defendant recovering in his action.” JAMES WHISHAW, A NEW LAW DICTIONARY 14 (1829). BLACK’S 1ST EDITION and WHISHAW’s “generally allowed” costs do not include attorneys’ fees. *See Baker Botts*, 135 S. Ct. at 2164 (explaining that the presumption against fee shifting “reach[es] back to at least the 18th century”).

2. Attorneys’ Fees Are Not Expenses “Of The Proceeding”

Any lingering doubt about section 145’s interpretation is quickly removed by the sentence’s further requirement that expenses be limited to those “of the proceeding.” By its terms, section 145 only applies to variable expenses that exist because “of the proceeding.” That has been understood as including “[r]easonable printing expenses,” and “traveling expenses.” *See Cook v. Watson*, 208 F.2d 529, 531 (D.C. Cir. 1953); *Robertson v. Cooper*, 46 F.2d 766, 769 (4th Cir. 1931). But for “the proceeding,” those expenses would not exist. By contrast, the attorneys’ fees or the prorated salaries of the Patent Office’s attorneys are not “of the proceeding.” The Patent Office pays its attorneys the same salary whether the attorneys work on this case, another case, or no case at all. The salaries are fixed.

The Patent Office makes much of the inclusive word “all,” in section 145. *See* Patent Office Br. at 15, 40-41. But “all” is no help to the Patent Office unless “expenses of the proceeding” includes attorneys’ fees in the first place. Attorneys’ fees and prorated salaries are not. In any event, as noted above, even Congress understands that “all expenses”—with no reference to “of the proceeding”—needs further clarification to include attorneys’ fees. *See* 50 U.S.C. § 4531(b)(4).

3. Historically, Section 145 Has Been Understood As Not Allowing Attorneys’ Fees

The Patent Office has been authorized to collect its “expenses” in district-court patent cases since 1839, and in district-court trademark cases since at least 1905. *See* 5 Stat. 353-355 § 2 (1839); *Am. Steel Foundries v. Robertson*, 262 U.S. 209 (1923) (holding that the Trademark Act of 1905, 33 Stat. 724, 727, allowed disappointed trademark applicants to seek district court relief under the same conditions as patent applicants); *see also* 15 U.S.C. § 1071 (1946) (providing that disappointed trademark applicants could rely on proceedings similar to those permitted in patent cases).

Yet, it was only in 2013 that the Patent Office first suggested that either of these “expenses” provisions allows attorneys’ fees. *See* Defendant’s Motion for Fees & Expenses, *Shammas v. Focarino*, 990 F. Supp. 2d 587 (E.D. Va. 2014) (No. 1:12-cv-1462), ECF No. 44 (Nov. 11, 2013). As the Patent Office effectively

concedes, for the previous *174 years* it had never sought attorneys' fees under statutes that, it now argues, allowed for them. *See* Patent Office Br. at 29-30 (accepting that the position it espouses is “novel” and based on “recent efforts”); Br. for Appellee at 25, *Shammas v. Focarino*, 784 F.3d 219 (4th Cir. 2015) (No 14-1191), 2014 WL 3728930, at *25 (Patent Office noting that its request for attorneys' fees in the trademark analog to section 145 created “a case of first impression” reflecting its “recent efforts” to recover personnel expenses). The Patent Office's *earlier* understanding is consistent with the fact that even the cases the Patent Office relies on to prove that the expense-shifting can be “harsh” awarded only classic expenses—not attorneys' fees. *See* Patent Office Br. at 26. *Cook* awarded “printing expenses,” 208 F.2d at 531-32, and *Robertson* awarded “traveling expenses.” 46 F.2d at 769. The Patent Office's *earlier* understanding is consistent with Justice Brennan's cataloguing of 119 statutes that allow attorneys' fees—none of which were section 145. *See Marek v. Chesny*, 473 U.S. 1, 44-51 (1985) (Brennan, J., dissenting). And the Patent Office's *earlier* understanding is consistent with the bar's understanding that “that the recovery of expenses afforded to the USPTO under [the trademark analogue to section 145] related to third-party costs, such as travel expenses or the cost of an expert,” not to “salary or other fixed operating costs of the USPTO.” Ralph G. Fischer, *Supporting Trademark Claims Up Front Is Less Expensive and Risky Than Later Appeal*, RECENT TRENDS IN

TRADEMARK PROTECTION, 2015 ED., 2015 WL 2407520, at *7. Here, as in so many cases, “a page of history is worth a volume of logic.” *New York Tr. Co. v. Eisner*, 256 U.S. 345, 349 (1921) (Holmes, J.).

C. Both The Doctrine Of Constitutional Avoidance And Basic Notions Of Fairness Preclude The Patent Office From Receiving Attorneys’ Fees

Section 145 proceedings are generally the only way that applicants can access a federal district court and introduce live testimony in support of their efforts to obtain a United States patent. *See Hyatt*, 566 U.S. at 435 (“the PTO generally does not accept oral testimony”). The importance of *live* testimony to the judicial process cannot be gainsaid. In criminal cases, the right to “live testimony” is protected by the Sixth Amendment, “because of the importance of cross-examination, the greatest legal engine ever invented for the discovery of truth.” *White v. Illinois*, 502 U.S. 346, 356 (1992) (citations omitted). In civil cases too, “[i]n almost every setting where important decisions turn on questions of fact, due process requires an opportunity to confront and cross-examine adverse witnesses.” *Goldberg v. Kelly*, 397 U.S. 254, 269 (1970). Written submissions can be inadequate, the Supreme Court has explained, because they “do not afford the flexibility of oral presentations; they do not permit the recipient to mold his argument to the issues the decision maker appears to regard as important.” *Id.* at 269; *see Oshodi v. Holder*, 729 F.3d 883, 896 (9th Cir. 2013) (en banc) (“*Mathews*

[*v. Eldridge*, 424 U.S. 319 (1976),] teaches us that cases that hinge on credibility are precisely the types of cases where the probable value of oral testimony is high and the lack of oral testimony significantly raises the risk of an erroneous decision.”). Though this Court has never ruled on the question of whether patent applicants have a constitutional right to have experts provide oral testimony, the D.C. Circuit has suggested that it would be case-dependent. *See Cogar v. Schuyler*, 464 F.2d 747, 755 (D.C. Cir. 1972) (“[I]t is our opinion that this case is not one in which a personal interview with the Examiner or other oral hearing was necessary as an element of due process.”). Certainly, the right to an oral hearing is “significant.” *Hyatt*, 566 U.S. at 435.

In light of the importance of oral testimony, the Patent Office’s “general” reluctance to “accept oral testimony,” *id.*; *see* 37 C.F.R. § 1.2, would raise Constitutional concerns but for section 145. That provision allows dissatisfied applicants to introduce live testimony in district court, and the district court then makes *de novo* findings. *Hyatt*, 566 U.S. at 435.

The Patent Office’s interpretation of section 145, however, would make such proceedings an “unrealistic option” for most applicants, which does not suffice. *Goldberg*, 397 U.S. at 269. In this case, for example, the Patent Office is asking for \$78,592.50 in attorneys and paralegals’ fees, which would nearly triple the applicant’s expenditure on the Patent Office’s fees. *See* Appx080 (Patent Office

requesting \$33,103.89 in other expenses); Appx084 (Patent Office requesting \$78,592.50 in attorneys and paralegals' fees). In the few other reported patent cases, the Patent Office has likewise asked for large sums. *See Realvirt, LLC v. Lee*, 220 F. Supp. 3d 704, 705 (E.D. Va. 2016) (\$48,454.62 in attorneys' fees); Patent Office Memorandum of Law at 4 n.2, *Taylor v. Matal*, No. 1:15-cv-1607 (E.D. Va. Sept. 22, 2017), ECF 104 (Patent Office requesting \$80,827.92 based on attorney time). The applicant would have to pay these fees "regardless of the outcome." *Hyatt v. Kappos*, 625 F.3d 1320, 1337 (Fed. Cir. 2010) (en banc), *aff'd and remanded*, 566 U.S. 431 (2012). This will deter applicants from seeking district court review of the patent Office's decisions, the only opportunity that applicants have to present live evidence (expert testimony, demonstrations, or fact witness testimony) and get a *de novo* review of their case, because they will have to pay such large fees no matter the outcome.

Effectively, the Patent Office is precluding access to federal district court, and the oral presentation of key patentability evidence, for anyone that cannot afford to pay potentially hundreds of thousands of dollars: The Patent Office does not allow expert testimony, demonstrations, or fact-witness testimony in its own proceedings and demands attorneys' fees that are prohibitively high (at least for individual inventors and smaller corporations) in section 145 proceedings. Interpreting section 145 to allow the Patent Office to effectively block an

applicant's right to introduce such evidence in person is not only unfair to applicants, it also "raise[s] serious constitutional doubts. It is therefore incumbent upon [courts] to read the statute to eliminate those doubts so long as such a reading is not plainly contrary to the intent of Congress." *United States v. X-Citement Video, Inc.*, 513 U.S. 64, 78 (1994).

The Patent Office seeks to downplay the significance of these fees by describing section 145 as "an extension of the *ex parte* patent application process" and its attorneys' fees as "a direct counterpart to the application fees that are designed to defray the PTO's examination expenses." Patent Office Br. at 33, 34. The failure of this analogy is telling.

Congress has ensured that the *ex parte* application process is affordable, tailoring reduced prices for small- and micro-entities. *See* 35 U.S.C. §§ 41(h), 123. An independent inventor who qualifies as a micro-entity pays \$70.00 for filing; \$150.00 for a utility search; and \$180.00 for an examination. If the applicant is dissatisfied with the result, she can appeal to the Board for an additional \$200. Total, \$600. (The total standard fee would be \$2,400.) *USPTO Fee Schedule*, <https://goo.gl/ELTn39> (last visited Oct. 23, 2017). If the applicant is still dissatisfied, she can appeal to this Court for an additional \$500, without having to compensate the Patent Office for the salaries of the Patent Office attorneys. *United States Court of Appeals for the Federal Circuit, Fees* <https://goo.gl/d9fNbr> (last

visited Oct. 23, 2017). (Any “costs” she might potentially have to pay under Federal Rule of Appellate Procedure 39 and Circuit Rule 39 are small and only accrue if she loses.)

Contrast this with section 145 proceedings. The cost to get a Board decision remains the same, between \$600-\$2,400. But, from there, the costs explode. Here, the Patent Office is requesting more than \$100,000. Although “expenses,” even properly construed, certainly constitute a “heavy economic burden,” *Hyatt*, 625 F.3d at 1337, the Patent Office’s approach would be outright prohibitive for individual inventors and small companies, especially given that the section 145 expense shifting applies independent of whether the applicant prevails. Congress has worked hard to ensure that the other aspects of *ex parte* examinations are affordable. The Patent Office’s suggested approach would not be.

The Patent Office’s draconian approach appears to be based on its low esteem for section 145 proceedings. Such proceedings, it believes, “divert[]” resources from its “principal mission.” Patent Office Br. at 23. The Patent Office regards section 145 proceedings as based on potential “gamesmanship” and “tactical litigation choices.” Patent Office Br. at 24, 25.

But section 145 proceedings are an important part of the Congressional design and an important avenue for applicants to present all evidence regarding the patentability of their inventions. Section 145 proceedings provide a safeguard for

applicants to present evidence (evidence often not allowed to be presented in the Patent Office) before an independent Article III judge with *de novo* review as to the patentability of their important inventions. Unlike the Patent Office’s recently espoused disdain for section 145 procedures, Congress did not seek to deter applicants from accessing such proceedings.³ Rather, section 145 is one of the “two options” Congress provided for seeking relief from adverse decisions. *Hyatt*, 566 U.S. at 434. Notably, in 1929, when the Patent Office wanted Congress to create a higher-paid position for a Solicitor, Commissioner of Patents Robertson listed three jobs the Solicitor had to fulfill: (1) arguing in the Court of Appeals; (2) “act[ing] as counsel in all suits under section 4915” (the predecessor to section 145); and (3) representing the Patent Office in mandamus actions. *Hearing on H.R. 210 To Increase the Force and Salaries in the Patent Office and for Other Purposes* at 18 (Statement of Commissioner Robertson, May 12, 1921). Congress agreed, listing those same three reasons “for giving one of the law examiners the

³ See Charles E. Miller, *The USPTO’s Ongoing Campaign to Suppress the Right to U.S. District Court De Novo Review of Administrative Decisions in Patent Applications and of the Agency’s Post-Grant Review of Issued Patents*, Metro. Corp. Counsel (Nov. 18, 2013). After the *Hyatt* decision, the Patent Office was a supporter of the repeal of section 145 proceedings. This attempt was rebuffed by the House of Representatives on the floor. See H. Amendment 526, 113th Congress (Dec. 5, 2013).

title of ‘Solicitor’ and increasing his pay.” H.R. Rep. 67-172 at 5 (1921).

Congress and Commissioner Robertson recognized section 145 proceedings as part of the Patent Office’s principal mission of ensuring adequate process before rejecting a patent application.

The Patent Office’s suggestion that section 145 proceedings should be viewed with skepticism because they are, purportedly, based on “tactical litigation choices” and “gamesmanship” is the same argument it made in *Hyatt*. It lost there, and it should lose here. The Patent Office in *Hyatt* suggested that a liberal approach to section 145 would “encourage patent applicants to withhold evidence from the PTO intentionally with the goal of presenting that evidence for the first time to a nonexpert judge,” but the Supreme Court found that “unlikely.” *Hyatt*, 566 U.S. at 445. “An 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.” *Id.* Yet the Patent Office repeats that discredited argument here, virtually *in haec verba*. Patent Office Br. at 24.

The Patent Office’s disdain for section 145 proceedings has also manifested itself in earlier attempts to chill the filing of section 145 proceedings. In 2012, the Patent Office ruled that 37 C.F.R. § 41.37 (c)(1)(iv) (“Rule 41.37”) restricted the broad scope of section 145 actions. However, Judge Trenga of the U.S. District Court for the Eastern District of Virginia rejected this attempt and held that Rule

41.37 improperly limits section 145 actions. *BTG Int'l Ltd. v. Kappos*, No. 1:12-cv-00682, 2012 WL 6082910 (E.D. Va. Dec. 6, 2012). Judge Trenga rejected the Patent Office's contention that the applicant could not offer evidence on "new issues or arguments not made before the Board" and that the applicant was entitled to "present all evidence admissible under the rules of evidence as to all claims." *Id.* at *5, *6 (footnote omitted). The request for attorneys' fees in this case is just another attempt by the Patent Office to deter the filing of section 145 actions.

D. This Court Has Already Rejected The Patent Office's Proportional-Share Approach As Not "Practical"

Perhaps recognizing the major problems with seeking market-rate attorneys' fees, the Patent Office suggests that it should receive the "the pro rata share of the salaries of the two attorneys and one paralegal who worked on the case." Patent Office Br. at 11; *see id.* at 35. These represent lost "opportunity costs," it argues. *Id.* at 19.

This Court en banc rejected such "pro rata" approaches as not "practical." *Raney v. Fed. Bureau of Prisons*, 222 F.3d 927, 934 (Fed. Cir. 2000) (en banc). *Raney* addressed the Back Pay Act, which expressly grants certain aggrieved employees "reasonable attorney fees." 5 U.S.C. § 5596. The government argued that the Back Pay Act only allowed for "the percentage of each attorney's salary that was attributable to the total number of hours worked on [the] case," similar to

its position here. *Raney*, 222 F.3d at 930. In addition to the statutory problems with this approach, this Court held en banc that there is a “practical objection” to such “pro-rata allocation.” *Id.* at 934. A proper pro-rata allocation would have to allocate not only salaries but the pro-rata “benefits for the attorneys, support services, equipment, office space, attorney recruitment, attorney training and continuing education, and administrative overhead.” *Id.* The “difficulty” in making such allocations suggests that Congress never intended such a result. *Id.*

Those very same concerns are present here, even if the Patent Office (wisely) has not yet sought prorated allocations of everything related to the attorneys’ work on the case. If prorated attorneys’ fees are allowed as expenses, why not prorated benefits for the attorneys, support services, equipment, office space, attorney recruitment, attorney training, continuing education, administrative overhead or other lost opportunity costs? Yet it would be impossible to untangle which of these expenses, fees, and costs are “of the proceeding.” 35 U.S.C. § 145. “[T]he common mandate of statutory construction to avoid absurd results,” *Rowland v. Cal. Men’s Colony, Unit II Men’s Advisory Council*, 506 U.S. 194, 200 (1993), dictates that section 145 should not be interpreted as requiring such an absurd result. (Surprisingly, the Patent Office suggests that *Raney* supports its position. *See Patent Office Br.* at 18-20.)

* * * *

The American Rule holds that each side in litigation pays for its own lawyers. To overcome that “bedrock principle,” a statute must say so in a specific and explicit provision. “All the expenses of the proceedings shall be paid by the applicant” is not such a specific and explicit provision. Accordingly, section 145 provides no basis for shifting attorneys’ fees.

CONCLUSION

For these reasons, the en banc Court should hold that “all the expenses of the proceeding” does not allow for attorneys’ fees, and affirm the order of the district court denying the Patent Office’s request for such fees.

Dated: January 16, 2018

Respectfully submitted,

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APPENDIX

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United States Court of Appeals for the Federal Circuit
Nantkwest, Inc. v. Matal, 2016-1794

CERTIFICATE OF SERVICE

I, Melissa Pickett, being duly sworn according to law and being over the age of 18, upon my oath depose and say that:

Counsel Press was retained by INTELLECTUAL PROPERTY OWNERS ASSOCIATION, Amicus Curiae to print this document. I am an employee of Counsel Press.

On **January 17, 2018**, counsel has authorized me to electronically file the foregoing **Corrected Brief of Intellectual Property Owners Association as Amicus Curiae in Support of Plaintiff-Appellee** with the Clerk of Court using the CM/ECF System, which will serve via e-mail notice of such filing to all counsel registered as CM/ECF users, including the following principal counsel for the parties:

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Thirty-one (31) paper copies will be filed with the Court within the time allowed by rule or Court order. The brief was originally filed and served on January 16, 2018.

January 17, 2018

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CERTIFICATE OF COMPLIANCE

Pursuant to Federal Rule of Appellate Procedure 32(g), the undersigned certifies that this brief complies with the type-volume limitations of Circuit Rule 32(a).

1. Exclusive of the exempted portions of the brief, as provided in Federal Rule of Appellate Procedure 32(f) and Circuit Rule 32(b), this brief includes 5,738 words.

2. This brief has been prepared in proportionally spaced typeface using Microsoft Word 2016 in 14 point Times New Roman font. As permitted by Federal Rule of Appellate Procedure 32(g)(1), the undersigned has relied on the word count of this word-processing system in preparing this certification.

Dated: January 16, 2018

/s/ Gregory A. Castanias
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Appeal No. 2016-1794

United States Court of Appeals
for the
Federal Circuit

NANTKWEST, INC.,

Plaintiff-Appellee,

– v. –

JOSEPH MATAL, Performing the Functions & Duties of the Under
Secretary of Commerce for Intellectual Property and Director,
U.S. Patent and Trademark Office,

Defendant-Appellant.

ON 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 INTERNATIONAL TRADEMARK ASSOCIATION
AS *AMICUS CURIAE* IN SUPPORT OF PLAINTIFF-
APPELLEE IN REHEARING *EN BANC***

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FORM 9. Certificate of Interest

Form 9
Rev. 10/17

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT
NANTKWEST, INC. v. JOSEPH MATAL

Case No. 2016-1794

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The International Trademark Association	The party named above in (1) is the real party in interest.	None

4. The names of all law firms and the partners or associates that appeared for the party or amicus now represented by me in the trial court or agency or are expected to appear in this court (**and who have not or will not enter an appearance in this case**) are:

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None.

1/23/2018

Date

/s Anthony J. Dreyer

Signature of counsel

Anthony J. Dreyer

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Please Note: All questions must be answered

cc: _____

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RULES

Rule 29(c)(4)(E) of the Federal Rules of Appellate Procedure 1

**IDENTITY OF *AMICUS CURIAE*, ITS INTEREST,
AND SOURCE OF AUTHORITY TO FILE¹**

Founded in 1878, *amicus curiae* The International Trademark Association (“INTA”) is a not-for-profit organization dedicated to the support and advancement of trademarks and related intellectual property concepts as essential elements of trade and commerce. INTA has more than 7,000 member organizations and 31,000 individual members in more than 190 countries. Its members include trademark and brand owners, as well as law firms and other professionals who regularly assist brand owners in the creation, registration, protection, and enforcement of their trademarks. All INTA members share the goal of promoting an understanding of the essential role that trademarks play in fostering effective commerce, fair competition, and informed decision-making by consumers.

INTA was founded in part to encourage the enactment of federal trademark legislation following invalidation on constitutional grounds of the United States’ first trademark act. Since then, INTA has been instrumental in making

¹ In accordance with Rule 29(a)(4)(E) of the Federal Rules of Appellate Procedure, *amicus curiae* states that this brief was authored solely by INTA and its counsel, and no part of this brief was authored by counsel to a party. No party or counsel for a party made a monetary contribution intended to fund the preparation or submission of this brief. No person other than *amicus curiae*, its members, and its counsel made such a monetary contribution to its preparation or submission.

recommendations and providing assistance to legislators in connection with major trademark and related legislation, and has participated as *amicus curiae* in numerous cases in courts across the country involving significant Lanham Act issues.² Moreover, INTA's members frequently participate in litigation in courts and in administrative proceedings before the United States Patent and Trademark Office ("PTO") and Trademark Trial and Appeal Board ("TTAB") with respect to actions brought under the Lanham Act, and therefore are interested in the development of clear, consistent, and equitable principles of trademark law.

² Recent Supreme Court and Circuit Court cases in which INTA has filed *amicus* briefs include, without limitation: *Matal v. Tam*, 137 S. Ct. 1744 (2017); *NantKwest, Inc. v. Matal*, 860 F.3d 1352, *vacated on grant of reh'g en banc*, 869 F.3d 1327 (Fed. Cir. 2017); *Shammas v. Focarino*, 784 F.3d 219 (4th Cir. 2015), *cert. denied*, 136 S. Ct. 1376 (2016); *Lexmark Int'l, Inc. v. Static Control Components, Inc.*, 134 S. Ct. 1377 (2014); *POM Wonderful LLC v. Coca-Cola Co.*, 134 S. Ct. 2228 (2014); *Already, LLC v. Nike, Inc.*, 568 U.S. 85 (2013); *KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc.*, 543 U.S. 111 (2004); *Dastar Corp. v. Twentieth Century Fox Film Corp.*, 539 U.S. 23 (2003); *Moseley v. V Secret Catalogue, Inc.*, 537 U.S. 418 (2003); *Traffix Devices, Inc. v. Mktg. Displays, Inc.*, 532 U.S. 23 (2001); *Wal-Mart Stores, Inc. v. Samara Bros., Inc.*, 529 U.S. 205 (2000); *Fla. Prepaid Postsecondary Educ. Expense Bd. v. Coll. Sav. Bank*, 527 U.S. 627 (1999); *Qualitex Co. v. Jacobson Prods. Co.*, 514 U.S. 159 (1995); *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763 (1992); *Ferring Pharm., Inc. v. Watson Pharm., Inc.*, 765 F.3d 205 (3d Cir. 2014); *Christian Louboutin S.A. v. Yves Saint Laurent Am. Holding, Inc.*, 696 F.3d 206 (2d Cir. 2012); *Rosetta Stone Ltd. v. Google, Inc.*, 676 F.3d 144 (4th Cir. 2012); and *Fleischer Studios, Inc. v. A.V.E.L.A., Inc.*, 654 F.3d 958 (9th Cir. 2011).

Although this case deals specifically with patents and federal court review of Patent Trial and Appeal Board (“PTAB”) decisions, INTA has a substantial interest in this matter as it relates directly to the Fourth Circuit’s opinion in *Shammas v. Focarino*, 784 F.3d 219 (4th Cir. 2015), upholding the grant of attorneys’ fees to the PTO as part of the “expenses” of a district court proceeding. *See id.* at 222-27. The provision shifting expenses of the PTO in Section 21(b)(3) of the Lanham Act, 15 U.S.C. § 1071(b)(3), substantially tracks Section 145 of the Patent Act. *See* 35 U.S.C. § 145. Moreover, INTA’s position in *Shammas* regarding the proper interpretation of 15 U.S.C. § 1071(b)(3) is identical to the conclusion the district court reached regarding the proper interpretation of 35 U.S.C. § 145. *Compare* Corrected Brief for Amicus Curiae The International Trademark Association in Support of Appellant at 10-24, *Shammas v. Focarino*, 284 F.3d 219 (4th Cir. 2015) (No. 14-1191), 2014 WL 2605810, at *10-24, *with* *NanKwest, Inc. v. Lee*, 162 F. Supp. 3d. 540, 542-46 (E.D. Va. 2016), *rev’d sub nom. NantKwest, Inc. v. Matal*, 860 F.3d 1352, *vacated on grant of reh’g en banc*, 869 F.3d 1327 (Fed. Cir. 2017). Accordingly, this Court’s decision is of particular interest to INTA and its members, because its interpretation of 35 U.S.C. § 145 will have implications for courts’ future interpretations of the parallel Lanham Act provision. Thus, INTA has an interest in this Court affirming the decision below.

All parties to this litigation have consented to the filing of this *amicus* brief.

SUMMARY OF ARGUMENT

Few principles are more deeply entrenched in the American judicial system than the principle that litigants ordinarily bear their own attorneys' fees. Time after time, this "American Rule" has been reaffirmed by the Supreme Court and this Court, which have unequivocally held that awards of attorneys' fees are only available where Congress has *clearly and explicitly* authorized them. *See, e.g., Buckhannon Bd. & Care Home, Inc. v. W. Va. Dep't of Health & Human Res.*, 532 U.S. 598, 602 (2001); *Bywaters v. United States*, 670 F.3d 1221, 1226-27 (Fed. Cir. 2012). The Supreme Court has also held that the American Rule applies to *all* statutes, and thus it also applies to Section 145 of the Patent Act. *See Hardt v. Reliance Standard Life Ins. Co.*, 560 U.S. 242, 252-53 (2010).

Section 145 of the Patent Act, which provides for the payment of the PTO's "expenses" by parties bringing a civil action in federal district court to obtain review of a PTAB determination, 35 U.S.C. § 145, makes no such clear or explicit authorization of "attorney's fees." This alone is sufficient to affirm the conclusion of the district court – and the dissent – that "attorney's fees" are not included within the awardable "expenses" under Section 145. *See NanKwest*, 162 F. Supp. 3d at 542-45; *NantKwest*, 860 F.3d at 1361-66 (Stoll, J., dissenting).

Yet, even beyond the lack of any reference to attorneys' fees in the text of Section 145 itself, there are other indications that Congress intended *not* to award

attorneys' fees under that section. The legislative history of Section 145, dating back to the 1836 Patent Act, does not support Congressional intent for "expenses" to include attorneys' fees. Furthermore, as the dissent noted, Congress routinely modifies the term "expenses" to make the availability of attorneys' fees clear, including in the Patent Act. *See NantKwest*, 860 F.3d at 1361-62 (Stoll, J., dissenting). But it did not do so in Section 145, and it is not for the courts to award attorneys' fees against the presumption of the American Rule where Congressional intent is, at best, ambiguous. *See id.* at 1364.

Moreover, as a policy matter, interpreting "expenses" to include the PTO's attorneys' fees would create a chilling effect on applicants' ability to pursue an important procedural avenue by imposing a prohibitive cost—one that only applicants with significant resources could afford. Such a result is anathema to the principles undergirding U.S. intellectual property rights. Perhaps even worse, it effectively writes out of existence a critical mechanism of review expressly permitted under Section 145, *i.e.*, the ability to initiate an action in district court and benefit from the discovery process (rather than pursuing an appeal to this Court where further development of the record is not available under the relevant statute).

Thus, the majority incorrectly interpreted the American Rule's application to Section 145 and this Court should adopt the dissent's position that the statute's provision for "expenses" does not include attorneys' fees.

LEGAL BACKGROUND

A. Dual Mechanism for Review of PTAB Decisions

Like the Lanham Act's provisions regarding TTAB determination of the registrability of a trademark, the Patent Act provides a party disputing a PTAB determination with two procedural options. The first option, set forth in 35 U.S.C. §§ 141-144, is an appeal to this Court, which is taken solely "on the record before the Patent and Trademark Office." 35 U.S.C. § 144. The second option, set forth in Section 145 and the option pursued by NantKwest here, is to file a civil action in the United States District Court for the Eastern District of Virginia against the Director of the PTO. *See* 35 U.S.C. § 145. In cases brought under Section 145, the PTO record may be supplemented through additional discovery. However, the pursuit of additional discovery comes with a cost, and Section 145 mandates that "[a]ll the *expenses* of the proceeding shall be paid by the applicant." *Id.* (emphasis added). But like the Lanham Act, the Patent Act does not expressly define "expenses of the proceedings."

B. Procedural History

NantKwest filed a Section 145 civil action in the Eastern District of Virginia seeking review of the PTAB's decision rejecting patent claims for a method of

treating cancer by administering natural killer cells.³ Following additional discovery, including expert discovery, the district court granted summary judgment in favor of the PTO, which NantKwest also appealed, and which this Court has affirmed. *See NantKwest, Inc. v. Lee*, 686 F. App'x 864, 865 (Fed. Cir. 2017).

Upon entry of the judgment, the PTO filed a motion seeking “expenses of the proceeding” pursuant to Section 145. Included in that request were “personnel expenses” of the PTO attorneys and paralegals staffed on the case, calculated by prorating each employee’s yearly salary based on the number of hours actually devoted to the district court proceeding.

The district court denied the PTO’s motion in part, specifically declining that portion of the request that was identified as attorneys’ fees. *See NantKwest*, 162 F. Supp. 3d at 541. The court noted that pursuant to the Supreme Court’s recent decision in *Baker Botts L.L.P. v. ASARCO LLC*, 135 S. Ct. 2158 (2015), the “American Rule,” which requires litigants to pay their own attorneys’ fees, may only be overridden by statutory language evidencing a specific and explicit congressional intent to shift attorneys’ fees to another party. *See NantKwest*, 162 F.

³ INTA takes no position with respect to the merits of the PTAB’s determination denying NantKwest’s application or NantKwest’s appeal thereof to the district court.

Supp. 3d at 542. The court held that the statutory language of Section 145 did not constitute such a specific and explicit provision. *See id.* at 542-43.

The district court also explicitly rejected the Fourth Circuit's majority conclusion in *Shammas v. Focarino*, 584 F.3d 219 (4th Cir. 2015), that the American Rule applies only in the context of shifting fees to the prevailing party. The court held that the *Shammas* court's "prevailing party" standard was "erroneous" and in direct conflict with *Baker Botts*. *See NantKwest*, 162 F. Supp. 3d at 545-46. Observing that neither the *Shammas* court nor the PTO had cited any Supreme Court authority affirmatively stating that the American Rule only applied in the context of prevailing parties, *see id.* at 546, and that no court since has followed *Shammas*'s rationale, the district court concluded that *Shammas* was incorrectly decided and the language of Section 145 did not demonstrate Congress' specific and explicit authorization for attorneys' fees. *See id.*

The PTO subsequently filed an appeal to this Court, seeking reversal of the district court's determination that "personnel expenses" are not included in the "expenses" provision of Section 145. *See NantKwest*, 860 F.3d at 1360. The majority of the panel reversed the district court's decision, finding that attorneys' fees are included in the term "expenses" in Section 145. The majority aligned itself with the Fourth Circuit's majority in *Shammas*, and with the Second Circuit, which held that attorneys' fees are "expenses" under Section 6342 of the Internal

Revenue Code. *See id.* at 1356. The dissent argued that Section 145 did not provide the necessary explicit and specific language to overcome the American Rule’s presumption against fee-shifting. *See id.* at 1361 (Stoll, J., Dissenting). The dissent also argued that it was unable to glean any Congressional intent to shift attorneys’ fees based on the legislative history of Section 145 or the plain meaning of the term “expenses.” *See id.* at 1362-65. This Court *sua sponte* vacated the panel opinion and ordered an *en banc* hearing on the sole issue of whether the panel correctly determined that Section 145 authorizes an award of the PTO’s attorneys’ fees. *See NantKwest, Inc. v. Matal*, 869 F.3d 1327, 1327 (Fed. Cir. 2017) (en banc) (per curiam).

ARGUMENT

I. THE MAJORITY INCORRECTLY DETERMINED THAT SECTION 145 AUTHORIZES AN AWARD OF THE PTO’S ATTORNEYS’ FEES

A. The American Rule Applies to Section 145

Any discussion of attorneys’ fees awards must begin with “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.” *Baker Botts*, 135 S. Ct. at 2164 (quoting *Hardt v. Reliance Standard Life Ins. Co.*, 560 U.S. 242, 253 (2010)). The presumption that parties bear their own legal costs, win or lose, is not easily overcome, and as the Supreme Court has recently re-emphasized, “departures from the American Rule [are recognized] only in ‘*specific and explicit*

provisions for the allowance of attorneys’ fees under selected statutes.” *Id.* (emphasis added) (quoting *Alyeska Pipeline Serv. Co. v. Wilderness Soc’y*, 421 U.S. 240, 260 (1975)).

The majority incorrectly attempts to limit the American Rule by expressing doubts as to whether Section 145 implicates the Rule. In a narrow reading of the Supreme Court’s holding, the majority asserts that “*Baker Botts* . . . 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.” *NantKwest*, 860 F.3d at 1355.

To the contrary, as the dissent explains, “Supreme Court precedent makes clear that the American Rule marks the starting point for any analysis that shifts fees from one litigant to another.” *Id.* at 1360 (Stoll, J., dissenting). The Supreme Court’s discussion of the American Rule in *Hardt* provides the necessary guidance for courts to apply the presumption against fee-shifting to *all* statutes, not only those that would potentially award such fees to successful litigants.

In *Hardt*, the Court considered whether an award of attorneys’ fees pursuant to 29 U.S.C. § 1132(g)(1) was limited to an award to a prevailing party. *See Hardt*, 560 U.S. at 244-45, 250. The statute itself—unlike Section 145 in the current litigation—explicitly provided for an attorney’s fee award, but stated that “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) (emphasis added). The 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.’” *Hardt*, 560 U.S. at 253. Instead, the 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). Most notably, the Court found:

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. at 253 (emphasis added) (citations omitted). In short, the Court made clear that the American Rule is hardly limited to “loser pays” statutes.

In light of the Court’s unambiguous language and recognition that the rule covers “various forms” of fee shifting, Section 145 undoubtedly implicates the American Rule. *Hardt* makes clear that the American Rule requires parties to bear their own fees absent some form of *explicit* statutory authorization to the contrary, irrespective of whether that explicit authorization applies to “prevailing parties” or otherwise. *See Hardt*, 560 U.S. at 252-54; *see also Hensley v. Eckerhart*, 461 U.S. 424, 443 n.2 (1983) (Brennan, J., concurring in part and dissenting in part) (noting

that “parties bear their own attorney’s fees *no matter what the outcome of a case,*” and thus a party’s status as a winner or loser does not in itself dictate the applicability of the American Rule (emphasis added); *Astrue v. Ratliff*, 560 U.S. 586, 591 (2010) (recognizing that “statutes that award attorney’s fees to a prevailing party are exceptions to the ‘American Rule’ that each *litigant* ‘bear [his] own attorney’s fees’” (alteration in original) (citation omitted)).

Furthermore, limiting application of the American Rule jurisprudence and analysis to “prevailing party” statutes is contrary to the policies underlying the rule. The Supreme Court has explained that “one of the primary justifications for the American Rule is that ‘one should not be *penalized* for merely defending or prosecuting a lawsuit.’” *Summit Valley Indus. Inc. v. Local 112, United Bhd. of Carpenters*, 456 U.S. 717, 724 (1982) (quoting *Fleischmann Distilling Corp. v. Maier Brewing Co.*, 386 U.S. 714, 718 (1967)). But that is precisely the result that would occur if this court adopts the majority’s position. As the dissent recognizes, “[n]othing in § 145 confines the award of expenses to a prevailing party. Instead, it requires the applicant to pay ‘[a]ll expenses of the proceedings,’ which according to the majority means the applicant pays for the PTO’s attorneys’ fees in every Section 145 proceeding.” *NantKwest*, 860 F.3d at 1365 (Stoll, J., dissenting) (alteration in original). Thus, Section 145 would impose a significant penalty on patent applicants merely for asserting their rights under the statute. This “unusual

departure from the American Rule . . . would saddle even prevailing applicants with the PTO’s attorneys’ fees.” *Id.* If Congress intends to create such a penalty, it may do so; but that is for Congress to do and to do so clearly and explicitly, not the courts.

B. Section 145 Lacks the Requisite Specific and Explicit Language to Award Attorneys’ Fees

Because the American Rule plainly applies whenever fee-shifting is at issue, parties to a Section 145 litigation must bear their own legal fees “‘absent explicit statutory authority’” to the contrary. *Baker Botts*, 135 S. Ct. at 2164 (citations omitted). Section 145 makes no mention whatsoever of attorneys’ fees, instead referring only to payment “by the applicant” of “[a]ll the expenses of the proceedings.” 35 U.S.C. § 145. At best, whether attorneys’ fees can be awarded is ambiguous. Accordingly, there is no “explicit” Congressional mandate to award attorneys’ fees, and a court should not award them. *Cf. Dean v. United States*, 556 U.S. 568, 572 (2009) (explaining that courts should “‘ordinarily resist reading words or elements into a statute that do not appear on its face’” (quoting *Bates v. United States*, 522 U.S. 23, 29 (1997))).

Furthermore, as noted by the dissent, Congress has explicitly provided for attorneys’ fees in other statutes involving patent litigation, including sections of the Patent Act besides Section 145. *See NantKwest*, 860 F.3d at 1361-2 (Stoll, J., dissenting) (citing statutory provisions explicitly providing for attorneys’ fees,

including 35 U.S.C. § 285 (“The court in exceptional cases may award reasonable *attorney fees* to the prevailing party.”); *see also* 35 U.S.C. § 271(e)(4) (“[A] court may award attorney fees under [35 U.S.C. §] 285.”); 35 U.S.C. § 273(f) (“[T]he court shall find [a] case [defended without a reasonable basis] exceptional for the purpose of awarding attorney fees under [35 U.S.C. §] 285.”). As the dissent observes, it is a basic canon of statutory interpretation that “[w]here Congress includes particular language in one section of a statute but omits it in another section of the same Act, it is generally presumed that Congress acts intentionally and purposely in the disparate inclusion or exclusion.” *NantKwest*, 860 F.3d at 1362 (Stoll, J., dissenting) (alteration in original) (quoting *Russello v. United States*, 464 U.S. 16, 23 (1983)).

Appellant bears the burden of demonstrating that Congress spoke *explicitly* and *specifically* to overcome the presumption against fee-shifting. The majority argues that because the term “expenses” *can* encompass attorneys’ fees in some contexts, Appellant has met its burden. *See NantKwest*, 860 F.3d at 1357. However, Appellant has not carried its burden because it cannot clearly show that Congress *intended* for “expenses” to include attorneys’ fees. The majority contends that *NantKwest* and the dissent “demand too much” to satisfy the American Rule. *Id.* at 1358. Rather, *NantKwest* and the dissent simply argue that this court should follow Supreme Court precedent by requiring specific and

explicit language in 35 U.S.C. § 145 before awarding attorneys' fees.

The term “attorneys’ fees” is not required to meet the American Rule’s specific and explicit language requirement. The majority argues that under *NantKwest*’s “narrow view, a statute could not meet the American Rule’s heightened demands without using the precise words ‘attorneys’ fees’ or some equivalent.” *NantKwest*, 860 F.3d at 1358. On the contrary, *NantKwest* and the dissent argued – and the majority itself acknowledged – “that Congress will not confine itself to a single word or phrase when referencing attorneys’ fees.” *Id.* As the district court noted below, the Supreme Court found in *Baker Botts* that a statute had “successfully deviated from the American Rule . . . *even though the statute never used the term ‘attorneys’ fees.’*” *NantKwest*, 162 F. Supp. 3d at 543. The dissent accurately summarizes the proper approach to the specific and explicit language requirement: “a statute’s failure to reference ‘attorneys’ fees’ is not always dispositive, but the statute must ‘otherwise evince[] an intent to provide for such fees.’” *NantKwest*, 860 F.3d at 1361 (Stoll, J., dissenting) (quoting *Key Tronic Corp. v. United States*, 511 U.S. 809, 815 (1994)) (alteration in original).

C. Section 145 Lacks Congressional Intent to Authorize Attorneys’ Fees

Given the American Rule and the lack of any reference to attorneys’ fees in Section 145, attorneys’ fees should not be awarded as “expenses of the proceeding.” But even if this Court were to consider extrinsic materials, such as

the legislative history of the Patent Act or Congress' use of "expenses" in other statutes, it would not find the necessary Congressional intent for awarding attorneys' fees. *See Exxon Mobil Corp. v. Allapattah Servs., Inc.*, 545 U.S. 546, 568 (2005) ("Extrinsic materials have a role in statutory interpretation . . . to the extent they shed a reliable light on the enacting Legislature's understanding of otherwise ambiguous terms.").

The legislative history of the Patent Act shows a lack of Congressional intent for the term "expenses" to include attorneys' fees.⁴ The majority discusses the Patent Act of 1836 in response to the dissent's reliance on Nineteenth Century dictionary definitions, arguing that it distinguished among the terms "expense," "cost," and "damage." But the majority's focus on differentiating between these terms is misguided. As Appellant noted in its brief, the 1836 Patent Act specifically stated that the "'expenses of the Patent Office' included the 'salaries of the officers and clerks herein provided for.'" Br. for Appellant at 27 (quoting Act of July 4, 1836 § 9, 5 Stat. 117, 121). Three years later, Congress adopted the Patent Act of 1839 and introduced a provision that served as the predecessor to the expense-shifting language of 35 U.S.C. § 145. Under this provision, a patent applicant could appeal the Commissioner of Patent's refusal to register a patent to

⁴ Similarly, there is no evidence of Congressional intent to include attorneys' fees in the parallel Lanham Act provision.

either predecessor courts of the Federal Circuit (on the limited record presented to the Commissioner) or to any court of equity, provided that “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.” Act of Mar. 3, 1839, 5 Stat. 353, 354. However, when Congress enacted the 1839 Act, it removed the language from the 1836 Act specifying that the “expenses” of the proceedings included the salaries of Patent Office employees.

This demonstrates that Congress was well-aware of the potential for including attorneys’ fees such as Patent Office salaries, and actively decided not to include those fees as part of the recoverable “expenses” under the statute. Furthermore, Congress was already legislating against the backdrop of the American Rule and would have included a reference to attorney’s fees if it desired to impose fee-shifting. *See Arcambel v. Wiseman*, 3 U.S. (3 Dall.) 306, 306 (1796) (“We do not think that this charge [of attorneys’ fees] ought to be allowed. The general practice of the United States is in opposition 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.”). This legislative history certainly does not show explicit intent to award attorneys’ fees under Section 145, and may actually demonstrate Congress’ specific desire to *remove* attorneys’ fees from the term “expenses” in the context of actions against the PTO.

Although the Patent Act provides better guidance in interpreting Congressional intent in drafting 35 U.S.C. § 145, the uses of “expenses” and “attorneys’ fees” in other statutes are also instructive. As the dissent notes, “the U.S. Code is replete with examples of Congress awarding ‘expenses’ and then separately clarifying that attorneys’ fees are also available.” *NantKwest*, 860 F.3d at 1363 (Stoll, J., dissenting) (citing, *inter alia*, 12 U.S.C. §§ 1464(d), 1786(p), 1447(c)); *see also* 12 U.S.C. § 1464(d)(1)(b)(vii) (“[C]ourt . . . may allow to any such party reasonable expenses and attorneys’ fees”); 12 U.S.C. § 1786(p) (“Any court having jurisdiction of any proceedings instituted under this section . . . may allow to any such party such reasonable expenses and attorneys’ fees as it deems just and proper.”); 28 U.S.C. § 1447(c) (“An order remanding the case may require payment of just costs and any actual expenses, including attorney fees, incurred as a result of the removal.”). Congress easily could have specified in Section 145, as it has in numerous statutes, that “expenses” include attorneys’ fees. But the current language is not specific and explicit, and such ambiguity is certainly insufficient to prove Congressional intent to award attorneys’ fees. Further, the fact that the PTO has not relied on Section 145 to seek attorneys’ fees for over 170 years “supports the understanding that it is far from clear whether ‘[a]ll the expenses of the proceedings’ includes attorneys’ fees.” *NantKwest*, 860 F.3d at 1363; *see also Colonial Press Int’l, Inc. v. United States*, 788 F.3d 1350, 1357-58 (Fed. Cir. 2015)

(using practical construction as a tool of statutory interpretation); *McLaren v. Fleischer*, 256 U.S. 477, 481 (1921) (“[T]he practical construction given to an act of Congress, fairly susceptible of different constructions, by those charged with the duty of executing it is entitled to great respect and, if acted upon for a number of years will not be disturbed except for cogent reasons”). If Congress’ intent were clear, it would not have taken the PTO this long to seek attorneys’ fees under the statute in just a single case.

D. Public Policy Does Not Support the Majority’s Interpretation

If this Court adopts the majority’s position, such a narrow interpretation of the American Rule would effectively eliminate the ability to pursue district court relief for many patent applicants. It would do so by imposing the significant and unpredictable cost of the PTO’s attorneys’ fees on any plaintiff who elects to supplement the limited PTAB record through a discovery process that is not available on direct review to this Court.⁵

By creating a review process that allows applicants to commence a plenary action in district court, Congress recognized that an applicant may need a district court’s broad jurisdiction and expansive discovery process in order to introduce facts outside the scope of the PTO and PTAB review process. Congress’

⁵ Likewise, rejected trademark registration applicants would be denied the same important district court option in light of the parallel Lanham Act provision.

imposition of a requirement for the applicant to pay “[a]ll the expenses of the proceedings” already creates some disincentive for pursuing an action in district court instead of this Court. 35 U.S.C. § 145. However, as the dissent explains, the “high and uncertain costs” of attorneys’ fees would “likely deter applicants, particularly solo inventors and other smaller entities.” *NantKwest*, 860 F.3d at 1365.

Thus, the Appellant’s proposed approach would create a chilling effect and introduce such a prohibitive expense that it would effectively remove district court review under 35 U.S.C. § 145 as a viable procedure for all but the wealthiest applicants.⁶ Such a result runs counter to the dual system of review of PTAB decisions as drafted by Congress. This Court should avoid any interpretation of Section 145 that allows for such a result.

⁶ The concern is underscored by *Booking.com B.V. v. Matal*, 1:16-cv-425 (LMB/IDO), 2017 WL 4853755 (E.D. Va. Oct. 26, 2017), *appeals filed*, Nos. 17-2458, 2459 (4th Cir. Dec. 28, 2017). Despite finding for Booking.com on its claims, the court, relying on *Shammas*, required Booking.com to pay significant attorneys’ fees to the PTO under the parallel Lanham Act provision. *Id.* at *10.

CONCLUSION

For the foregoing reasons, the Court should affirm the district court's order and hold that attorneys' and paralegals' fees are not included within the scope of "[a]ll the expenses of the proceedings" under Section 145 of the Patent Act.

January 23, 2018

Respectfully submitted,

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**United States Court of Appeals
for the Federal Circuit**
Nantkwest, Inc. v. Matal, 2016-1794

CERTIFICATE OF SERVICE

I, Robyn Cocho, being duly sworn according to law and being over the age of 18, upon my oath depose and say that:

On **January 23, 2018**, counsel has authorized me to electronically file the foregoing **Amicus Brief** with the Clerk of Court using the CM/ECF System, which will serve via e-mail notice of such filing to all counsel registered as CM/ECF users, including the following principal counsel for the parties:

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January 23, 2018

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CERTIFICATE OF COMPLIANCE WITH FED. R. APP. P. 29 AND 32

1. This memorandum complies with the type-volume limitation of Fed. R. App. P. 29(a)(5) and Fed. R. App. P. 32(a)(7)(B)(i) because it contains 4,925 words, excluding the parts of the brief exempted by Fed. R. App. P. 32(f).

2. This memorandum complies with the typeface requirements of Fed. R. App. P. 32(a)(5) and the typestyle requirements of Fed. R. App. P. 32(a)(6) because it has been prepared in a proportionally spaced typeface using Microsoft Word 2010 in 14-point Times New Roman.

Dated: January 23, 2018
New York, New York

/s/ Anthony J. Dreyer
Anthony J. Dreyer

2016-1794

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

NANTKWEST, INC.,

Plaintiff-Appellee,

v.

JOSEPH MATAL, PERFORMING THE FUNCTION AND DUTIES OF
THE UNDER SECRETARY OF COMMERCE FOR INTELLECTUAL
PROPERTY AND DIRECTOR, U.S. PATENT AND TRADEMARK
OFFICE,

Defendant-Appellant.

Appeal from the United States District Court for the Eastern District of Virginia in
No. 1:13-cv-01566-gbl-tcb, Judge Gerald Bruce Lee

**BRIEF OF *AMICUS CURIAE* THE AMERICAN BAR ASSOCIATION
SUPPORTING PLAINTIFF-APPELLEE**

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Case No. 16-1794 NantKwest, Inc. v. Matal

CERTIFICATE OF INTEREST

Pursuant to Federal Circuit Rule 47.4, Counsel for *Amicus Curiae* The

American Bar Association certifies the following:

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

The American Bar Association

2. The American Bar Association has no interest in the outcome of the case as between the parties.

3. All parent corporations and any publicly held companies that own 10 percent or more of the stock of the party or *amicus curiae* represented by me are:

None

4. The names of all law firms and the partners or associates that appeared for the party or *amicus* now represented by me in the trial court or agency or are expected to appear in this court are:

None of the law firms and partners or associates of the *amicus* appeared for anyone in the trial court or agency. The names of all law firms and the partners or associates that are expected to appear in this court for the *amicus* are as follows:

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5. Counsel for *Amicus Curiae* are not aware of any case pending in this or any other court or agency that will be directly affect or be directly affected by this court's decision in the pending appeal.

January 23, 2018

_____/s/Charles W. Shifley_____
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STATEMENT OF INTEREST¹

The American Bar Association (“ABA”) submits this brief as *amicus curiae* in support of plaintiff-appellee NantKwest, Inc. (“NantKwest”). The ABA is the leading national organization of the legal profession, with more than 400,000 members from all 50 states, the District of Columbia, and the U.S. territories. Membership is voluntary and includes attorneys in the judiciary, private practice, government service, corporate law departments, educational institutions, and public interest organizations. Members represent the full spectrum of public and private litigants and interests. Since its inception more than 100 years ago, the ABA has consistently worked to improve the administration of justice and the judicial process. Its history reflects an unwavering commitment to the principle that society must provide its citizens with equal access to justice in adversarial proceedings.

The ABA Section of Intellectual Property Law (“IPL Section”), established in 1894, is the world’s largest organization of intellectual property professionals. The IPL Section has approximately 20,000 members, including attorneys who represent patent owners, accused infringers, small corporations, universities, and research institutions across a wide range of industries. These constituent groups

¹ This brief has not been authored in whole or in part by counsel for a party, and no person or entity other than *amicus*, its members, or its counsel, has made a monetary contribution to the preparation or submission of this brief.

represent different perspectives on intellectual property issues, and provide the IPL Section with unique opportunities to fully develop consensus on issues. The IPL Section promotes the development and improvement of intellectual property law and takes an active role in addressing important legal issues, proposed legislation, administrative rule changes, and international initiatives regarding intellectual property. It also develops and presents resolutions to the ABA House of Delegates for adoption as ABA policy to foster necessary changes to the law. These policies are the basis for ABA *amicus curiae* briefs on intellectual property law topics, which are filed primarily in the United States Supreme Court and this court.

The ABA submits that imposing governmental attorneys' fees on patent applicants who choose civil actions under 35 U.S.C. § 145 will hamper equal access to justice and chill the assertion of meritorious claims. It is also contrary to the express language of Section 145, which does not overcome the presumption of the American Rule that each party pays its own fees. To record its consensus view on this issue, on February 8, 2016, the ABA's House of Delegates adopted a formal policy opposing interpretations of intellectual property laws that would "impose the payment of the government's attorneys' fees on a party challenging a decision of the United States Patent and Trademark Office in federal district court, unless the statute

in question explicitly directs the courts to award attorney fees.”² The ABA policy not only addresses 35 U.S.C. § 145, but also 15 U.S.C. § 1071(b)(3), relating to trademarks. Both statutes use the term “expenses,” and the ABA policy urges that this term be interpreted not to include the government’s attorneys’ fees.

INTRODUCTION AND SUMMARY OF ARGUMENT

Congress created an express pathway for patent applicants to obtain *de novo* review of the denial by the U.S. Patent and Trademark Office (“PTO”) of their applications: a civil action in district court under 35 U.S.C. § 145. Section 145 provides an alternative to a direct appeal of PTO decisions to this court. Congress imposed only one qualification on an applicant’s choice of using that pathway: “All expenses of the proceedings shall be paid by the applicant.” 35 U.S.C. § 145. For nearly two centuries, the phrase “all expenses of the proceedings” has been understood universally to mean that the applicant must pay only the PTO’s out-of-pocket expenses for the proceedings, like travel costs and expert witness fees. The PTO now urges a radical, novel departure from that longstanding interpretation: that the provision actually requires the applicant to pay for the government’s salaried attorneys any time the applicant invokes Section 145, even if the applicant prevails against the government in the proceedings.

² See ABA Resolution 108A, at: https://www.americanbar.org/news/reporter_resources/midyear-meeting-2016/house-of-delegates-resolutions/108a.html.

An interpretation of Section 145 that requires the payment of such fees would shut the door to the Congressionally created Section 145 pathway for all except those who can afford to pay not only their own legal fees but also those of the federal government. Applicants who lack sufficient funds to pay for their adversary's lawyers would be blocked from the benefits of the Section 145 pathway—including *de novo* review of the denial of their applications and the ability to introduce new evidence in district court—solely because of their inability to pay for the federal government's lawyers. Meanwhile, those benefits would remain open to large corporations and affluent individuals who can afford to shoulder the burden of paying for the government's lawyers. The PTO's newfound interpretation, if accepted, would have intolerable results. The doors of justice should be open to all, regardless of individual prosperity. The "expenses" provision in Section 145 should be interpreted and applied so that applicants' wealth does not determine their access to the district court pathway that Congress provided.

Moreover, the statutory text does not show Congressional intent to require patent applicants to pay the government's attorneys' fees. Indeed, under traditional rules of construing fee-shifting provisions, the "expenses of the proceedings" provision in Section 145 should be read to exclude attorneys' fees. The background presumption is the American Rule: each litigant pays its own attorneys' fees, win or lose. Congress can depart from that rule and enact fee-shifting provisions, but it

must do so in a clear and explicit manner. The phrase “expenses of the proceedings” is not the type of clear and explicit statement required to overcome the presumption that the American Rule applies. Moreover, the mere word “expenses” falls far short of the level of clarity that would be required to enact a novel statute that would shift only the government’s attorneys’ fees onto private litigants, and that would do so in every case, regardless of outcome.

Where Congress has enacted fee-shifting provisions in other statutes, it has generally done so to promote access to justice—for example, provisions in civil rights statutes allowing prevailing plaintiffs to obtain fees. To amicus’s knowledge, Congress has never enacted a fee-shifting provision that shifts only the government’s fees onto private parties, much less a provision that does so even if the government loses the litigation. To read Section 145 in such an unprecedented way requires far more clarity than the mere word “expenses.” Congress does not hide elephants in mouseholes; it did not hide a government-fee-shifting intent in the word “expenses.” There is no evidence Congress intended Section 145 to be a roadblock to justice, and this court should not interpret it that way.

ARGUMENT

I. The PTO's Proposed Interpretation of Section 145 Would Erect an Insurmountable Roadblock to Justice for Many Patent Applicants.

Adopting the PTO's position will close the Section 145 avenue to many, if not most, individuals, small businesses, and non-profit organizations. The implications of doing so are of grave concern to the ABA.

Equal access to justice is not merely an aspiration, but the cornerstone of the American justice system. As Justice Powell noted in an August 10, 1976, speech during a program, at the 1976 ABA annual meeting, entitled "Legal Services Corporation: A Presidential Program of the Annual Meeting of the American Bar Association:³

Equal justice under law is not merely a caption on the façade of the Supreme Court building; it is perhaps the most inspiring ideal of our society. It is one of the ends for which our entire legal system exists. It is fundamental that justice should be the same, in substance and availability, without regard to economic status.

Critical to the notion of equal access is that those with fewer resources not be dissuaded from seeking redress from the courts by financial impediments to justice. It is pursuant to this principle that courts waive filing, court, and transcript fees for

³ Justice Powell August 10, 1976, speech, pp. 2-3, found at: http://law2.wlu.edu/deptimages/powell%20archives/PowellSpeech_LegalServicesCorporationAug10,1976.pdf

the indigent. *See, e.g., Griffin v. Illinois*, 351 U.S. 12, 17-18 (1956) (“Plainly, the ability to pay costs in advance bears no rational relationship to a defendant’s guilt or innocence, and could not be used as an excuse to deprive a defendant of a fair trial.”); *Jafar v. Webb*, 303 P.3d 1042 (Wash. 2013) (requiring waiver of all court fees and local surcharges for indigent litigants).

Fee shifting is treated in a similar fashion, and it is usually permitted under statutes designed to *increase* access to justice, rather than limit it. Where Congress permits fee shifting by statute, it generally does so to correct an imbalance of power by permitting a successful plaintiff to collect attorneys’ fees. Robert V. Percival & Geoffrey P. Miller, *The Role of Attorney Fee Shifting in Public Interest Litigation*, 47 *Law and Contemporary Problems* 233, 241 (Winter 1984) (“Fee shifting is designed to remove some of the disincentives facing public interest litigants, thus increasing access to the courts for groups who otherwise might be unrepresented or underrepresented.”). For example, provisions in civil rights statutes, such as the Equal Justice Act, allow prevailing plaintiffs to obtain fees. *See* Pub. L. No. 96-481, 94 Stat. 2325 (1980) (at 28 U.S.C. § 2412 and 5 U.S.C. § 504). That Act levels the litigation playing field between the government, on the one hand, and individuals and small businesses, on the other. *See* H.R. Rep. No. 99-120 (I), p. 4 (1985) (“The Act reduces the disparity in resources between individuals, small businesses, and other organizations with limited resources and the Federal Government.”). Indeed,

Congress has expressly articulated its concern that well-funded governmental agencies not target small businesses because of their inability to pay for expensive litigation. *See* H.R. Rep. No. 96-1418, p. 10 (1980) (“In fact, there is evidence that small businesses are the target of agency action precisely because they do not have the resources to fully litigate the issue” with the well-funded government.).

Contrary to these foundational principles, the interpretation advocated by the PTO would shut the door to the Congressionally created Section 145 pathway for all except those who can afford to pay not only their own legal fees but also those of the federal government, and regardless of the outcome. The expenditures required of applicants to pursue actions to overcome adverse PTO decisions in district court are already high. Those plaintiffs must introduce new evidence and pay for experts and other expenses, as well as their own attorneys’ fees. On top of the already high costs of a civil action, an additional hurdle of reimbursing the PTO for potentially tens of thousands of dollars in fees will be insurmountable for many applicants and a significant deterrent to even more of them. Applicants who lack sufficient funds to pay for their adversary’s lawyers would be blocked from the benefits of the Section 145 pathway—including *de novo* review of the denial of their applications and the ability to introduce new evidence in district court—solely because of their inability to pay. This will disproportionately impact individuals, small businesses, and non-profit organizations. Meanwhile, those benefits would remain open to large

corporations and affluent individuals who can afford to shoulder the burden of paying for the government's lawyers.

As a practical matter, the government's attorneys' fees in *de novo* actions can be substantial. A recent decision from the Eastern District of Virginia imposed attorneys' fees of \$51,472.53 in a 15 U.S.C. § 1071(b)(3) trademark case—a case in which the applicant was *successful*. *Booking.com B.V. v. Matal*, No. 1:16-cv-00425-LMB-IDD 2017 WL 4853755, at * 9 (E.D. Va. October 26, 2017) (basing its award on a salary chart prepared by the PTO). Another decision required the applicant to post a “conservative bond of \$40,000” before permitting a Section 145 action to proceed, based partly on the PTO's estimate that it would spend \$45,000 in attorney time on the case. *See Taylor v. Lee*, Nos. 1:15-cv-1607(LMB/JFA), 1:15-cv-1684(LMB/JFA), 1:16-cv-12(LMB/JFA), 2016 WL 9308420, at *2 (E.D. Va., July 12, 2016). Under that decision, the patent applicant must essentially pre-pay the government's lawyer fees even before the plaintiff can conduct any aspect of the litigation.

There is no discernible, legitimate policy rationale for requiring litigants challenging a PTO decision to pay the government's legal fees regardless of outcome. One court has suggested that Congress enacted the expense provision “to discourage applicants from undertaking this type of proceeding, which enables them to introduce new evidence . . . thereby raising the potential for gamesmanship.”

Taylor, supra, 2016 WL 9308420, at *1. But new evidence may be necessary in the district court for a variety of reasons other than “gamesmanship.” In fact, the Supreme Court in *Kappos v. Hyatt*, 132 S. Ct. 1690, 1700 (2012), was not persuaded by the proposition that an applicant would intentionally withhold evidence from the PTO with the goal of presenting that evidence for the first time to a non-expert judge at the district court. “An 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.” *Id.*

Congress made the civil action route available to patent applicants for a reason—to allow them to persuade a district court, in a trial setting and limited only by the Federal Rules of Civil Procedure and the Federal Rules of Evidence, that they deserved patents denied by the PTO. Congress surely did not provide this route to patent applicants and then erect a roadblock that would eliminate its use. A decision favoring that roadblock would have an unjust chilling effect on small businesses, sole inventors, and others who cannot afford the additional costs of the agency’s attorneys’ fees, regardless of the merits of their inventions and civil actions. These implications must be avoided; the doors of justice must be open to all, regardless of individual prosperity.

II. “Expenses of the proceedings” Does Not Include the Government’s Attorneys’ Fees.

Cases interpreting potentially fee-shifting statutes must begin with the foundational presumption that fees are *not* shifted. As the Supreme Court has explained, “[o]ur 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 attorneys’ fees, win or lose, unless a statute or contract provides otherwise.” *Hardt v. Reliance Standard Life Ins. Co.*, 560 U.S. 242, 252–53 (2010) (internal quotation marks omitted). The American Rule is a intentional departure from the English rule, which authorizes fee awards to prevailing parties in litigation, *i.e.*, “loser pays.” *Fleischmann Distilling Corp. v. Maier Brewing Co.*, 386 U.S. 714, 717 (1967). Early in our history, the Supreme Court resolved that the American Rule is “entitled to the respect of the court, till it is changed, or modified, by statute.” *Arcambel v. Wiseman*, 3 U.S. 305, 3 Dall. 306 (1796).

Congress codified the American Rule in 1853, explicitly permitting *only* the shifting of docket fees up to twenty dollars, absent other statutory authorization. *See* John F. Vargo, *The American Rule on Attorney Fee Allocation: The Injured Person’s Access to Justice*, 42 Am. U. L. Rev. 1567, 1578 (1993) (citing Act of Feb. 26, 1853, ch. 80, 10 Stat 161 (codified as amended at 28 U.S.C. § 1923)). The 1853 Act was explicitly passed to overcome the “unequal, extravagant, and often oppressive system” of fee-shifting, when there were no constraints on the amounts lawyers

could charge for services. *Id.* Since then, the American Rule has been reaffirmed many times. *See Alyeska Pipeline Service Co. v. Wilderness Society*, 421 U.S. 240, 250 (1975) (citing cases from 1852, 1872, 1873, 1879, 1967, and 1974 by which the “Court has consistently adhered to [the] early holding [of *Arcambel*]”).

Departures from the American Rule have been recognized only in “specific and explicit provisions for the allowance of attorneys’ fees under selected statutes.” *Baker Botts, LLP v. ASARCO LLC*, 135 S. Ct. 2158, 2164 (2015) (quoting *Alyeska, supra*, 421 U.S. at 260). The Supreme Court has made clear that there should be no deviation from the American Rule unless “explicit statutory authority” exists to do so. *Id.* (quoting *Buckhannon Board & Care Home, Inc. v. West Virginia Dept. of Health and Human Resources*, 532 U.S. 598, 602 (2001)).

This principle is consistent with the underlying rationale of the American Rule itself—promoting fair access to the legal system: “[O]ne should not be penalized for merely defending or prosecuting a lawsuit, and . . . the poor might be unjustly discouraged from instituting actions to vindicate their rights” *Fleischman Distilling Corp., supra*, 386 U.S. at 718. As Justice Goldberg noted in *Farmer v. Arabian Am. Oil Co.*, “[i]t has not been accident that the American litigant must bear his own cost of counsel and other trial expense save for minimal court costs, but a deliberate choice to ensure that access to the courts be not effectively denied those

of moderate means.” *Farmer v. Arabian Am. Oil Co.*, 379 U.S. 227, 237 (1964) (Goldberg, J., concurring).

Courts must therefore look carefully at statutory language before departing from the American Rule, and a party seeking such a departure bears a heavy burden to overcome the “deeply rooted” adherence to the American Rule. *Roadway Exp., Inc. v. Piper*, 447 U.S. 752, 761 (1980) (examining the legislative history and finding “nothing” to support the inclusion of attorneys’ fees in the “taxable costs” of litigation); *Alyeska, supra*, 421 U.S. at 271 (declining to depart from the American Rule because it “is deeply rooted in our history and in congressional policy”); *F.D. Rich Co., Inc. v. U.S. for Use of Indus. Lumber Co., Inc.*, 417 U.S. 116, 128-31 (1974) (declining to interpret “costs” and “sums justly due” to include “attorney’s fees”).

As Judge Stoll explained in dissent in the panel decision in this case, there is no support in the text or legislative history of Section 145 for the proposition that Congress intended the mere word “expenses” to require a departure from the American Rule and shift the PTO’s attorneys’ fees to the patent applicant. Indeed, over 200 federal statutes and almost 2000 state statutes provide for shifting of attorneys’ fees, *Vargo, supra*, 42 Am. U. L. Rev., at 1588, and neither the PTO nor the courts have located a single one that does so by referring only to “expenses.” *See NantKwest, Inc. v. Matal*, 860 F.3d 1352, 1363 (Fed. Cir. 2017) (Stoll, J.,

dissenting) (listing 18 independent examples of statutes distinguishing between “expenses” and “attorney’s fees”). Adopting the PTO’s position would therefore make Section 145 unique among all fee-shifting laws.

That Section 145 is not designed to shift fees from one party to the other is also evident from the fact that it provides for an award of “all expenses” whether the patent applicant wins or loses. This non-discretionary feature of the statute undermines rather than supports the proposition that Congress intended the term “expenses” to encompass attorneys’ fees. As the Supreme Court has explained, “generations of American judges, lawyers, and legislators, with [the American Rule] as the point of departure, would regard it as quite ‘inappropriate’ to award the ‘loser’ an attorney’s fee from the ‘prevailing litigant.’” *Ruckelshaus v. Sierra Club*, 463 U.S. 680, 683-84 (1983). Moreover, Section 145 and its predecessors have had this feature from the 1800s. *See, e.g., Butterworth v. Hill*, 114 U.S. 128, 129-30 (1885) (quoting § 4915 Rev. stat.). Yet a Section 145 civil action, as with its predecessor “bill in equity,” has long been known as “a suit according to the ordinary course of equity practice and procedure.” *Kappos, supra*, 132 S. Ct., at 1698 (quoting *Butterworth v. United States ex rel. Hoe*, 112 U.S. 50, 61 (1884)); *see* P.J. Federico, *Evolution of Patent Office Appeals*, 22 J. Pat. Off. Soc’y 920, 937 (1940) (explaining the equitable nature of Section 145’s predecessor statute).

As the Supreme Court noted in *Baker Botts*, departures from the American Rule “tend to authorize the award of ‘a reasonable attorney’s fee,’ ‘fees,’ or ‘litigation costs’ and usually refer to a ‘prevailing party’ in the context of an adversarial action.” *Baker Botts, supra*, 135 S. Ct. at 2164. By contrast, Section 145: (1) requires only the payment of “expenses,” not “fees”; (2) provides for payment only of the government’s expenses, never the applicant’s; and (3) does so in every Section 145 action, regardless of which party prevails. Any *one* of these features makes Section 145 unlike any other fee-shifting provision. The presence of *all three* compels interpreting the provision to exclude attorneys’ fees.

The Fourth Circuit has expressed doubt that the American Rule applies where, as here, the relevant statutory language makes no reference to “prevailing parties.” *Shammas v. Focarino*, 784 F.3d 219, 223-24 (4th Cir. 2015), *cert denied*, 136 S. Ct. 1376 (2016). But that does not follow. Fee-shifting statutes generally contain a reference to the “prevailing party.” *Baker Botts*, 135 S. Ct. at 2164. The absence of “prevailing parties” in Section 145 is strong indication that it is not a fee-shifting statute at all.⁴

⁴ The PTO’s interpretation is not supported by *Taniguchi v. Kan Pacific*, 566 U.S. 560 (2012). *Taniguchi* held only that the word “interpreter” in 28 U.S.C. § 1920 does not include “translator,” nothing more. *Id.* at 568. *Taniguchi* did not interpret the word “expenses.”

Moreover, that the provision would shift only the PTO's fees, and never the applicant's, strongly suggests it is not a fee-shifting statute. The PTO is not a typical litigant that requires an award of attorneys' fees to be made whole. The agency's annual appropriations are determined in accordance with its collection of user fees, which it uses to pay its attorneys and other employees and cover other overhead costs, including those related to litigation. 35 U.S.C. § 42(c)(3)(A). The PTO is designed to be a self-funding agency that pays its staff without resort to reimbursement of attorneys' fees.

Indeed, for nearly two centuries, the phrase "expenses of the proceedings" in Section 145 has been understood to mean that the applicant must pay only the PTO's out-of-pocket expenses for the proceedings. The PTO itself has historically not interpreted "expenses" in Section 145 to include attorneys' fees but only typical expenses, such as agency travel costs, expert witness fees, and the like. As the PTO has acknowledged, it did not seek reimbursement of the salaries of its legal staff under Section 145 or its predecessor until 2013. *Shammas, supra*, 784 F.3d at 230, n.4.⁵ Throughout this time, the PTO sought to recover its actual "expenses," such as travel expenses that its employees incurred travelling to depositions, *Robertson v. Cooper*, 46 F.2d 766, 769 (4th Cir. 1931), and expenses for printing the briefs and joint appendix on appeal, *Watson v. Allen*, 274 F.2d 87, 88 (D.C. Cir. 1959). *See*

⁵ *See also* ABA Resolution 108A, *supra*, n.2.

also *Aktiebolag v. Samuels*, No. 89-3127-LFO, 1991 WL 25774, at *1 (D.D.C. Feb. 7, 1991) (expert witness fees); *Cook v. Watson*, 208 F.2d 529, 531 (D.C.C. 1953) (printing expenses).

The PTO is not alone in historically interpreting “expenses” as not including fees. There is no indication in the history of interpreting Section 145 that Congress had the intention of awarding fees. Section 145 was carried forward into current law in 1952, *see Kappos supra*, 132 S. Ct., at 1697, against a backdrop of 82 years of no known relevant departure by judges, lawyers, and legislators from requiring the PTO to pay its own attorneys’ fees. The equity statute that preceded Section 145—and included identical “all expenses” language—was invoked approximately 1,170 times between 1927 and 1940, and at no time was the language interpreted to require fee shifting. *See P.J. Federico, supra*, 22 J. Pat. Off. Soc’y, at 941. There has been no change to the language of Section 145 that would justify a departure from this longstanding interpretation.

CONCLUSION

For the foregoing reasons, “all the expenses of the proceedings” in 35 U.S.C. § 145 should be interpreted as not authorizing an award of the United States Patent and Trademark Office’s attorneys’ fees.

Respectfully submitted,

January 23, 2018

_____/s/Charles W. Shifley_____
Charles W. Shifley

CERTIFICATE OF COMPLIANCE

Pursuant to Federal Rule of Appellate Procedure 32(a)(7)(B), Counsel for *Amicus Curiae* The American Bar Association certifies that, according to the Microsoft Word® processing program used to prepare this brief, this brief contains 4,019 words, not including the table of contents, table of citations, and certificates of counsel, and was prepared in proportionally spaced typeface in 14 point Times Roman New font.

January 23, 2018

_____/s/Charles W. Shifley_____
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CERTIFICATE OF SERVICE

I, Charles W. Shifley, certify that on January 23, 2018, a copy of the **BRIEF OF *AMICUS CURIAE* THE AMERICAN BAR ASSOCIATION SUPPORTING PLAINTIFF-APPELLEE**, was served upon the following in the manner indicated:

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Appeal No. 2016-1794

United States Court of Appeals
for the
Federal Circuit

NANTKWEST, INC.,

Plaintiff-Appellee,

– v. –

JOSEPH MATAL, PERFORMING THE
FUNCTIONS AND DUTIES OF THE UNDER SECRETARY OF COMMERCE
FOR INTELLECTUAL PROPERTY AND DIRECTOR, U.S. PATENT AND
TRADEMARK OFFICE,

Defendant-Appellant.

APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF VIRGINIA
CASE NO. 1:13-CV-1566, JUDGE GERALD BRUCE LEE

***EN BANC* BRIEF OF THE ASSOCIATION OF AMICUS COUNSEL,
REALVIRT, LLC, ISSHIKI & CO., AND HIRAIDE & TAKAHASHI AS
AMICI CURIAE IN SUPPORT OF PLAINTIFF-APPELLEE
NANTKWEST, INC.**

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CERTIFICATE OF INTEREST

Pursuant to Fed. Cir. R. 29 and 47.4, counsel-of-record for the amici curiae herein certifies the following:

1. The full names of the amici curiae represented by me in the instant pending appeal are indicated on the front cover of this brief.
2. The names of the real party or parties in interest represented by me in the instant pending appeal in this action: N/A.
3. All parent corporations and any publicly held companies that own 10 percent or more of the stock of the parties represented by me: N/A.
4. The names of all law firms, and the partners and associates thereof, that appeared for any amicus curiae now represented by me on this brief, who appeared in the trial court, or are expected to appear in this Court:

Eaton & Van Winkle LLP - Charles E. Miller, Esq.
Kelly L. Morron, Esq.
Foley & Lardner LLP – Jonathan E. Moskin, Esq.
The Rando Law Firm P.C. – Robert J. Rando, Esq.
SACK IP Law P.C. – Alan M. Sack, Esq.
Ditthavong & Steiner, P.C. – Patrick R. Delaney, Esq.

5. The title and number of any case known to me to be pending in this or any other court or agency that will directly affect or be directly affected by this court's decision in the instant pending appeal: Realvirt, LLC has a pending appeal to this Court, arising under the same issues regarding attorney fees and 35 U.S.C. § 145, that is expected to be directly affected by the Court's decision in this case. *See Realvirt, LLC v. Joseph Matal, No. 17-1159.*

Dated: January 23, 2018

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I.
STATEMENT OF AMICI CURIAE

The Association of Amicus Counsel ("AAC") is an independent, unincorporated non-profit organization of lawyers of diverse affiliations and law practices, who are committed to serving the public interest, and who, by training, scholarship, experience, and discernment in their respective areas of the law, are possessed of the requisite proficiency in preparing and submitting amici curiae briefs that are helpful to courts and other tribunals. Briefs are submitted by the AAC in support of individuals and entities both domestic and foreign, or in support of neither as may be appropriate. Such individuals and entities include those who feel called upon to participate in the judicial process by having their voices heard in cases of controversy, including precedent-setting litigations whose issues of contention and outcomes will affect the interests of the public, including their own, and of others similarly situated. The AAC broadly focuses on advancing the science of jurisprudence through the submission of briefs in cases of importance in order to legitimately advocate, promote, and assist in the correct judicial development of the law in the time-honored tradition of "friends of the court."

Realvirt, LLC ("Realvirt") is a limited liability corporation, incorporated in the Commonwealth of Massachusetts, and engaged in

developing software and related intellectual property for computer network switching devices. Realvirt has a pending appeal to this Court, arising under the same issues regarding attorney fees and 35 U.S.C. § 145, that is expected to be directly affected by the Court's decision in this case. *See, Realvirt, LLC v. Joseph Matal, No. 17-1159*. Realvirt has no financial stake in any of the parties to this litigation or in the result of this case. Realvirt's only interest is in seeking correct and consistent interpretation of the law as it relates to intellectual property issues.

Isshiki & Co. is a Japanese law firm founded in Tokyo in 1976 and whose practice areas include international intellectual property and dispute resolution matters for a diverse clientele many of whom and are actively involved in protecting patentable inventions in a full range of technologies in the United States. Neither Isshiki & Co. nor to its knowledge do any of its clients or affiliates have a financial stake in any of the parties to this litigation or in the result of this case. As one of the named amici curiae herein, Isshiki & Co.'s interest in the present controversy, like that of many other firms outside the United States, is in seeking correct and consistent interpretation of the law as it relates to intellectual property issues of concern to itself and its clients.

Hiraide & Takahashi is a general practice Japanese law firm founded in 2010 in Tokyo and whose practice areas include patent, trademark, copyright, and other forms of intellectual property. A number of the Firm's clients look to Hiraide & Takahashi for guidance in understanding intellectual property laws including the patent laws of the United States, and their relationship to corresponding laws and procedures in other countries. Neither Hiraide & Takahashi nor to its knowledge do any of its clients or affiliates have a financial stake in any of the parties to this litigation or in the outcome of this case. As one of the named amici curiae herein, Hiraide & Takahashi's interest in the present controversy, like that of many other firms outside the United States, is in seeking correct and consistent interpretation of the law as it relates to intellectual property issues of concern to itself and its clients.

The herein-identified amici curiae submit this brief pursuant to the August 31, 2017 *en banc* Order of this Court *sua sponte* vacating the Court's June 23, 2017 split-panel decision, and reinstating for *en banc* hearing on new briefings of the parties, the PTO's appeal of the district court's February 5, 2015 decision, and inviting amici curiae participation. This brief, submitted in accordance with Fed. R. App. P. 29(a), supports reaffirmance of that portion of the district-court decision in favor of NantKwest, Inc.

Based on the terms of the Order, the parties' consent and leave of the Court to file this brief are not required.

With regard to the inquiries raised by Fed. R. App. P. 29(c)(5), counsel herein represent that they have authored the entirety of this brief, and that no entities other than the amici curiae herein or their counsel have made any monetary contribution to its preparation or submission.

II. **BACKGROUND FACTS AND PROCEDURAL HISTORY**

A. NantKwest Lost In The PTO On The Issue Of Patentability.

In 1997, European immunologist Dr. Hans D. Klingemann filed an initial patent application in the U.S. Patent and Trademark Office ("PTO") to protect his invention on a method of treating cancer in mammals involving the use of NK-92 cells to recognize and destroy cancer cells in vivo as described and claimed in his subsequent patent application filed in 2001 which he assigned to present plaintiff-appellee NantKwest, Inc. ("NantKwest"), a California corporation. In October 2013, the PTO Patent Trial and Appeal Board ("PTAB") affirmed part of the examiner's December 2010 obviousness rejection of NantKwest's application.

B. The PTO Prevailed On The Merits In NantKwest, Inc.’s Civil Action Under 35 U.S.C. § 145 But The District Court Properly Rejected The PTO’s Request For Attorney Fees.

In December 2013, following the PTAB’s adverse ruling on NantKwest’s patent application, NantKwest sued the PTO in district court (Case No. 1:13-cv-1566) for de novo review under 35 U.S.C. § 145 to consider new evidence presented by plaintiff NantKwest, in support of patentability. On September 2, 2015, the court (Gerald Bruce Lee, J.) entered summary judgment in favor of the PTO that the evidence in the administrative record, even with plaintiff’s new evidence, failed to overcome the obviousness rejection. 162 F. Supp. 3d 540 (E.D. Va. 2016) NantKwest appealed the district court’s summary judgment to the Federal Circuit (Docket No. 15-2095) which affirmed it in a non-precedential decision on May 3, 2017.

On September 16, 2015, the PTO’s attorneys in the U.S. Department of Justice (“DOJ”) moved the district court for an award of the PTO’s “expenses and attorney fees” (emphasis supplied) incurred in defending the civil action, totaling \$111,656.39 to be paid by NantKwest under the “all expenses of the proceedings shall be paid by the applicant” provision of Section 145. *Id.*

On February 5, 2016, Judge Lee granted that portion of the DOJ's motion for reimbursement of the PTO's expenditures for expert witnesses in the amount of \$33,103.89. *Id.* However, he denied the rest of the motion insofar as it sought reimbursement of the PTO's "personnel expenses" in the amount of \$78,592.50 attributable pro rata to the salaries of the PTO's in-house attorneys and paralegals who were "diverted" from other matters to work on the instant case. In refusing to award these personnel expenses, Judge Lee recognized that they were tantamount to attorney fees and as such, under the American Rule, were not recoverable as a matter of law because Section 145 does not specifically and explicitly authorize the award of such fees, citing *Alyeska Pipeline Svc. Co. v. Wilderness Soc'y*, 421 U.S. 240, 247-50 (1975). In so holding, he expressly disagreed with the earlier Fourth Circuit panel decision in *Shammas v. Focarino*, 784 F.3d 219, n.1 (4th Cir. 2015) construing the term "expenses" in the counterpart provision in 15 U.S.C. § 1071(b)(3) enabling civil actions by aggrieved trademark applicants ("Without more, these hardly justify deviating from the American Rule's bedrock principle." *NantKwest, Inc. v. Matal*, 162 F. Supp. 3d at 544). At the same time, Judge Lee noted that *Shammas* did not control his decision on the case before him, because here the Federal Circuit has exclusive appellate jurisdiction.

C. This Court’s Incorrect June 23, 2017 Panel Decision Was Properly Vacated and the PTO’s Appeal Was Reinstated For *En Banc* Hearing On the Issue Presented

On April 1, 2016 the PTO appealed to this Court from the district court’s denial of the motion for reimbursement of the PTO’s attorney fees *qua* “personnel expenses” incurred in defending the civil action. Following the February 9, 2017 hearing on oral argument, this Court in its June 23, 2017 split-panel decision reversed the district court’s refusal to include reimbursement of the PTO’s attorney fees attributed to the salaries of its in-house legal staff. *NantKwest, Inc. v. Matal*, 860 F.3d 1352 (Fed Cir. 2017).

On August 31, 2017, this Court *sua sponte* in an *en banc* Order, vacated the June 23, 2017 panel decision (which the amici curiae herein argue was incorrectly decided), reinstated the PTO’s appeal, and requested new briefings addressing the following question to be decided:

“Did the panel in *NantKwest, Inc. v. Matal* . . . correctly determine that 35 U.S.C. § 145’s “all expenses of the proceedings” provision authorizes an award of the United States Patent and Trademark Office’s attorneys’ fees?”

NantKwest, Inc. v. Matal, 869 F.3d 1327 (Fed. Cir. 2017) (*en banc*.)

III. SUMMARY OF ARGUMENT

Thousands of businesses and individuals have applied to the PTO for patents under the 1952 Patent Act, 35 U.S.C. §§ 1 et seq. (reenacted in amended form in 2011 as the America Invents Act (“AIA”)).

A vital component of the prosecution of patent applications is the availability, under the U.S. Administrative Procedure Act and relevant statutes in the AIA, of Article III court review of PTO refusals to grant them. The right of applicants to avail themselves of de novo judicial review of adverse PTO decisions that are based on incomplete evidence is especially important. To develop an evidentiary record upon which an objective “fresh pair of eyes” can decide the merits of rejected applications with optimal accuracy and objectivity, such reviews are performed by adjudication in civil actions in U.S. district court against the PTO under 35 U.S.C. § 145. Therefore, this statute can be critical because it enables the submission of evidence relevant to patentability that was not presented previously.

The PTO has over the years in various ways sought to curtail the right of aggrieved patent applicants to petition the judiciary for redress of their grievances through adversarial trial and adjudication. In the present case, the PTO’s expansive new interpretation of the expense-shifting provision of Section 145 to include attorney fees would impose an additional financial

burden (beyond the already burdensome expense-shifting aspect) that would have a further chilling effect on judicial challenges by applicants. This interpretation raises acute concern over the PTO's attempt to broaden the meaning of the mandatory expense-shifting provision in Section 145. The PTO has taken the controversial position that the scope of the term "all expenses" in Section 145 should be construed in every instance to include attorney fees attributable to the PTO's allocated in-house counsel and paralegal salaries, lumped together under the rubric of "personnel" costs. In doing so, the PTO has deviated to a position diametrically opposite from the long-established common-law doctrine in this country known as the "American Rule" that each side in a litigation must bear its own attorney fees absent a clear, unequivocal statutory expression to the contrary – which Section 145 does not provide. If the PTO's position were allowed to prevail in this case, it would contravene the plain language, purpose, and intent of Section 145 and set a precedent that would erect an insurmountable financial barrier in many instances to the pursuit of rights under Section 145 by patent applicants – especially individual inventors and those having limited financial resources.

Thus far, the PTO's position in *NantKwest* has met with rejection because district court Judge Lee came to a different conclusion than did the

Fourth Circuit in *Shammas*. Judge Lee denied the PTO's post-judgment motion for reimbursement of similar PTO "personnel expenses" as being contrary to the doctrinal American Rule against "shifting" the burden of paying a party's attorney fees. Undeterred, the PTO, relying on *Shammas*, remains steadfast in its attempt to side-step the American Rule in order to administer a financial coup-de-grâce to the unbroken statutory right spanning most of this country's history — and the legitimate exercise thereof — to de novo judicial review of adverse PTO rulings in ex parte cases.

Now, the patent community awaits this Court's definitive *en banc* ruling that hopefully will correct the PTO's fundamentally flawed interpretation of the already onerous expense-shifting provision of Section 145. Such correction is needed to provide clear, uniform guidance on this important legal issue of vital concern to the proper administration of Congress' power to "promote the Progress of useful Arts." U.S. Const. art I, sec 8, cl 8. This guidance will restore long-settled understanding and expectations of appropriate expense-shifting and avoid uncertainties regarding the limits as well as the risks – direct and collateral – of applicants' statutory burden of having to pay "all the expenses" in Section 145 suits against the PTO.

What is ultimately at stake in *NantKwest* for those concerned with real-world intellectual property and who depend on the lawful benefits of U.S. patent rights? It is the prevention of an unprecedented and unjustifiable financial barrier against patent applicants' legitimate pursuit of those rights. Dire consequences will ensue if the PTO's position is allowed to prevail, enabling the imposition of draconian attorney-fee penalties against those who seek to challenge the PTO's errors by proper de novo review in district court to consider additional evidence instead of resorting to the option of deferential appellate review with no new evidence to consider, which is often futile. Just as there is a societal cost and destabilizing effect on the U.S. patent system when the PTO issues patents that should not have been granted, so too with erecting a potentially insurmountable financial impediment against de novo, substantive review of erroneous PTO rejections of applications for patents on inventions that deserve protection.

IV. **ARGUMENT**

A. The PTO's Aversion To Suit and Objective Review In District Court Inform The Present Controversy

A bureaucratic bias has long existed against the U.S. district court's de novo review power over PTO decision-making. Perhaps this bias is fueled by the tension between two co-equal branches of government over the

fact-finding and judgmental authority that each considers its rightful purview. This conflict notwithstanding, inventors and indeed the general public, benefit from the constitutional right to petition the government for redress of grievances unfettered by the threat of having to pay attorneys' fees assessed by the government as a tax on the lawful exercise that right.

Another source of PTO anti-section-145 bias may stem from the fact that the PTO's defense and appeal in Section 145 civil actions is provided, supervised, and conducted by the U.S. Attorney General's Office, 28 U.S.C. § 519, by salaried lawyers in the Department of Justice. 28 U.S.C. §§ 515-518, 1291, 1294(1), and 1295(a)(4)(6). Contradicting the PTO's position that attorney fee awards imposed in Section 145 civil actions could be useful toward funding – or as another way of looking at it, offsetting – its administrative cost of operations is the fact that the DOJ's legal services are usually provided *at no cost to, as well as beyond the control of the PTO*. Such civil actions are not favored by the PTO, compared to the PTO's role as an appellee under 35 U.S.C. § 141(a) / §§142-144, where it is represented solely by its own salaried in-house legal personnel and benefiting from the more favorable “substantial evidence” standard of Federal Circuit review.

Over the years, the PTO has tried in various ways to impede, curtail, stifle, and indeed abolish altogether the right of aggrieved applicants to

petition the judiciary for redress of their grievances against the PTO through adversarial adjudication. The PTO's activities in this regard were manifested in:

- (i) attempts to eliminate de novo judicial review going back at least as early as the 1920s, see, *Hyatt v. Kappos*, 625 F.3d 1320, 1327 (Fed. Cir. 2010) (*en banc*), *aff'd*, 132 S.Ct. 1690 (2012);
- (ii) persuading the U.S. Supreme Court in *Dickinson v. Zurko*, 527 U.S. 150 (1999) to reject the Federal Circuit's "clear-error" standard of reviewing PTO fact-findings underlying the PTO's rulings in favor of the more deferential, less stringent court/agency "substantial-evidence", "arbitrary and capricious", "abuse of discretion" standard under the Administrative Procedures Act;
- (iii) substantive, and hence ultra vires rulemaking in 2002 – subsequently mooted by the PTO's successful lobbying during the run-up to the 2011 enactment of the AIA – aimed at eliminating de novo review in ex parte patent reexaminations in favor of Federal Circuit appellate review as the only recourse in such cases regardless of the patent owner's need to present evidence beyond the administrative record. See, AIA Section 6 (h)(2)(A) amending 35 U.S.C. § 306 by striking "145" and inserting "144"; and Charles E. Miller and Daniel P. Archibald, "Interpretive Agency-Rulemaking vs. Statutory District Court Review-Jurisdiction in Ex Parte Patent Reexaminations", 92(4) *J. Pat. & Trademark Off. Soc'y*, pp. 498-535 (Fall 2010);
- (iv) a failed attempt in *Hyatt v. Kappos*, 132 S. Ct. 1690, 1694 (2012), to persuade the U.S. Supreme Court to allow the exclusion of relevant evidence in Section 145 civil actions that could have been adduced and addressed during the administrative phase before the PTAB. The PTO's defeat may have provided much of the impetus for its current efforts at marginalizing Section 145. See, Charles E. Miller,

“Kappos v. Hyatt and the Endangered Right of De Novo Judicial Review of Administrative-Agency Decisions in the Wake of the America Invents Act”, 95 *J. Pat. & Trademark Off. Soc’y*, pp. 3-23 (2013); and

(v) a lobbying effort in 2013 to repeal Section 145 altogether under the guise of a “technical amendment” of the AIA. *See*, Section 9(a) of the so-called INNOVATION ACT which was formally introduced on October 13, 2013 by Rep. Bob Goodlatte (R-Va) as H.R. 3309 (113th Congress). Had it been enacted, such a repeal would have created exclusive Federal Circuit jurisdiction over adverse PTAB decisions on patent applications.

Against this background litany of prior efforts to avoid or discourage de novo judicial review of its decision-making, the PTO now seeks, through judicial lobbying, to impose a new tax on applicants as a financial deterrent against Section 145 civil actions that was never before overtly contemplated, namely, the inclusion of the salaries paid to the PTO’s in-house counsel and paralegal employees as part of “all the expenses” to be shifted under Section 145. As discussed below, the obvious impact of this remarkable impediment to de novo review would be to defenestrate the statute and thereby stifle PTO “stakeholders” access to justice through lawful resort to de novo court review. The chilling effect that attorney-fee obligations – as distinguished from costs – can have on private litigants was recognized by then president-to-be Barak Obama who, in a speech at Cambridge Dulles Library in September, 1995 observed: “You’ve got a

black plaintiff or a woman plaintiff on the other side who, if she can find a lawyer who's willing to take the case on a contingency, is still looking at \$40K, \$50K, \$100,000 in costs. *These aren't legal fees, just costs.* They get worn down (emphasis added)"

The PTO's interpretation of Section 145 has not escaped the attention of the IP community, as discussed in the *American Bar Association Intellectual Property Law Section Report to the ABA House of Delegates and Recommended ABA Resolution 108A*, approved February 8, 2016. The position of the ABA fully comports with that of NantKwest and the amici curiae herein.

B. 35 U.S.C. § 145 Neither Requires Nor Permits The PTO's Expenditures For Attorney Services To Be Part Of "All The Expenses Of The Proceeding" That The Patent Applicant Must Always Pay

When construing a statutory provision, a court pays due regard to the statute's purpose as gleaned from the intendment of the words used in the text so long as they are plain and clear, not in violation of law, not inconsistent with public policy, and the disposition of the issue upon which the statute operates is not absurd. *Chevron U.S.A., Inc. v. Natural Resources Defense Council*, 467 U.S. 837, 842-43 (1984); *Middlesex County Sewerage Auth. v. Nat'l Sea Clammers Ass'n*, 453 U.S. 1, 15 (1981); *Morton v. Ruiz*, 415 U.S. 199, 231 (1974). Whether or not a word or term is clear and

unambiguous, it can only be construed properly in any given instance according to the context in which it appears, without blind adherence to dictionary definitions as might otherwise be ascribed to the term under normal usage. From this hermeneutical principle, the term “all the expenses” in Section 145 cannot merely by *ipso facto* argument be said to include either attorney fees invoiced to the other party or the other party’s non-out-of-pocket pro-rata expenditures for legal services of in-house legal personnel assigned to work on the case. To do so would ignore the context provided by the American Rule and in so doing deny a district court judge the common law discretion – separate and apart from mandatory expense shifting – as to whether an award of attorney fees in whole or in part would be appropriate in a given case.

The PTO argues that monies spent for attorney services are to be included in “expenses” because the “purpose” of the expense-shifting provision somehow has to do with funding the PTO’s overall operations by enabling it to recoup its costs incurred in defending the suit. But that is a dubious proposition based on historical circumstances that no longer apply; today it is for the *in terrorem* effect of discouraging the bringing of such civil actions in the first place. To divine any purpose in the absence of context, or in the absence of any clear indication in the text, begs the

ultimate question implicit in this Court’s August 31, 2017 *en banc* Order: Can the PTO’s expenses include attorney fees such as in the form of legal staff salaries?

Because of the long-standing American Rule, which sets the context, attorney fees could only be included as part of all the “expenses” to be shifted if Section 145 expressly so indicated. But, that is simply out of the question here because the statute does not unequivocally so provide. *See Marek v. Chesny*, 473 U.S. 1, 8-9 (1985); *Utility Automation 2000, Inc. v. Choctawhatchee Elec. Co-op, Inc.*, 298 F.3d 1238, 1246 (11th Cir. 2002). If Section 145 were interpreted to shift attorney fees as though they were expenses in the usual sense as advocated by the PTO, and if NantKwest, had prevailed on the merits of invention patentability, then it would be tantamount to requiring the prevailing party in a civil action to pay the losing side’s lawyers — a profoundly absurd consequence in the context of historic American practice.

In enacting Section 145, Congress did not write the expense-shifting provision in the last sentence with such unequivocal, specific, and “heightened clarity” (*Shammas*, 784 F.3d at 223), sufficient to justify the PTO’s unreasoned and unreasonable, expanded interpretation of the term “all expenses.” Faced with this fact, the PTO is attempting an end-run

around the American Rule by camouflaging the pro-rata salaries of its in-house legal counsel and paralegals who worked on the case by draping them with the phrase “in-house personnel.” However, it should be noted that in British courts, under the English rule (to which in a sense Section 145, as interpreted by the PTO, defaults when the PTO is the prevailing party), the salaries paid to a litigant’s in-house legal service personnel are not considered common litigation *expenses*, but instead are treated in the same way as outside counsel *fees*. As such, they are usually shifted in favor of the prevailing party. *Henderson v. Merthyr Tydfil Urban Council*, 1 QBD 434 (1900); *In re Eastwood*, Ch 112 (1975) (in-house lawyers are treated in essentially the same way as independent practitioners). This undermines the PTO’s position that its in-house legal staff salaries are expenditures akin to garden-variety “expenses” and as such can be charged as a tax against plaintiff-applicants under Section 145. But as indicated above, such salaries are no different for the purposes of Section 145 than invoiced fees of outside attorneys and as such cannot be shifted without violating the American Rule absent specific statutory authorization which simply does not exist in Section 145.

C. No Valid Rationale Justifies Expense-Shifting Under Section 145 To Include Attorney Fees In Violation Of The American Rule Given The Absence Of Any Statutory Attorney-Fee - Shifting In Direct Appeals To The Federal Circuit

If an aggrieved applicant elects the other option for judicial recourse from an adverse PTO decision, namely, direct appellate review in the Federal Circuit under 35 U.S.C. § 141, then the applicant would not be required to reimburse the PTO for anything beyond the possible assessment and awarding of court costs under Fed. R. App. P. 39; 28 U.S.C. § 1920 unless the PTO prevailed and even then only under egregious circumstances, e.g., sanctionable behavior under 28 USC §1927.

It makes no sense that in direct appeals from the PTO to the Federal Circuit on a fixed administrative record, the PTO pays for its own counsel (its in-house solicitors' and paralegal salaries) while advocating that when sued in the district court in a de novo proceeding that includes newly-adduced evidence, the PTO need not pay for legal services provided by DOJ attorneys free of charge to the PTO. This inconsistency lacks any rational basis; if Congress intended to burden an applicant with paying the PTO's attorney fees in a district court action, Congress would have done so expressly. It is irrational to suppose that Congress would intend that the applicant should pay attorney fees in one avenue of review and not in the other.

D. The PTO's Interpretation Of The Expense-Shifting Provision Leads To The Absurd Result That The Winning Patent Applicant Must Always Pay the Loser's Lawyers

Construing Section 145 to include attorney fees as advocated by the PTO would also lead to the fundamental absurdity of requiring the successful party to pay for the losing party's lawyers as exemplified in cases where the aggrieved applicant prevails against the PTO in district court. This is procedurally nonsensical, illogical, and substantively unconscionable, and from a policy standpoint it would stand the American Rule on its head by erroneously accepting an ephemeral assertion by the administrative state urging attorney-fee shifting based solely on the unelaborated "all expenses" language of the statute that is unsupported by *any* legislative directive, let alone one that is clear and unequivocal. It is doubly contrary to policy because the prevailing patent applicant also overcame the substantial odds against a successful appeal.

If so construed, the language of Section 145 suffers an indefiniteness not addressed in the parties' briefs or by the courts to date in this or in any other case including *Shammas*. Thus, the district court in *NantKwest* focused its attention on the question of *what* "expenses" are included in the provision (i.e., whether the term includes attorney fees). The court was not asked nor did it consider *whose* "expenses" must be paid by the plaintiff

(other than those incurred by the PTO in the form of the pro-rated salaries of its legal staff) and in *which proceedings* other than the district court phase of the case. But as expansively interpreted by the PTO, the statute must also require the plaintiff to pay *all* the expenses – including the salaries of other entities involved in any follow-on proceedings. Such entities would include: (i) the district court itself (including the judges, the clerks, and other court employees as well as outside law firms, experts, and masters retained or appointed by it) (*see* 28 U.S.C. § 530C(b)(1)(C); Fed. R. Evid. 706; Fed. R. Civ. P. 53); (ii) any third-party intervenor appearing in the case (*see* Fed. R. Civ. P. 24); (iii) any private law firm or firms retained to assist the PTO in the defense of the action (*see* 5 U.S.C. § 3109); and (iv) the DOJ attorneys who worked on the case.

With respect to the category (iv) attorneys, for example, the present record is silent as to whether NantKwest should pay for the services of the DOJ attorneys involved in defending the case, which, as presently advised would normally not be billed to the PTO as a matter of DOJ custom.

Alternatively, even assuming such services were not invoiced to the PTO, the district court could, under color of the literal wording of the statute, order NantKwest to pay for them as well as pay for the expenditures made by the entities in categories (i), (ii), and (iii).

In regard to *whose* expenses are included in Section 145, under the PTO's interpretation, couldn't the district court order the plaintiff – even if it wins – to pay those third-party expenditures as a matter of course? To foreclose this absurd albeit strictly logical scenario, the Federal Circuit when considering and deciding the PTO's appeal, guided by the American Rule, should in turn guide the district court where motions for Section 145 expenses are brought and decided, by construing the language in question to mean *all the expenses of only the PTO in the civil action in only the district court proceeding, exclusive of the PTO's attorney fees qua personnel salaries*.

If the PTO were to prevail in its erroneous contention that Section 145 is vague and open-ended with respect to “all expenses” and then exploit it to its logical conclusion, then the true nature and magnitude of the chilling effect on aggrieved-applicants' unreasonable, unforeseeable, and significant financial exposure in pursuing civil actions compared to direct appeals to the Federal Circuit is revealed in all its mischief. This Court should consider that failure to affirm the district court's decision will launch the U.S. patent system down a slippery slope leading to the ultimate elimination of district court review as a viable – and necessary – recourse against incorrect PTO administrative actions in *ex parte* matters.

Unless critically examined and rejected by this Court, the PTO's position will have disastrous consequences for the patent applicant community, and would do nothing to aid Congress in fostering the goals of the U.S. patent system. This Court now has an historic opportunity to interpret correctly the "all expenses" provision in Section 145.

E. The PTO's Interpretation Requiring Attorney-Fee-Shifting Even When It Loses Is At Odds With The Provisions And Offends The Purpose Of The Equal Access To Justice Act

Under the PTO's interpretation of "all expenses" to demand that an aggrieved plaintiff-patent applicant pay the defendant PTO's attorney fees would extract an exorbitant price from the applicant who seeks to exercise the right to introduce new evidence in a civil action as the only practical way of optimizing the chances of vindicating entitlement to a patent and the benefits it bestows. No party should be penalized in this way for merely prosecuting a lawsuit, but that is precisely the result the PTO seeks to accomplish.

The PTO's position conflicts with the provisions and purpose of the Equal Access to Justice Act ("EAJA") (*see* 28 U.S.C. § 2412) which is intended to protect private plaintiffs against being saddled with the burden having to pay the Government's attorney fees in civil actions when the

underlying enabling statute (like Section 145) not only does not expressly mandate such fee-shifting, but indeed, is understood to prohibit it.

Construing the expense-shifting language of Section 145 to include attorney fees as urged by the PTO is inimical in spirit to the provisions of the EAJA in 28 U.S.C. §§ 2412(a)(1), (b), and (d)(1)(A) governing the award to a prevailing party (defined in (d)(2)(B)) of the expenses, costs, and fees in “any civil action brought . . . against any agency or any official of the United States...” including (under (d)(2)(A)) “proceedings for judicial review of agency action....” The term “fees and other expenses” is defined in 28 U.S.C. § 2412 (d)(2)(A) to include “reasonable attorney fees . . . which are to be included in the award except as otherwise specifically provided by statute” (as stated in 28 U.S.C. § (a)(1) and (d)(1)(A)) or “unless expressly prohibited by statute” (as stated in 28 U.S.C. § 2412(b)). The language of Section 145 in accordance with the EAJA does not specifically provide for an attorney fee award to either the PTO or the plaintiff, and indeed prohibits it under the American Rule.

V.
CONCLUSION

Based on the foregoing reasons and authorities, the amici curiae herein urge this Court, guided by the established, time-honored American Rule apropos to this case, to (i) reject the PTO's definition of "expenses" in Section 145 to include attorney fees, and (ii) affirm the District Court's refusal to shift attorney fees incurred by the PTO in the form of pro-rated salaries of the PTO's in-house legal personnel.

Dated: January 23, 2018

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CERTIFICATE OF COMPLIANCE

This brief complies with the typeface requirements of Fed. R. App. P.32(a)(5)(A) and the type style requirements of Fed.R.App.P. 32(a)(6). The brief has been prepared in a proportionally spaced typeface using Microsoft Word 2010 in 14-point font of Times New Roman.

This brief also complies with the type-volume limitation of Fed.R.App.P. 29(a)(5) and 32(a)(7)(B)(i). It contains 5,418 words counted by the Microsoft Word 2010 function, excluding those parts exempted by Fed.R.App.P. 32(f) and Fed.Cir.R.32(b).

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**United States Court of Appeals
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Nantkwest, Inc. v. Matal, 2016-1794

CERTIFICATE OF SERVICE

I, Robyn Cocho, being duly sworn according to law and being over the age of 18, upon my oath depose and say that:

On **January 23, 2018**, counsel has authorized me to electronically file the foregoing **Amicus Brief** with the Clerk of Court using the CM/ECF System, which will serve via e-mail notice of such filing to all counsel registered as CM/ECF users, including the following principal counsel for the parties:

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January 23, 2018

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**United States Court of Appeals
for the Federal Circuit**

2016-1794

NANTKWEST, INC.,

Plaintiff-Appellee,

v.

JOSEPH MATAL, PERFORMING THE FUNCTION AND DUTIES OF THE
UNDER SECRETARY OF COMMERCE FOR INTELLECTUAL PROPERTY
AND DIRECTOR, U.S. PATENT AND TRADEMARK OFFICE,

Defendant-Appellant.

Appeal from the United States District Court for the Eastern District of Virginia in
No. 1:13-cv-01566-GBL-TCB, Judge Gerald Bruce Lee

**CORRECTED EN BANC BRIEF OF *AMICUS CURIAE*
THE INTELLECTUAL PROPERTY LAW ASSOCIATION OF CHICAGO
IN SUPPORT OF NANTKWEST, INC., PLAINTIFF-APPELLEE**

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CERTIFICATE OF INTEREST

Counsel for *Amicus Curiae* The Intellectual Property Law Association of Chicago certifies as follows:

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

The Intellectual Property Law Association of Chicago
2. The name of the real party in interest represented by us is:

None.
3. All parent corporations and any publicly held companies that own 10 percent or more of the stock of the *amicus curiae* represented by us are:

None.
4. The names of all law firms and the partners, counsel or associates that appeared for the *amicus curiae* now represented by us in the trial court or are expected to appear in this Court are:

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David Mlaver Charles W. Shifley
5. The title and number of any case known to us to be pending in this or any other court or agency that will directly affect or be directly affected by this Court's decision in the pending appeal are:

The Court decided another appeal in this case, *NantKwest, Inc. v. Lee*, 686 F. App'x 864 (Fed. Cir. 2017). The Court has also stayed the appeal in *Realvirt v. Matal*, No. 17-1159, pending resolution of this appeal. See *Realvirt*, D.I. 55. The Intellectual Property Law Association of Chicago is not aware of any other pending or related cases within the meaning of Federal Circuit Rule 47.5(b).

January 23, 2018

/s/ Margaret M. Duncan
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STATEMENT OF INTEREST¹

The Intellectual Property Law Association of Chicago (“IPLAC”) respectfully submits this brief as amicus curiae in support of NantKwest, Inc., plaintiff-appellee.

Founded in 1884, the Intellectual Property Law Association of Chicago is the country’s oldest bar association devoted exclusively to intellectual property matters. Located in Chicago, a principal locus and forum for the nation’s authors, artists, inventors, scholarly pursuits, arts, creativity, research and development, innovation, patenting, and patent litigation, IPLAC is a voluntary bar association of over 1,000 members with interests in the areas of patents, trademarks, copyrights, and trade secrets, and the legal issues they present. Its members include attorneys in private and corporate practices before federal bars throughout the United States, from law firm attorneys to sole practitioners, corporate attorneys, law school professors, law students, and judges,² as well as the U.S. Patent and Trademark Office and the U.S. Copyright Office. IPLAC members prosecute thousands of

¹ This brief has not been authored in whole or in part by counsel for a party. No person or entity, other than Amicus, its members or its counsel, has made a monetary contribution to the preparation or submission of this brief.

² Although over 30 federal judges are honorary members of IPLAC, none was consulted on, or participated in, this brief.

patent applications and litigate many patent lawsuits in Chicago and across the country.³

IPLAC represents both patent holders and other innovators in roughly equal measure. In litigation, IPLAC's members are split roughly equally between plaintiffs and defendants. As part of its central objectives, IPLAC as a not-for-profit is dedicated to aiding in the development of intellectual property law, especially in the federal courts. A principal aim is to aid in the development and administration of intellectual property laws and the manner in which the courts and agencies including the United States Patent and Trademark Office ("PTO") apply them. IPLAC is also dedicated to maintaining a high standard of professional ethics in the practice of law, providing a medium for the exchange of views on intellectual property law among those practicing in the field, and educating the public at large.

³ In addition to the statement of footnote 1, after reasonable investigation, IPLAC believes that (a) no member of its Board or Amicus Committee who voted to prepare this brief, or any attorney in the law firm or corporation of such a member, represents a party to this litigation in this matter; (b) no representative of any party to this litigation participated in the authorship of this brief; and (c) no one other than IPLAC, or its members who authored this brief and their law firms or employers, made a monetary contribution to the preparation or submission of this brief.

ISSUE PRESENTED

Did the panel in *NantKwest, Inc. v. Matal*, 860 F.3d 1352 (Fed. Cir. 2017) correctly determine that 35 U.S.C. § 145’s “[a]ll the expenses of the proceedings” provision authorizes an award of the United States Patent and Trademark Office’s attorneys’ fees?

SUMMARY OF ARGUMENT

The Federal Circuit panel incorrectly reversed the district court by interpreting “all the expenses of the proceedings” under 35 U.S.C. §145 to clearly and explicitly authorize awarding the PTO pro rata shares of the salaries of the PTO attorneys and paralegals who worked on the district court proceedings. The *en banc* panel should first reaffirm that the American Rule applies to § 145’s analysis, and, second, correctly find that the phrase “all expenses of the proceedings” is not sufficiently clear and explicit to authorize fee-shifting.

The Court should interpret § 145 under the American Rule because it is the baseline principle from which all alleged fee-shifting statutory provisions are analyzed. The Supreme Court has never narrowed the American Rule to require that fee-shifting statutes explicitly reference a “prevailing party” for the Rule to be applicable. Because no binding decisions narrow the American Rule’s scope, the Rule should apply to § 145.

The Court also is precluded from awarding attorneys' fees to the PTO because "[a]ll the expenses of the proceedings" in § 145 is at best ambiguous with respect to fee-shifting, and the American Rule requires clear and explicit authorization of fee-shifting to award fees. The term "expenses" is not clearly and explicitly broad enough to include fees on its own, and the language modifying "expenses" in § 145 fails to provide the necessary clarity under the American Rule. The term "all" defines the proportion of expenses paid, and the phrase "of the proceedings" limits the scope of expenses to those incurred at the district court.

Furthermore, the legislative history of § 145 is unclear and ambiguous as to whether Congress intended to require each applicant filing an action under § 145 to pay the PTO's fees regardless of the case's outcome. A scheme where all applicants pay the PTO's attorneys' fees in all cases not only places reasonable applicants on equal footing with those making unreasonable claims, but also fails to account for other provisions under which a district court may award fees. Congress more likely endorsed a two-tiered disincentive scheme, in which all applicants seeking review under § 145 would be responsible for the PTO's "expenses" and not attorneys' fees, leaving district courts with the discretion to award fees in appropriate cases under other statutory provisions or inherent power of the district courts.

Because § 145 is ambiguous with respect to fee-shifting, it fails to clearly and explicitly deviate from the American Rule. Therefore, the Court should not award the PTO its attorneys' fees as included within § 145's "all the expenses of the proceedings."

ARGUMENT

I. THE AMERICAN RULE APPLIES TO 35 U.S.C. § 145

The American Rule is a "bedrock principle" of American jurisprudence under which "each litigant pays his/her own attorneys' fees, win or lose, unless a statute . . . provides otherwise." *Baker Botts v. ASARCO, LLC*, 135 S. Ct. 2158, 2164 (2015) (quoting *Hardt v. Reliance Standard Life Ins. Co.*, 560 U.S. 242, 252-53 (2010)). The American Rule serves as the "basic point of reference" for awards of attorneys' fees regardless of whether or not a fee-shifting provision makes reference to a "prevailing party." *See id.* at 2166 (applying the American Rule to a statute purporting to shift fees in the "unusual manner" of awarding them to a potentially unsuccessful litigant, even though fee-shifting provisions commonly award fees to a "prevailing party" or a "successful litigant"). Thus, the Court should apply the American Rule to § 145 in the present case.

The panel majority in this case correctly applied the American Rule to § 145 despite expressing "substantial doubts" that the Rule applied absent an express reference to a "prevailing party." *See NantKwest, Inc. v. Matal*, 860 F.3d 1352,

1355 (Fed. Cir. 2017). The majority’s doubts mirrored those of the Fourth Circuit, *id.* (citing *Shammas v. Focarino*, 784 F.3d 219, 223 (4th Cir. 2015), *cert. denied sub nom. Shammas v. Hirshfeld*, 136 S. Ct. 1376 (2016)), and originated from a narrow but non-limiting formulation of the American Rule announced by the Supreme Court in *Alyeska Pipeline*. See *NantKwest*, 860 F.3d at 1355-56 (quoting *Alyeska Pipeline Serv. Co. v. Wilderness Soc’y*, 421 U.S. 240, 247 (1975)); see also *Shammas*, 784 F.3d at 223 (citing *Alyeska Pipeline*, 421 U.S. at 247 (stating that a “prevailing party may recover fees from a non-prevailing party” under customary fee-shifting provisions)). Relying on *Alyeska Pipeline*, the Fourth Circuit held that a Lanham Act provision⁴ did not “operate against the backdrop of the American Rule” absent an explicit reference to a “prevailing party.” See *Shammas*, 784 F.3d at 223 (citing *Alyeska Pipeline*, 421 U.S. at 247).

Alyeska Pipeline does not stand for this narrow construction of the American Rule; it stands for the proposition that only Congress has the authority to authorize fee-shifting. See *Alyeska Pipeline*, 421 U.S. at 263 (“Congress itself presumably has the power . . . to allow attorneys’ fees under some [provisions], but not others.”); see also *id.* at n.37 (stating that Congress may award fees to either party, neither party, only to the plaintiff, or only to the defendant, so long as the

⁴ See 15 U.S.C. § 1071(b)(3) (“[U]nless 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.”)

circumstances are specified.). Furthermore, *Alyeska Pipeline*'s "prevailing party" discussion is intended to clarify the backdrop of the American Rule's creation and departure from the "English Rule," the latter of which always awards fees to prevailing parties. *Id.* at 247-64 (discussing Congressional mandates eradicating the "English Rule" and implementing the presumption of awarding fees to neither party irrespective of outcome). The Supreme Court's *Alyeska Pipeline* decision does not support the proposition that an explicit reference to a "prevailing party" is necessary for a statute to operate and be reviewed against the backdrop of the American Rule.

Here, the *en banc* panel should apply the American Rule to its analysis of § 145 and reject the narrowing limitations placed on the Rule in *Shammas* because the Supreme Court never explicitly narrowed the scope of the American Rule. On the contrary, the Court in *Baker Botts* endorsed a broader construction of the American Rule than *Shammas* by interpreting a Bankruptcy Code provision under the Rule, even though the provision failed to reference a prevailing party.⁵ Thus, even though fee-shifting provisions commonly reference a "prevailing party," it does not follow that the American Rule ceases to apply when a statute fails to

⁵ *Baker Botts*, decided on June 15, 2015, issued almost two months after *Shammas*, decided on April 23, 2015, and although *Baker Botts* did not expressly overrule *Shammas*, see *Booking.com v. Matal*, 1:16-cv-425 (LMB/IDD), slip op. at *6-*7 (E.D. Va. Oct. 27, 2017), *Baker Botts* does not limit the American Rule's application based on an explicit reference to a "prevailing party."

reference a “prevailing party.” *See NantKwest*, 860 F.3d at 1355 (applying the American Rule to § 145, while stating that Congress intended patent applicants to pay PTO “expenses” under § 145 “whether they win or lose”); *see also id.* at 1363-65 (Stoll, C.J., dissenting) (citing fee-shifting provisions commonly referencing prevailing parties but endorsing the potential for provisions to “represent a particularly unusual divergence from the American Rule” by awarding fees to non-prevailing parties (emphasis added)). Section 145 is alleged to shift attorneys’ fees from one party to another, and the American Rule should apply to this provision.

II. SECTION 145 IS UNCLEAR AND AMBIGUOUS WITH RESPECT TO FEE-SHIFTING AND FAILS TO OVERCOME THE AMERICAN RULE’S PRESUMPTION AGAINST FEE SHIFTING

The Court should find that the phrase “[a]ll the expenses of the proceedings” is not sufficiently clear and explicit regarding fee-shifting to rebut the American Rule’s presumption against awarding attorneys’ fees. While the use of phrases like “attorneys’ fees” or “prevailing party” are not necessary for fee-shifting, the statute must otherwise “evinced [] intent to provide for such fees.” *Key Tronic Corp. v. United States*, 511 U.S. 809, 815 (1994). This requires language that clearly and explicitly overrides the American Rule. *Id.* at 817-18. Section 145 is at best ambiguous regarding fees. The Court should not read this ambiguity to clearly and explicitly award the PTO attorneys’ fees in all actions under § 145.

The term “expenses” in § 145 is ambiguous regarding whether it encompasses attorneys’ fees, much less a pro rata share of PTO salaries, and is reasonably interpreted as not authorizing fees. The ambiguity of “expenses” is highlighted by several citations in the briefs and judicial opinions in this case assessing whether “expenses” is sufficiently clear and explicit to override the American Rule’s presumption against fee-shifting.

If Congress intended to shift fees under § 145, Congress would have provided iron-clad certainty in doing so, especially given the extreme deviation from the American Rule created by awarding pro rata shares of salaries of the PTO’s attorneys and paralegal working on the matter regardless of the outcome of the case. For example, while neither “prevailing party” nor “successful litigant” are required to implicate the American Rule, Congress’ keen awareness of the clarity and specificity required to authorize fee-shifting results in their usage of these phrases almost every time. *See Ruckelshaus v. Sierra Club*, 463 U.S. 680, 684 (1983) (“[V]irtually every one of the more than 150 existing federal fee-shifting provisions predicate fee-shifting on *some* success by the claimant.”) (emphasis in original); *see also Baker Botts*, 135 S. Ct. at 2164 (recognizing that deviations from the American Rule “tend to authorize the award of a ‘reasonable attorney’s fee’ or ‘litigation costs,’ and usually refer to a ‘prevailing party’”). *See also* 35 U.S.C. § 285 (fee-shifting provision in the American Invents Act

permitting the court “in exceptional cases” to “award reasonable attorney fees to the prevailing party.”). However, in § 145, Congress chose the ambiguous term “expenses.”

Clarity and specificity is required to deviate from the American Rule. Because “all the expenses of the proceedings” in § 145 is reasonably interpreted as not shifting attorneys’ fees, this Court should not award them.

Additionally, the context in which § 145 uses the term “expenses” does not resolve the lack of clarity and ambiguity in the statute. In particular, neither the word “all” nor the phrase “of the proceedings” clarifies or broadens the intended meaning of the word “expenses” to clearly and explicitly include attorneys’ fees.

First, the word “all” simply identifies the portion of “expenses” applicants must pay and does not elucidate whether the term includes attorneys’ fees. To the contrary, the statute’s requirement that “[a]ll the expenses . . . shall be paid” suggests that the Office has never, as it now claims, had discretion to demand only a portion of “the expenses.” This suggests that the “expenses” paid by litigants for the last 170 years, which *never* included fees, was “all the expenses.” *See Brief for Appellant* at 16, *NantKwest, Inc. v. Matal*, 860 F.3d 1352 (Any doubt over the meaning of “expenses” was clarified with the term “all,” which “clearly indicat[ed] that the common meaning of the term ‘expenses’ should not be limited,” (citing *Shammas*, 784 F.3d at 222)); *see also Brief of Plaintiff-Appellee NantKwest, Inc.* at

46, *NantKwest, Inc. v. Matal*, 860 F.3d 1352 (When this Court characterized § 145’s “expenses” as an economic deterrent to applicants, it did so “at a time when, for over 170 years, the PTO, district courts, and Congress had *never* interpreted “expenses” to authorize attorneys’ fees.”).

Second, “of the proceedings” is a limitation on the scope of “expenses,” and not a phrase clearly broadening “expenses” to include fees. The phrase simply limits “expenses” to those incurred during district court proceedings; preventing inconsistent results in actions under § 145 and appeals under § 141.⁶

Section 145 is ambiguous at best with respect to fee-shifting. This ambiguity permits reasonable interpretations of § 145 to exclude fee-shifting, and the Court should not award fees or pro rata portions of salaries of the PTO’s attorneys and paralegal under § 145 absent a clear and explicit Congressional mandate to do so.

III. THAT CONGRESS MIGHT HAVE CHOSEN AMONG SEVERAL DISINCENTIVE SCHEMES SUPPORTS FINDING AMBIGUITY IN 35 U.S.C. § 145 AND PRECLUDES AWARDED THE PTO FEES

Reference to the legislative purpose of § 145 does not resolve the ambiguity in the statute because Congress was free to choose among several plausible disincentive schemes. More specifically, this Court’s conclusion in *Hyatt* that Congress intended § 145 to impose a “heavy economic burden” on applicants

⁶ See 35 U.S.C. § 141 (omitting an award of expenses while providing for appeals from the PTO directly to the Federal Circuit).

seeking district court review, *see NantKwest*, 860 F.3d at 1355 (citing *Hyatt v. Kappos*, 625 F.3d 1320, 1337 (Fed. Cir. 2010) (en banc)), does not imply that Congress intended § 145's "expenses" to include attorneys' fees, much less a pro rata share of the PTO's attorney and paralegal salaries, to maximize the economic burden as a deterrent to every patent applicant in every such case.

The PTO's transition to a user-funded business model does not imply that Congress *sought to tie each and every* operational cost of the Office to the users most directly responsible for incurring it. *See Brief for Appellant* at 19, *NantKwest, Inc. v. Matal*, 860 F.3d 1352 ("[Fee shifting under § 145] is particularly important now that the PTO, at Congress's discretion, operates entirely as a user-funded agency,"), *but see Brief of Plaintiff-Appellee NantKwest, Inc.* at 44, *NantKwest, Inc. v. Matal*, 860 F.3d 1352 ("This justification [of the PTO transitioning to a user-funded agency] ignores that in the face of over 170 years of the PTO *never* seeking attorneys' fees, Congress mandated that the PTO become an entirely user-funded agency *without* amending § 145 to clearly authorize attorney's fees.").

A legislative scheme under which attorneys' fees are always shifted unfairly punishes good-faith litigants whose claims may require a high number of attorneys' hours to litigate. At the same time, such a scheme counterintuitively places bad-faith litigants in equipoise with good-faith litigants by requiring both to

pay the full measure of attorneys' fees. A better view of § 145 is that it excludes fees from "expenses" and employs a two-tiered scheme whereby all litigants bear the "heavy economic burden" of non-fee expenses, while bad-faith or unreasonable litigation is further deterred by provisions that explicitly authorize fee-shifting.

The PTO may still be entitled to collect attorneys' fees under multiple fee-shifting statutes if applicants litigate unreasonably or in bad faith. First, the Patent Statute has a fee-shifting provision at the district court "in exceptional cases," *see* 35 U.S.C. § 285, to deter bad faith litigation and litigation misconduct. Nothing in § 285 restricts its scope only to infringement cases.⁷ Second, district courts retain their inherent powers permitting fee awards in cases of bad faith litigation and litigation misconduct. Third, 28 U.S.C. § 1927 authorizes courts to make counsel personally liable for fees to prevent counsel from unreasonably or vexatiously multiplying proceedings. Because of the inherent and statutory powers permitting courts to award fees when warranted, it is plausible that Congress envisioned a

⁷ "Section 285 ... authorizes a district court to award attorney's fees in patent litigation." *Octane Fitness v. Icon Health & Fitness*, 134 S. Ct. 1749 (2014). A § 145 action is "patent litigation," a litigation over a patent, whether it is to be granted or not. The PTO may or may not consider § 285 to apply to § 145 actions, but whether it does is at least an open question. Motivated to recover fees in § 145 actions, the PTO could and should take up the case that § 285 applies; in doing so, it would focus its energies where they should be applied, on exceptional cases. As in *Octane Fitness*, the cases for which the PTO could obtain fees would broadly and appropriately include the § 145 cases which "[stand] out from others with respect to the substantive strength of a party's litigating position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case was litigated." *Octane*, 134 S. Ct. at 1756.

two-tiered disincentive scheme rather than the single-tiered, automatic approach mandating that all litigants pay the PTO's fees, regardless of case outcome.

Similarly, the PTO's transition to a user-funded model fails to necessitate shifting fees in every § 145 action because Congress could have approached user-funding under § 145 in multiple ways. Specifically, Congress could have assigned the relatively predictable non-fee costs to applicants invoking § 145 as a constant disincentive, while simultaneously defraying the "high and uncertain costs" of attorneys' fees or pro rata portions of PTO salaries among all of the PTO's users, in something of an insurance model. *See NantKwest*, 860 F.3d 1365-66 (Stoll, C.J., dissenting). Economics teaches that insurance-like models are appropriate where an "insured" faces a very small chance of incurring a very large expense,⁸ just as the PTO faces a very small chance of incurring § 145 case fees among the millions of patent applications it handles, and just as individual patent applicants face a very small chance of needing a § 145 action to present new evidence.

Because Congress plausibly intended to spread the variable and unpredictable cost of attorneys' fees across the PTO's larger user base to maintain a predictable disincentive for "all the expenses" that excludes fees, the Court should not find sufficient evidence to authorize an award of attorneys' fees under § 145 simply because Congress transitioned the PTO to a user-funded agency.

⁸ *See* Karl Borch, *The Economic Theory of Insurance* at 261-63 (1964), available at <https://www.casact.org/library/astin/vol4no3/252.pdf>.

CONCLUSION

For the reasons above, the Court should clarify that the proper interpretation of “expenses” in 35 U.S.C. § 145 does not include attorneys’ fees and reject any definition that includes fee shifting, which is not clearly or explicitly set forth in the statute.

Respectfully submitted,

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Dated: January 23, 2018

CERTIFICATE OF SERVICE

I, Margaret M. Duncan, certify that on January 23, 2018, a copy of the CORRECTED EN BANC BRIEF OF AMICUS CURIAE THE INTELLECTUAL PROPERTY LAW ASSOCIATION OF CHICAGO IN SUPPORT OF NANTKWEST, INC., PLAINTIFF-APPELLEE was electronically filed with the Clerk of Court using the CM/ECF System, which will serve via email notice of such filing to all counsel registered as CM/ECF users, including the following principal counsel for the parties:

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CERTIFICATE OF COMPLIANCE WITH RULE 32(a)

1. Pursuant to Federal Rule of Appellate Procedure 32(a)(7)(B), Counsel for *Amicus Curiae* The Intellectual Property Law Association of Chicago certifies that, according to the Microsoft Word® processing program used to prepare this brief, this brief contains 3,474 words, not including the table of contents, table of citations, and certificates of counsel.

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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