

No.

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**In the Supreme Court of the United States**

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ANDREI IANCU, UNDER SECRETARY OF COMMERCE  
FOR INTELLECTUAL PROPERTY AND DIRECTOR,  
UNITED STATES PATENT AND TRADEMARK OFFICE,  
PETITIONER

*v.*

NANTKWEST, INC.

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*ON PETITION FOR A WRIT OF CERTIORARI  
TO THE UNITED STATES COURT OF APPEALS  
FOR THE FEDERAL CIRCUIT*

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**PETITION FOR A WRIT OF CERTIORARI**

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### QUESTION PRESENTED

When the United States Patent and Trademark Office (USPTO) denies a patent application, the Patent Act gives the unsuccessful applicant two avenues for seeking judicial review of the agency's decision. The applicant may appeal directly to the Federal Circuit, 35 U.S.C. 141, which "shall review the decision from which an appeal is taken on the record before the [USPTO]," 35 U.S.C. 144. Alternatively, the applicant may bring a civil action against the Director of the USPTO in district court, where the applicant may present additional evidence. 35 U.S.C. 145. If the applicant elects to bring such an action, "[a]ll the expenses of the proceedings shall be paid by the applicant." *Ibid.* The question presented is as follows:

Whether the phrase "[a]ll the expenses of the proceedings" in 35 U.S.C. 145 encompasses the personnel expenses the USPTO incurs when its employees, including attorneys, defend the agency in Section 145 litigation.

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The Solicitor General, on behalf of the Director of the United States Patent and Trademark Office, respectfully petitions for a writ of certiorari to review the judgment of the United States Court of Appeals for the Federal Circuit in this case.

### OPINIONS BELOW

The opinion of the en banc court of appeals (App., *infra*, 1a-55a) is reported at 898 F.3d 1177. The opinion of the court of appeals panel (App., *infra*, 56a-87a) is reported at 860 F.3d 1352. The opinion of the district court (App., *infra*, 88a-100a) is reported at 162 F. Supp. 3d 540.

### JURISDICTION

The judgment of the court of appeals was entered on July 27, 2018. On October 5, 2018, the Chief Justice extended the time within which to file a petition for a writ



of certiorari to and including November 23, 2018. On November 14, 2018, the Chief Justice further extended the time to and including December 21, 2018. The jurisdiction of this Court is invoked under 28 U.S.C. 1254(1).

#### STATUTORY PROVISIONS INVOLVED

Section 145 of the Patent Act provides:

An applicant dissatisfied with the decision of the Patent Trial and Appeal Board in an appeal under section 134(a) may, unless appeal has been taken to the United States Court of Appeals for the Federal Circuit, have remedy by civil action against the Director in the United States District Court for the Eastern District of Virginia if commenced within such time after such decision, not less than sixty days, as the Director appoints. The court may adjudge that such applicant is entitled to receive a patent for his invention, as specified in any of his claims involved in the decision of the Patent Trial and Appeal Board, as the facts in the case may appear and such adjudication shall authorize the Director to issue such patent on compliance with the requirements of law. All the expenses of the proceedings shall be paid by the applicant.

35 U.S.C. 145. Other pertinent statutory provisions are reproduced in the appendix to this petition. App., *infra*, 159a-166a.

#### STATEMENT

1. a. The United States Patent and Trademark Office (USPTO) is “responsible for the granting and issuing of patents.” 35 U.S.C. 2(a)(1). When an applicant seeks a patent, the USPTO assigns an examiner to study the application and determine whether a patent

should issue. 35 U.S.C. 131; 37 C.F.R. 1.104. An applicant who is dissatisfied with the examiner's decision may appeal to the Patent Trial and Appeal Board (Board), a unit within the USPTO. See 35 U.S.C. 6(b)(1), 134. In turn, an applicant who is dissatisfied with the Board's decision may seek judicial review through either of two avenues: a direct appeal to the Federal Circuit or a civil action in district court. 35 U.S.C. 141, 145.

In a direct appeal under 35 U.S.C. 141, the Federal Circuit "review[s] the [Board's] decision \* \* \* on the record before the" USPTO. 35 U.S.C. 144. The court of appeals must apply the deferential standards of review prescribed by the Administrative Procedure Act, 5 U.S.C. 701 *et seq.*, and may set aside the USPTO's findings of fact only if they are "unsupported by substantial evidence," 5 U.S.C. 706(2)(E). See *Dickinson v. Zurko*, 527 U.S. 150, 152 (1999).

Alternatively, an unsuccessful applicant may "have remedy by civil action against the Director" of the USPTO in the United States District Court for the Eastern District of Virginia, 35 U.S.C. 145, with a subsequent appeal to the Federal Circuit, 28 U.S.C. 1295(a)(4)(C). In a Section 145 action, unlike in a direct appeal, the applicant may conduct discovery and may introduce evidence that the USPTO had no opportunity to consider. See *Kappos v. Hyatt*, 566 U.S. 431, 444 (2012). If the applicant introduces new evidence, "the district court must make *de novo* factual findings that take account of both the new evidence and the administrative record before the PTO." *Id.* at 446.

Section 145 states that "[a]ll the expenses of the proceedings shall be paid by the applicant." 35 U.S.C. 145. That requirement applies "regardless of the outcome" of the suit. *Hyatt v. Kappos*, 625 F.3d 1320, 1337 (Fed.

Cir. 2010) (en banc), aff'd, 566 U.S. 431 (2012). No analogous expense-recoupment provision applies when an unsuccessful applicant instead opts for a direct appeal to the Federal Circuit.

b. Section 145 is the current embodiment of a statutory provision that has authorized judicial review of the decisions of the USPTO (or its predecessor, the Patent Office) since 1836, when Congress first created an agency responsible for the examination of patents. See Act of July 4, 1836 (1836 Act), ch. 357, § 16, 5 Stat. 123; see generally *Hoover Co. v. Coe*, 325 U.S. 79, 84-87 (1945). To finance the agency's operations, Congress created a "patent fund," into which applicants were required to pay fees for examinations. 1836 Act § 9, 5 Stat. 121. The fund was used "for the payment of the salaries of the officers and clerks herein provided for, and all other expenses of the Patent Office." *Ibid.* An applicant who was dissatisfied with the agency's decision could seek review before a board of examiners, § 7, 5 Stat. 119-120, and in some circumstances could obtain judicial review by filing a "bill in equity," § 16, 5 Stat. 124. In 1839, Congress extended the bill-in-equity provision "to all cases where patents are refused for any reason whatever." Act of Mar. 3, 1839 (1839 Act), ch. 88, § 10, 5 Stat. 354. Congress also directed that, in any case where a disappointed applicant invoked the bill-in-equity mechanism, "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." *Ibid.*

Congress has since amended various aspects of the Patent Act's scheme for judicial review. See *Hoover Co.*, 325 U.S. at 85-87. Throughout that period, however, the statutory scheme has both (a) afforded disappointed patent applicants the option of initiating a type

of court proceeding in which the applicant could introduce new evidence, and (b) required any applicant who chose that route to pay all the expenses of that proceeding. See Act of July 8, 1870, ch. 230, § 52, 16 Stat. 205; Rev. Stat. § 4915 (2d ed. 1878); Act of Mar. 2, 1927, ch. 273, § 11, 44 Stat. 1336-1337; 35 U.S.C. 63 (1946). In the Patent Act of 1952, ch. 950, 66 Stat. 792, Congress replaced the term “bill in equity” with “civil action,” while mandating that “[a]ll the expenses of the proceedings shall be paid by the applicant,” § 145, 66 Stat. 803.

In the Lanham Act, 15 U.S.C. 1051 *et seq.*, Congress has enacted a materially identical provision for unsuccessful applicants for a trademark registration. Before 1962, the Lanham Act simply incorporated by cross-reference the procedures of Section 145. See 15 U.S.C. 1071 (1958) (authorizing proceedings “under sections 145 and 146 of Title 35 \* \* \* under the same conditions, rules, and procedures as are prescribed in the case of patent appeals”); see also Act of Oct. 9, 1962, Pub. L. No. 87-772, § 12, 76 Stat. 771-772 (amending this provision). In its current form, the Lanham Act states that a disappointed applicant for a trademark registration may “have remedy by a civil action” in district court in lieu of a direct appeal to the Federal Circuit. 15 U.S.C. 1071(b)(1). The statute further directs that, “[i]n 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).

c. The USPTO has invoked the expense provisions of Section 145 and its predecessors, as well as the coun-

terpart provisions in the Lanham Act, to recover a variety of expenses that the agency has incurred when disappointed applicants have elected to proceed in district court rather than taking a direct appeal. *E.g.*, *Sandvik Aktiebolag v. Samuels*, No. 89-cv-3127, 1991 WL 25774, at \*1-\*2 (D.D.C. Feb. 7, 1991) (expert witness fees); *Cook v. Watson*, 208 F.2d 529, 530-531 (D.C. Cir. 1953) (per curiam) (printing expenses); *Robertson v. Cooper*, 46 F.2d 766, 769 (4th Cir. 1931) (travel expenses for agency attorneys). The USPTO has always exercised discretion, however, in determining whether to seek the full extent of expenses permitted by the statute. See, *e.g.*, Edwin M. Thomas, *Recent Suits Against the Commissioner Under R. S. 4915*, 22 J. Pat. Off. Soc’y 616, 618 (1940) (noting that the USPTO “seldom exercise[s]” its statutory right to require an applicant to pay the expenses of an appeal by the agency if the applicant prevails in district court).

In 2013, the USPTO began seeking to recover the personnel-related expenses (including money paid to paralegals and attorneys) that the agency incurs in proceedings under 35 U.S.C. 145 and 15 U.S.C. 1071(b). That change in agency practice responded to two developments. First, in the Leahy-Smith America Invents Act, Congress directed the agency to set its fees so as “to recover the aggregate estimated costs to the [USPTO] for processing, activities, services, and materials relating to patents \* \* \* and trademarks.” Pub. L. No. 112-29, § 10(a)(2), 125 Stat. 316; see SUCCESS Act, Pub. L. No. 115-273, § 4, \_\_ Stat. \_\_ (extending USPTO’s fee-setting authority to 2026).<sup>1</sup> Accordingly, the USPTO has estab-

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<sup>1</sup> The SUCCESS Act has been preliminarily designated for publication at 132 Stat. 4158.

lished fee schedules that are designed to recover the aggregate costs of its operations, including the costs the agency incurs in examining patent and trademark applications. See, *e.g.*, 37 C.F.R. 1.17, 2.6. Second, proceedings under Sections 145 and 1071(b) have grown increasingly expensive, and the single largest expense to the USPTO is often the time that agency employees must devote to those matters—as was true in this case. See App., *infra*, 100a.

2. The present dispute arises from a Section 145 proceeding brought by respondent’s predecessor-in-interest as assignee of a patent application drawn to a method of treating cancer cells, which the Board rejected as obvious and therefore unpatentable. See App., *infra*, 102a-105a, 130a-139a. During the USPTO examination process, the applicant had “relied solely on the testimony” of the putative inventor. *Id.* at 140a. In the Section 145 proceeding, however, respondent relied on a new expert witness, and the USPTO retained an expert to respond; both experts produced extensive reports and participated in lengthy depositions with USPTO attorneys. See *id.* at 140a-142a. In addition, the district court held a hearing on several motions filed by the parties. See, *e.g.*, D. Ct. Docs. 33, 35-36, 38, 40 (May 11, 2015), 50-53 (May 26, 2015), 54-55 (June 2, 2015), 73 (July 15, 2015).

The district court granted summary judgment to the USPTO on the issue of patentability, App., *infra*, 146a, and the court of appeals affirmed in an unpublished decision, *id.* at 101a-128a.

3. After the USPTO prevailed at summary judgment, the agency moved for reimbursement of \$111,696.39 in expenses under Section 145, comprising \$78,592.50 in personnel costs for the time two USPTO attorneys and

a paralegal had spent on the proceeding and \$33,103.89 in expert-witness expenses. D. Ct. Doc. 79, at 8, 12 (Sept. 16, 2015). The USPTO calculated its personnel expenses as a pro rata share of the relevant employees' salaries. See *id.* at 11-12. Two experienced USPTO attorneys had spent nearly 1000 hours defending the agency in the district-court proceeding. *Ibid.* The USPTO declined to request other expenses, such as the agency's travel expenses, that it had incurred as a result of the litigation. See *id.* at 7.

The district court granted the USPTO's request for reimbursement of expert-witness fees but denied the request for reimbursement of personnel expenses. App., *infra*, 88a-100a. In distinguishing between the two types of expenses, the court stated that the phrase "[a]ll the expenses of the proceedings" in Section 145 is not sufficiently "specific and explicit" to encompass the USPTO's attorney and paralegal personnel expenses, given the presumption under the "American Rule \* \* \* that each litigant pays his own attorneys' fees." *Id.* at 90a-92a (quoting *Baker Botts L.L.P. v. ASARCO LLC*, 135 S. Ct. 2158, 2164 (2015)).

4. A divided panel of the court of appeals reversed. App., *infra*, 56a-87a. The panel majority assumed without deciding that the American Rule is relevant to interpreting 35 U.S.C. 145, under which the applicant's obligation to pay the expenses of the proceedings does not turn on which party prevails. App., *infra*, 60a-61a. Even accepting that premise, however, the panel majority concluded that Section 145 "authorizes an award of fees" because "'expenses' here includes attorneys' fees." *Id.* at 61a. The panel majority based that conclusion on evidence of ordinary usage in 1839, when Congress first required plaintiffs in suits like this one to pay

the attendant expenses, *id.* at 62a; the history and purpose of the statute, *id.* at 62a-63a; and this Court’s precedent, including the Court’s observation that the “non-taxable expenses” borne by litigants, as distinct from taxable costs, include “expenses \* \* \* for attorneys,” *id.* at 63a-64a (quoting *Taniguchi v. Kan Pac. Saipan, Ltd.*, 566 U.S. 560, 573 (2012)) (emphasis omitted).<sup>2</sup>

Judge Stoll dissented. App., *infra*, 72a-87a. She would have held that the American Rule applied and that Section 145 does not overcome the presumption against fee-shifting. *Id.* at 72a-73a.

5. Acting *sua sponte*, the en banc court of appeals vacated the panel opinion and reheard the case. App., *infra*, 156a-158a. After rehearing, the court affirmed the district court’s denial of the USPTO’s motion for personnel expenses, holding in a 7-4 decision that the term “expenses” in Section 145 does not encompass the USPTO’s “attorneys’ fees.” *Id.* at 1a-55a.

a. The en banc majority first held that “the American Rule applies to § 145,” even though the agency’s entitlement to reimbursement of its expenses for a particular suit does not turn on whether it is a prevailing party. App., *infra*, 11a-16a. The majority recognized

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<sup>2</sup> Respondent also argued that the USPTO personnel expenses at issue here are not expenses “of the proceedings” because the agency would have been required to pay its employees’ salaries even if this suit had not been brought. Resp. C.A. Br. 35. The panel majority rejected that argument, observing that the USPTO had “dedicated time and resources of its attorneys to the defense of this litigation when it could have otherwise applied those resources to other matters.” App., *infra*, 70a; cf. *Wisconsin v. Hotline Indus., Inc.*, 236 F.3d 363, 365 (7th Cir. 2000) (“[S]alaried government lawyers, like in-house and non-profit counsel, do incur expenses if the time and resources they devote to one case are not available for other work.”).



that the Fourth Circuit had rejected an analogous premise in *Shammas v. Focarino*, 784 F.3d 219 (2015), cert. denied, 136 S. Ct. 1376 (2016), which had “interpreted [the] nearly identical provision of the Lanham Act, 15 U.S.C. § 1071(b)(3),” to authorize the USPTO to recover its personnel expenses. App., *infra*, 9a, 12a-13a; see *Shammas*, 784 F.3d at 227 (concluding that Section 1071(b) “requires a dissatisfied ex parte trademark applicant who chooses to file an action in a district court challenging the final decision of the PTO, to pay, as ‘all the expenses of the proceeding,’ the salaries of the PTO’s attorneys and paralegals attributed to the defense of the action”).

In the majority’s view, Section 145 “lacks the ‘specific and explicit’ congressional authorization required to displace the American Rule.” App., *infra*, 16a. The majority acknowledged that the word “expenses” can “refer to \* \* \* attorney’s fees,” *id.* at 28a, and that dictionaries contemporaneous to the 1839 enactment of Section 145’s first statutory antecedent broadly defined “expense” to include “the disbursing of money,” *id.* at 17a (citation omitted). The majority dismissed that evidence as “vague,” however, and looked instead to “Congress’s usage of the terms ‘expenses’ and ‘attorneys’ fees’ in other statutes.” *Id.* at 18a. It noted that some statutes authorize the award of both “‘expenses’” and “‘attorneys’ fees,’” whereas others “define expenses to include attorneys’ fees, but they do so explicitly.” *Id.* at 18a-20a. The majority concluded that the term “expenses” in this statute is at best “ambiguous” with respect to attorney’s fees, and that Section 145 therefore is not specific enough to overcome the American Rule’s presumption against fee-shifting, particularly when com-

pared to other Patent Act provisions that expressly authorize shifting of attorney's fees. *Id.* at 22a-23a. The majority also stated that, because the USPTO's "interpretation \* \* \* would have a patent applicant pay the government's attorneys' fees even when the patent applicant succeeds," that position would mark "a particularly unusual divergence from the American Rule." *Id.* at 26a.

b. Chief Judge Prost dissented, joined by three other members of the court. App., *infra*, 36a-55a. Stating that the majority opinion "creates an unfortunate and unnecessary conflict between the circuits," the dissenters would have held that Section 145 requires "the applicant to pay *all* the expenses of the proceedings, including the PTO's personnel expenses." *Id.* at 36a.

The dissenting judges explained that, both in modern usage and when Section 145's first statutory antecedent was enacted, the "ordinary meaning of 'expenses' encompasses expenditures for personnel." App., *infra*, 40a (citing dictionaries). In particular, the dissenters explained that the 1836 Act had referred to agency salaries as "*expenses of the Patent Office*," *id.* at 39a (quoting 1836 Act § 9, 5 Stat. 121), and that Congress had used the same term ("expenses") three years later when it amended the 1836 Act to require applicants who file a bill in equity to pay the "whole of the expenses of the proceeding," 1839 Act § 10, 5 Stat. 354; see App., *infra*, 39a; p. 4, *supra*. The dissenting judges further concluded that Congress's use of the modifier "all" in Section 145 evidenced an intent "to broadly and comprehensively capture anything fairly regarded as an 'expense.'" App., *infra*, 45a.

Finally, the dissenting judges observed that reading "expenses" to include the USPTO's personnel expenses

is consistent with the statute’s purpose, which is “to ensure that” the expenses of Section 145 proceedings “fall on the applicants who elect the more expensive district court proceedings over the standard appeal route.” App., *infra*, 49a. The dissenters explained that the majority’s interpretation, by contrast, would ensure that “*other* PTO applicants \* \* \* pay the PTO’s personnel expenses incurred in” Section 145 proceedings. *Id.* at 54a.

#### REASONS FOR GRANTING THE PETITION

The en banc court of appeals held that the phrase “[a]ll the expenses of the proceedings” in 35 U.S.C. 145 does not encompass the expenses that the USPTO incurs when its employees, including attorneys, defend the agency in Section 145 litigation. That holding contravenes the ordinary meaning of “expenses” and is inconsistent with Section 145’s history and purpose.

Section 145 gives disappointed patent applicants a unusual opportunity to challenge an agency decision based on additional evidence that the agency had no opportunity to consider. Section 145 ameliorates the potential burdens on the agency that attend that approach, however, by protecting the USPTO from the financial impact of discovery, motion practice, and trial. If left uncorrected, the decision below ensures that applicants will be liable only for some of those expenses. As the en banc majority recognized, moreover, the decision below is inconsistent with the Fourth Circuit’s interpretation of materially identical language in the Lanham Act. App., *infra*, 12a (citing *Shammas v. Focarino*, 784 F.3d 219 (2015), cert. denied, 136 S. Ct. 1376 (2016)). The petition for a writ of certiorari should be granted.

#### A. The Federal Circuit’s Decision Is Wrong

The text, structure, purpose, and history of Section 145 all confirm that the phrase “[a]ll the expenses of the proceedings” encompasses money paid to USPTO personnel who work on Section 145 litigation. 35 U.S.C. 145. The court of appeals believed that its contrary reading was compelled by the American Rule—*i.e.*, the “rule that each side must pay its own attorney’s fees,” “absent explicit statutory authority” for a fee award. *Baker Botts L.L.P. v. ASARCO LLC*, 135 S. Ct. 2158, 2163 (2015) (citation, ellipsis, and internal quotation marks omitted). But Section 145 is not the sort of fee-shifting provision that implicates the American Rule, and the clear language of the statute would “trump[] the American Rule,” *id.* at 2164, even if that Rule applied.

1. 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.” The ordinary meaning of the phrase “[a]ll the expenses of the proceedings” is all the expenditures “of money, time, labor, or resources” through which a participant in the proceeding seeks to attain its desired result. See *Black’s Law Dictionary* 698 (10th ed. 2014) (defining “expenses” as “[a]n expenditure of money, time, labor, or resources to accomplish a result”); *Webster’s New World College Dictionary* 511 (5th ed. 2014) (defining “expenses” as “charges or costs met with in \* \* \* doing one’s work”).

The same was true in 1839 when Section 145’s first statutory antecedent was enacted (p. 4, *supra*). See 1 Noah Webster, *An American Dictionary of the English Language* (1828) (defining “expense” as a “laying

out or expending; the disbursing of money, or the employment and consumption, as of time and labor”) (capitalization omitted); App., *infra*, 40a (Prost, C.J., dissenting) (citing additional 19th-century dictionaries). Indeed, the 1836 Act, which first established an agency to examine patent applications, referred to employee “salaries” as “expenses of the Patent Office.” § 9, 5 Stat. 121. There is no reason to think that Congress intended a narrower meaning three years later, when it amended an adjacent provision to require disappointed patent applicants who file a bill in equity to pay the “whole of the expenses of the proceeding.” 1839 Act § 10, 5 Stat. 354.

In the specific context of civil litigation, where Section 145 applies, the term “expenses” suggests broader coverage than the word “costs,” which the Court has construed as a more limited term of art. “Taxable costs are a fraction of the nontaxable expenses borne by litigants for attorneys, experts, consultants, and investigators.” *Taniguchi v. Kan Pac. Saipan, Ltd.*, 566 U.S. 560, 573 (2012); see *Arlington Cent. Sch. Dist. Bd. of Educ. v. Murphy*, 548 U.S. 291, 297 (2006) (contrasting “costs” and “expenses” and suggesting that the latter term is “open-ended”); *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”), cert. denied, 495 U.S. 956 (1990); 10 Charles Alan Wright et al., *Federal Practice and Procedure* § 2666 (2014) (explaining that “[e]xpenses,’ of course, include all the expenditures actually made by a litigant in connection with the action,” including money paid to attorneys). The modifier “all” in Section 145 refutes any inference that Congress intended Section 145 plaintiffs to be liable for only a subset of the agency’s “expenses.” See App., *infra*, 45a (Prost, C.J., dissenting)

(explaining that Congress used the term “all” in Section 145 “to broadly and comprehensively capture anything fairly regarded as an ‘expense’”); *Shammas*, 784 F.3d at 225 (reasoning that the term “all” in Section 1071(b) “clearly indicat[es] that the common meaning of the term ‘expenses’ should not be limited”); cf., e.g., *Norfolk & W. Ry. Co. v. American Train Dispatchers, Ass’n*, 499 U.S. 117, 129 (1991) (broadly construing the phrase “all other law” to include obligations imposed by contract).

2. The Federal Circuit’s crabbed interpretation of the term “expenses” in 35 U.S.C. 145 is also inconsistent with the structure, purpose, and history of the statute.

a. The Patent Act provides two alternative avenues for obtaining judicial review of the USPTO’s rejection of a patent application. Under Section 141, an applicant who is “dissatisfied with the final decision” of the agency may pursue a direct appeal to the Federal Circuit. 35 U.S.C. 141(a). Alternatively, Section 145 permits a disappointed applicant to “have remedy by civil action against the Director” of the USPTO in district court. 35 U.S.C. 145.

An applicant who elects to bring a Section 145 action is not limited to the administrative record, but instead may conduct discovery and present additional evidence that the agency had no prior opportunity to consider, and the district court must make de novo findings concerning that new evidence. See *Kappos v. Hyatt*, 566 U.S. 431, 444-445 (2012). The “opportunity to present new evidence” in a Section 145 proceeding can be “significant” for the applicant, “not the least because the PTO generally does not accept oral testimony.” *Id.* at 435. But such litigation can also subject the USPTO to significant financial burdens that the agency does not incur

in a direct appeal—*e.g.*, the costs of conducting and responding to discovery, retaining and deposing expert witnesses, engaging in sometimes extensive motion practice, and trying the case.

Section 145’s requirement that the applicant pay “[a]ll the expenses of the proceedings,” whether or not the applicant prevails, protects the USPTO’s resources by shifting the additional expense of a civil action and possible trial to the applicants who opt for those proceedings. 35 U.S.C. 145. The requirement also discourages abusive filings. See *Hyatt v. Kappos*, 625 F.3d 1320, 1337 (Fed. Cir. 2010) (*en banc*) (“To deter applicants from exactly the type of procedural gaming that concerns the Director, Congress imposed on the applicant the heavy economic burden of paying ‘[a]ll the expenses of the proceedings’ regardless of the outcome.”) (citation omitted; brackets in original), *aff’d*, 566 U.S. 431 (2012). More broadly, the requirement ensures that other persons who use the USPTO’s services—who must pay fees designed to recoup the agency’s operational costs, see pp. 6-7, *supra*—are not effectively compelled to subsidize Section 145 plaintiffs.

The Federal Circuit’s interpretation undermines those important purposes. The personnel expenses that the Federal Circuit forbade the USPTO from recovering often represent the bulk of the agency’s expenses—as illustrated by this case, where the most significant expense the USPTO incurred came in the form of attorney time. See App., *infra*, 100a (district court order denying the USPTO recovery of more than 70% of the expenses the agency incurred). If that decision is allowed to stand, other USPTO users will necessarily be required to underwrite some of the expenses of Section

145 proceedings, in contravention of the statutory design. See *id.* at 54a (Prost, C.J., dissenting).

b. The history of Section 145 supports a broad construction of the term “expenses.” As explained above, when Congress first provided some disappointed patent applicants with an option for obtaining judicial review via a “bill in equity,” it referred elsewhere in the same statute to employee “salaries” as “expenses,” to be paid from the fees charged to applicants. 1836 Act §§ 9, 16, 5 Stat. 121, 124; see p. 4, *supra*. The 1836 Act created an additional procedure, also financed by applicant fees, for administrative appeals to a board of examiners. § 7, 5 Stat. 119. That system proved unsatisfactory, in part because the review proceedings began “to add considerably to the labor of the” agency. App., *infra*, 48a (Prost, C.J., dissenting) (citation and emphasis omitted). Congress therefore abolished the board of examiners, substituted a direct judicial appeal, and expanded the availability of the bill-in-equity procedure to “all cases where patents are refused for any reason whatever.” 1839 Act § 10, 5 Stat. 354; see § 11, 5 Stat. 354. Cognizant of the potential strain that additional litigation might cause the agency, however, Congress required each applicant who filed a bill in equity to pay “the whole of the expenses of the proceeding.” § 10, 5 Stat. 354.

Congress has thus long made unsuccessful patent applicants liable for the expenses of Section 145 proceedings, just as it has required applicants to pay for the cost of examination. Indeed, during the 19th century, this Court described proceedings under Section 145’s precursor as “a part of the application for the patent,” rather than “a technical appeal.” *Gandy v. Marble*, 122 U.S. 432, 439 (1887). The court proceeding was understood to be in practical effect a continuation of the



examination proceeding, in which the applicant could receive an adjudication of his entitlement to a patent based on new evidence. Construing the term “expenses” to encompass personnel expenses accords with that historical understanding and gives Section 145’s expense-reimbursement requirement the same function as application fees—namely, defraying the USPTO’s expenditures, including personnel expenses, and allocating those expenditures to the particular users who cause the USPTO to incur them.

To be sure, the USPTO has only recently sought to recover the personnel expenses that it incurs in Section 145 litigation. See pp. 6-7, *supra*. But the plain language of the statute has long authorized the agency to recoup those expenses, and the agency “has never affirmatively disclaimed that authority.” App., *infra*, 54a (Prost, C.J., dissenting). “Given how dramatically the patent and litigation landscapes have changed,” and how Section 145 proceedings in particular have become more expensive over time, *ibid.*, the agency reasonably determined that it should no longer forbear from collecting the personnel expenses to which it is has long been entitled under the statute.

3. The en banc majority repeatedly acknowledged that the term “expenses” can encompass the cost of paying USPTO attorneys. See App., *infra*, 17a (“capable of implicitly covering attorneys’ fees”); *id.* at 28a (“sometimes used \* \* \* to refer to a variety of burdens incurred by a litigant, including attorneys’ fees”); *id.* at 33a (“can be broad enough to cover salaries of some PTO employees”) (emphasis omitted). It concluded, however, that the American Rule required Congress to speak with greater specificity to authorize the USPTO

to recover its personnel expenses. *Id.* at 1a. That is incorrect.

a. The USPTO's request for reimbursement of personnel expenses under Section 145 does not implicate the American Rule. That principle holds 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); see also, 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'" (citation omitted)). For that reason, statutory departures from the American Rule typically speak in terms of "prevailing" parties. See *Baker Botts*, 135 S. Ct. at 2164 ("Although these '[s]tatutory changes to [the American Rule] take various forms,' they \* \* \* usually refer to a 'prevailing party' in the context of an adversarial 'action.'" (citation omitted; brackets in original)).

Section 145 does not operate in that way, and there is no reason to suppose that Congress had the American Rule in mind in enacting it or its predecessors. As the Fourth Circuit explained with respect to the parallel provision in the Lanham Act, "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 (emphasis omitted). Instead, such a provision 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. *Ibid.* The expenses the ap-

plicant is required to pay are thus best viewed as a counterpart to the application fees that are designed to defray the USPTO's examination expenses. See *Gandy*, 122 U.S. at 439 (stating that an action under Section 145's predecessor "is, in fact and necessarily, a part of the application for the patent"); pp. 6-7, *supra*.<sup>3</sup>

Before the Federal Circuit's decision in this case, no court of appeals had ever applied the American Rule to a statute that does not merely shift fees to the losing party, but instead requires one party to pay all the expenses of a proceeding regardless of the outcome. Nothing in this Court's precedent suggests that the American Rule applies in those circumstances. To the contrary, when this Court addressed a statutory scheme that requires the payment of attorney's fees regardless of a litigant's success, the Court did not mention the American Rule. See *Sebelius v. Cloer*, 569 U.S. 369 (2013) (considering the fees provision of the National Childhood Vaccine Injury Act of 1986, 42 U.S.C. 300aa-15(e), which requires the government to pay reasonable attorney's fees to both successful and unsuccessful claimants, as long as the claim is not frivolous).

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<sup>3</sup> That conclusion is reinforced by the manner in which the USPTO calculates its personnel expenses. When the government seeks an award of attorney's fees under a fee-shifting statute, the amount of the award is typically calculated based on the prevailing market rate for private counsel, regardless of the government's actual expenditure for the representation. See, e.g., *NLRB v. Local 3, Int'l Bhd. of Elec. Workers*, 471 F.3d 399, 406-407 (2d Cir. 2006). The USPTO does not use that metric in calculating personnel expenses under Section 145. Instead, it seeks reimbursement only for the expenses the agency incurs—namely, an amount that reflects the actual salaries of the relevant employees, prorated according to the amount of time each spent on the district-court proceeding. App., *infra*, 8a.

The win-or-lose recoupment feature of Section 145 makes the American Rule inapposite.

b. Even if Section 145 were viewed as implicating the American Rule, the statute unambiguously dictates a result inconsistent with that background presumption. For the reasons discussed above, the ordinary meaning of “expenses” incurred in connection with legal “proceedings” includes money spent to pay attorneys. See, *e.g.*, *Taniguchi*, 566 U.S. at 573. Section 145’s reference to “[a]ll the expenses of the proceedings” thus unambiguously authorizes a district court to require the applicant to reimburse the USPTO’s attorney expenses. 35 U.S.C. 145.

The Federal Circuit’s contrary holding was based primarily on the observation that numerous statutes “authoriz[e] the award of both ‘expenses’ and attorneys’ fees” or “define expenses to include attorneys’ fees.” App., *infra*, 18a, 20a; see, *e.g.*, 12 U.S.C. 1786(p) (“reasonable expenses and attorneys’ fees”); 28 U.S.C. 361 (“reasonable expenses, including attorneys’ fees”); 52 U.S.C. 10310(e) (“reasonable attorney’s fee, reasonable expert fees, and other reasonable litigation expenses”). From that common usage, the court inferred that Congress views expenses and attorney’s fees “as distinct tools in its toolbox,” and that the term “expenses” standing alone does not encompass attorney salaries “absent an express expansion \* \* \* to include ‘attorneys’ fees.’” App., *infra*, 21a-22a.<sup>4</sup>

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<sup>4</sup> The Federal Circuit also contrasted Section 145 with other Patent Act provisions that expressly authorize awards of attorney’s fees. App., *infra*, 22a-24a; see, *e.g.*, 35 U.S.C. 285, 297(b)(1). Because the Patent Act did not provide for attorney fee-shifting in infringement litigation until 1946, see *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 572 U.S. 545, 548 (2014), the provisions on which the Federal Circuit relied are of limited relevance in inferring

That inference is unsound. This Court has never held that Congress must use the specific term “attorney’s fees” in order to authorize recoupment of money spent on attorney services as part of a larger award of litigation expenses. See *Baker Botts*, 135 S. Ct. at 2164 (noting a variety of phrases used in statutes that displace the American Rule); *Key Tronic Corp. v. United States*, 511 U.S. 809, 815 (1994) (“The absence of specific reference to attorney’s fees is not dispositive if the statute otherwise evinces an intent to provide for such fees.”); *id.* at 823 (Scalia, J., dissenting in part) (“Congress need only be explicit—it need not incant the magic phrase ‘attorney’s fees.’”). The terms “fees” and “expenses,” moreover, are commonly used to denote overlapping categories, as reflected in the very statutes cited by the en banc Federal Circuit, see App., *infra*, 18a-21a. By using the broader term “expenses” in Section 145, Congress signaled its intent to allow the USPTO to recoup agency expenditures that include but are not limited to money spent on attorneys. See *Federal Practice and Procedure* § 2666 (“Both fees and costs are expenses but by no means constitute all of them.”).

#### **B. The Question Presented Warrants Review**

1. The Court should grant the petition to correct the Federal Circuit’s flawed interpretation of 35 U.S.C. 145. That court recognized the significance of the issue in acting *sua sponte* to rehear this case en banc, App., *infra*, 156a-158a, and it divided 7-4 on the merits. Because

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the intent of the 1839 Congress that enacted Section 145’s first statutory antecedent. In any event, the fact that the Patent Act authorizes fee awards to prevailing parties in private infringement litigation has little bearing on the meaning of the term “expenses” in the quite different context of Section 145 proceedings between an applicant and the USPTO.

that court has exclusive jurisdiction to hear appeals in Section 145 cases, 28 U.S.C. 1295(a)(4)(C), the rule it announced will govern all future Section 145 proceedings absent this Court’s intervention. This Court regularly grants certiorari to review questions of statutory interpretation otherwise committed to the Federal Circuit, particularly questions under the Patent Act. See, e.g., *WesternGeco LLC v. ION Geophysical Corp.*, 138 S. Ct. 2129 (2018); *SAS Inst. Inc. v. Iancu*, 138 S. Ct. 1348 (2018); *Life Techs. Corp. v. Promega Corp.*, 137 S. Ct. 734 (2017); *Samsung Elecs. Co. v. Apple Inc.*, 137 S. Ct. 429 (2016); *Kingdomware Techs., Inc. v. United States*, 136 S. Ct. 1969 (2016); *Cloer*, 569 U.S. 369.

2. As the en banc Federal Circuit unanimously recognized, the decision below conflicts with the Fourth Circuit’s decision in *Shammas*, *supra*, interpreting parallel language in the Lanham Act. See App., *infra*, 12a-13a; *id.* at 36a (Prost, C.J., dissenting). The relevant Lanham Act provision, 15 U.S.C. 1071(b), authorizes a disappointed applicant for a trademark registration to file a civil action against the Director of the USPTO in district court. Like Section 145, Section 1071(b) requires an applicant who chooses that mode of review to pay “all the expenses of the proceeding \* \* \* whether the final decision is in favor of such party or not.” 15 U.S.C. 1071(b)(3). In *Shammas*, the Fourth Circuit held that Section 1071(b) authorizes the USPTO to recover its personnel expenses. 784 F.3d at 227. It based that conclusion primarily on the language of the statute, noting that, “in ordinary parlance, ‘expenses’ is sufficiently broad to include attorneys fees and paralegal fees,” and that Congress’s use of the modifier “all” “clearly indicat[es] that the common meaning of the term ‘expenses’ should not be limited.” *Id.* at 222.

The Fourth Circuit further explained that the structure and history of Section 1071(b) confirmed its plain meaning, based on the same considerations that the Federal Circuit discounted here. In particular, the Fourth Circuit stated that, by attaching the expense-payment provision to the option to initiate a more “fulsome and expensive” district-court proceeding, Congress had “obviously intended to reduce the financial burden on the PTO in defending such a proceeding” by requiring the applicant to pay all of those expenses. *Shammas*, 784 F.3d at 225. The court cited legislative history, and the “original understanding” of the predecessor provision in the 1839 Act, as additional evidence that Section 1071(b) was “designed to relieve the PTO of the financial burden that results from an applicant’s election to pursue the more expensive district court litigation.” *Id.* at 226-227.

Finally, the Fourth Circuit rejected the contention that the American Rule required a contrary result. See *Shammas*, 784 F.3d at 223-224. The Fourth Circuit explained that, “[b]ecause the PTO is entitled to recover its expenses even when it completely fails, § 1071(b)(3) need not be interpreted against the backdrop of the American Rule.” *Id.* at 223; see *id.* at 221 (describing the expense provision as “an unconditional compensatory charge” to applicants, rather than a fee-shifting mechanism based on litigation success).

3. The court of appeals’ holding has significant practical consequences. The USPTO began seeking to recoup its personnel expenses because of the increasing financial burden of Section 145 and Section 1071(b) proceedings. As both this case and *Shammas* illustrate, the USPTO’s personnel expenses are often the most significant expense the agency incurs in suits brought under

those provisions. See App., *infra*, 100a (70% of requested expenses); *Shammas*, 784 F.3d at 226 (98% of requested expenses). The decision below will thus prevent the USPTO from recovering its largest expense in many Section 145 proceedings.

Because the USPTO's schedule of fees is designed to recover the aggregate cost to the agency of its operations, the decision below effectively guarantees that other persons who use the USPTO's services will indirectly bear the cost of Section 145 proceedings. The en banc majority sought to downplay the financial significance of that effect by noting that, because the agency receives hundreds of thousands of patent applications each year, even a million dollars in unrecouped personnel expenses for Section 145 proceedings would have only a slight effect on any particular patent applicant. App., *infra*, 34a-35a. But those are expenditures that Congress determined are properly chargeable to the particular applicants, like respondent, who forgo a direct appeal and instead cause the USPTO to incur significant additional expense. Congress determined that those applicants should be liable for "[a]ll the expenses of the proceedings," 35 U.S.C. 145, not merely some of them.



CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted.

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DECEMBER 2018

APPENDIX A

UNITED STATES COURT OF APPEALS  
FOR THE FEDERAL CIRCUIT

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2016-1794

NANTKWEST, INC., PLAINTIFF-APPELLEE

*v.*

ANDREI IANCU, UNDER SECRETARY OF COMMERCE FOR  
INTELLECTUAL PROPERTY AND DIRECTOR OF THE  
UNITED STATES PATENT AND TRADEMARK OFFICE,  
DEFENDANT-APPELLANT

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Decided: July 27, 2018

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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

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Before: PROST, *Chief Judge*, NEWMAN, LOURIE,  
DYK, MOORE, O'MALLEY, REYNA, WALLACH, TARANTO,  
HUGHES, and STOLL, *Circuit Judges*.<sup>\*</sup>

Opinion for the court filed by *Circuit Judge* STOLL,  
in which *Circuit Judges* NEWMAN, LOURIE, MOORE,  
O'MALLEY, WALLACH, and TARANTO join.

Dissenting opinion filed by *Chief Judge* PROST, in  
which *Circuit Judges* DYK, REYNA, and HUGHES join.  
STOLL, *Circuit Judge*.

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<sup>\*</sup> Circuit Judge Chen did not participate.

When the United States Patent and Trademark Office's Patent Trial and Appeal Board ("Board") affirms an examiner's rejection of a patent application, § 145 of the Patent Act permits the disappointed applicant to challenge the Board's decision in district court. Applicants who invoke § 145 are required by statute to pay "[a]ll the expenses of the proceedings" incurred by the U.S. Patent and Trademark Office ("PTO") in defending the Board's decision, regardless of the outcome. Historically, the agency relied on this provision to recover sums it spent on travel and printing and, more recently, expert witnesses. Now, 170 years after Congress introduced § 145's predecessor, the agency argues that § 145 also compels applicants to pay its attorneys' fees. We hold that it does not, for the American Rule prohibits courts from shifting attorneys' fees from one party to another absent a "specific and explicit" directive from Congress. The phrase "[a]ll the expenses of the proceedings" falls short of this stringent standard. Accordingly, we affirm the district court's judgment.

## I

## A

The Patent Act gives applicants two mutually exclusive options for judicial review of an adverse Board decision. First, the applicant may appeal directly to this court. 35 U.S.C. § 141. Second, the applicant may file a civil action against the Director of the PTO in the United States District Court for the Eastern District of Virginia. 35 U.S.C. § 145. We, in turn, have jurisdiction over subsequent appeals from the district court under 28 U.S.C. § 1295(a)(1).

Section 141 provides standard judicial review of an agency decision under the Administrative Procedure Act. We review the Board’s legal determinations de novo, *Honeywell Int’l Inc. v. Mexichem Amanco Holding S.A. DE C.V.*, 865 F.3d 1348, 1353 (Fed. Cir. 2017), and we “set aside the PTO’s factual findings only if they are ‘unsupported by substantial evidence,’” *Kappos v. Hyatt*, 566 U.S. 431, 435 (2012) (quoting *Dickinson v. Zurko*, 527 U.S. 150, 152 (1999)). Importantly, appellate review in § 141 proceedings is confined to the record before the PTO. 35 U.S.C. § 144.

Section 145, by contrast, authorizes a more expansive challenge to the Board’s decision and is generally more time consuming. For example, patent applicants can conduct discovery and introduce new evidence. And once an applicant submits new evidence on a disputed factual question, “the district court must make a *de novo* finding.” *Hyatt*, 566 U.S. at 434-35 (“This opportunity . . . is significant, not the least because the PTO generally does not accept oral testimony.”). The parties may also engage in motion practice, and the proceeding can culminate in a full-blown trial. Congress set the price for engaging the PTO in this type of litigation: “All the expenses of the proceedings shall be paid by the applicant.” 35 U.S.C. § 145. Thus, an applicant who proceeds under § 145 must shoulder not only his own significant expenses and fees, but also the PTO’s “expenses of the proceedings.”

Congress introduced § 145’s predecessor in 1839,<sup>1</sup> and over the years, the PTO has relied on these “ex-

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<sup>1</sup> The original language from 1839 required an applicant to pay “the whole of the expenses of the proceeding . . . whether the

penses” provisions to recover PTO attorneys’ travel expenses to attend depositions, *see Robertson v. Cooper*, 46 F.2d 766, 769 (4th Cir. 1931), printing expenses, *cf. Cook v. Watson*, 208 F.2d 529, 530 (D.C. Cir. 1953), court reporter fees, and reasonable fees for expert witnesses, *see Sandvik Aktiebolag v. Samuels*, CIV. A. No. 89-3127-LFO, 1991 WL 25774, at \*1 (D.D.C. Feb. 7, 1991). For more than 170 years, however, the PTO never sought—and no court ever awarded—attorneys’ fees under § 145 or its predecessor.

## B

As its name suggests, the American Rule is a “bed-rock principle” of this country’s jurisprudence. *Hardt v. Reliance Standard Life Ins. Co.*, 560 U.S. 242, 253 (2010). It provides that, in the United States, “[e]ach litigant pays his own attorney’s fees, win or lose.” *Baker Botts L.L.P. v. ASARCO LLC*, 135 S. Ct. 2158, 2164 (2015) (quoting *Hardt*, 560 U.S. at 253). The American Rule may only be displaced by an express grant from Congress. *Id.* And it serves as the “basic point of reference” whenever a court “consider[s] the award of attorney’s fees.” *Id.* (quoting *Hardt*, 560 U.S. at 252-53).

The rationale supporting the American Rule is rooted in fair access to the legal system, as well as the difficulty of litigating the fee question:

[S]ince litigation is at best uncertain one should not be penalized for merely defending or prosecuting a lawsuit, and . . . the poor might be unjustly dis-

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final decision shall be in his favor or otherwise.” Act of Mar. 3, 1839, ch. 88, § 10, 5 Stat. 353, 354. Neither party argues that subsequent revisions to § 145 impact our analysis.

couraged from instituting actions to vindicate their rights if the penalty for losing included the fees of their opponents' counsel. Also, the time, expense, and difficulties of proof inherent in litigating the question of what constitutes reasonable attorney's fees would pose substantial burdens for judicial administration.

*Fleischmann Distilling Corp. v. Maier Brewing Co.*, 386 U.S. 714, 718 (1967) (citations omitted). In the context of this case, the American Rule preserves access to district courts for small businesses and individual inventors seeking to avail themselves of § 145's benefits.

The American Rule traces its origins back to at least the late 1700s. In *Arcambel v. Wiseman*, the circuit court included \$1,600 in counsel's fees as part of the damages. 3 U.S. (3 Dall.) 306, 306 (1796). The assessment of attorneys' fees, the Supreme Court concluded, could not be allowed because 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." *Id.* "[O]ur courts have generally resisted any movement" toward the English system—which permits the award of attorneys' fees to successful parties in litigation—ever since.<sup>2</sup> *Fleisch-*

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<sup>2</sup> The Supreme Court has carved out several equitable exceptions to further the interests of justice. See *F. D. Rich Co. v. U.S. for Use of Indus. Lumber Co.*, 417 U.S. 116, 129 (1974) (acknowledging availability of attorneys' fees where party "has acted in bad faith, vexatiously, wantonly, or for oppressive reasons"); *Toledo Scale Co. v. Computing Scale Co.*, 261 U.S. 399, 426-28 (1923) (allowing attorneys' fees as part of penalty for willful disobedience of court order); *Trustees v. Greenough*, 105 U.S. 527, 532-33, 537 (1882)

*mann*, 386 U.S. at 717; see *Runyon v. McCrary*, 427 U.S. 160, 185 (1976) (“[T]he law of the United States . . . has always been that absent explicit congressional authorization, attorneys’ fees are not a recoverable cost of litigation.”).

Only Congress “has the power and judgment to pick and choose among its statutes and to allow attorneys’ fees under some, but not others.” *Alyeska Pipeline*, 421 U.S. at 263. Congress has not “extended any roving authority to the Judiciary to allow counsel fees as costs or otherwise whenever the courts might deem them warranted.” *Id.* at 260. Thus, the Supreme Court has held that the American Rule presumptively applies and any statutory deviations from it must be “specific and explicit.” *Id.* at 260-62, 269.

According to the Supreme Court, one “good example of the clarity . . . required to deviate from the American Rule” can be found in the Equal Access to Justice Act’s attorneys’ fees provision. *Baker Botts*, 135 S. Ct. at 2164. That provision commands courts to “award to a prevailing party other than the United States *fees and other expenses* . . . incurred by that party in any civil action,” so long as certain conditions are met. *Id.* at 2164 (emphasis added) (quoting 28 U.S.C. § 2412(d)(1)(A)). As the Supreme Court explained, “there could be little dispute that this provision—which mentions ‘fees,’ a ‘prevailing party,’ and a ‘civil

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(permitting party recovering fund for the benefit of himself and others to seek attorneys’ fees from the fund itself or directly from other parties who enjoyed the benefit); see generally *Alyeska Pipeline Serv. Co. v. Wilderness Soc’y*, 421 U.S. 240, 257-59 (1975). None of these exceptions are implicated here.

action’—is a ‘fee-shifting statut[e]’ that trumps the American Rule.” *Id.* (alteration in original).

Not all fee-shifting statutes follow this template though. For example, the Supreme Court has a separate line of precedent “addressing statutory deviations from the American Rule that do not limit attorney’s fees awards to the ‘prevailing party.’” *Hardt*, 560 U.S. at 254. In *Hardt*, the Court analyzed whether Congress deviated from the American Rule when it passed a statute providing that a “court in its discretion may allow a reasonable attorney’s fee and costs of action to either party.” *Id.* at 251-52 (quoting 29 U.S.C. § 1132(g)(1)). The same is true in *Ruckelshaus v. Sierra Club*, where the Court examined a provision of the Clean Air Act allowing a court to “award costs of litigation (including reasonable attorney and expert witness fees) whenever it determines that such an award is appropriate.” 463 U.S. 680, 682-83 (1983) (emphasis omitted) (quoting 42 U.S.C. § 7607(f)).

And while the American Rule sets a high bar for shifting attorneys’ fees, it does not impose a magic words requirement so long as Congress’s intent is “specific and explicit.” See *Summit Valley Indus., Inc. v. Local 112, United Bhd. of Carpenters*, 456 U.S. 717, 721-22 (1982). As the Supreme Court acknowledged in *Key Tronic Corp. v. United States*, “[t]he absence of [a] specific reference to attorney’s fees is not dispositive if the statute otherwise evinces an intent to provide for such fees.” 511 U.S. 809, 815 (1994); see *Baker Botts*, 135 S. Ct. at 2165 (discussing statute providing for “reasonable compensation for actual, necessary services rendered by” various “professional per-



son[s],” including “attorney[s]” (emphasis omitted) (quoting 11 U.S.C. § 330(a)(1)(A))).

## II

This brings us to the procedural background of the current case. In 2001, Dr. Hans Klingemann filed a patent application directed to a method for treating cancer using natural killer cells. Dr. Klingemann’s application was eventually assigned to NantKwest, Inc. The examiner rejected the application as obvious in 2010, and the Board affirmed the rejection in 2013.

Pursuant to § 145, NantKwest challenged the Board’s decision by filing a complaint against the Director of the PTO in the U.S. District Court for the Eastern District of Virginia. Discovery ensued and the PTO moved for summary judgment that the application’s claims would have been obvious. The district court granted the PTO’s motion, and we affirmed. *See NantKwest, Inc. v. Lee*, 686 F. App’x 864, 865 (Fed. Cir. 2017). After prevailing on the merits, the PTO filed a motion for reimbursement of the “expenses of the proceedings” under § 145. The \$111,696.39 sum sought by the PTO included \$78,592.50 in attorneys’ fees—calculated based on the pro rata salaries of the two PTO attorneys and one paralegal who worked on the case—and \$33,103.89 in expert witness fees.

The district court denied the PTO’s motion with respect to attorneys’ fees, citing the American Rule. *Nan[tK]west, Inc. v. Lee*, 162 F. Supp. 3d 540, 542-43 (E.D. Va. 2016). In the court’s view, “Congress’s reference to ‘*all* . . . the expenses’ merely points to a *collection* of the expenses used, commonly understood to encompass . . . printing, travel, and rea-

sonable expert witness expenses.” *Id.* at 543. The district court noted that “[i]n § 145 Congress neither used the phrase ‘attorneys’ fees’ nor ‘fees’ nor any alternative phrase demonstrating a clear reference to attorneys’ fees.” *Id.* at 545. It then concluded that the “ambiguity regarding the exact reach of the term ‘expenses’ means § 145 does not meet the Supreme Court’s *Baker Botts* standard and therefore, cannot deviate from the American Rule.” *Id.*

The PTO appealed the denial of its motion to recover attorneys’ fees, and a divided panel of this court reversed the district court’s judgment. The majority relied on the Fourth Circuit’s opinion in *Shammas v. Focarino*, which interpreted a nearly identical provision of the Lanham Act, 15 U.S.C. § 1071(b)(3). 784 F.3d 219, 223-24 (4th Cir. 2015). There, the Fourth Circuit held that the American Rule only applies to statutes that refer to a “prevailing party.” *Id.* at 223. Referring to this language, the majority here voiced “substantial doubts” that § 145 implicates the American Rule because it imposes the PTO’s expenses on applicants without referring to a “prevailing party.” *NantKwest, Inc. v. Matal*, 860 F.3d 1352, 1355 (Fed. Cir. 2017). Nevertheless, the majority assumed the American Rule applied for purposes of its analysis and concluded that the word “expenses” “‘specific[ally]’ and ‘explicit[ly]’ authorizes an award of fees.” *Id.* at 1356 (alterations in original) (quoting *Alyeska Pipeline*, 421 U.S. at 260). For support, the majority relied on dictionaries defining “expenses” as “expenditure[s] of money, time, *labor*, or resources to accomplish a result,” *id.* (alteration in original) (quoting *Black’s Law Dictionary* 698 (10th ed. 2014)), and a statement from *Taniguchi v. Kan Pacific Saipan, Ltd.*, distinguishing

“taxable costs” from “nontaxable expenses,” *id.* at 1357 (quoting 566 U.S. 560, 573 (2012)). Finally, the majority rejected NantKwest’s contention that pro-rata salaries of the PTO’s employees were not “expenses of the proceedings.” *Id.* at 1359.<sup>3</sup>

Our court voted sua sponte to hear the appeal en banc and vacated the panel’s judgment. *NantKwest, Inc. v. Matal*, 869 F.3d 1327 (Fed. Cir. 2017). We requested briefing on a single question: whether the panel “correctly determine[d] that 35 U.S.C. § 145’s ‘[a]ll the expenses of the proceedings’ provision authorizes an award of the [PTO’s] attorneys’ fees.” *Id.* at 1327. In addition to the parties’ briefs and argument, we received seven amicus briefs, none of which support the PTO’s position. We now affirm the judgment of the district court.

### III

We review de novo a district court’s interpretation of a statute. *Boston Sci. Scimed, Inc. v. Medtronic Vascular, Inc.*, 497 F.3d 1293, 1296 (Fed. Cir. 2007). Unless otherwise defined, words in a statute “will be interpreted as taking their ordinary, contemporary, common mean-

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<sup>3</sup> Following issuance of this Court’s *NantKwest* decision, the PTO requested and received attorneys’ fees in at least one § 145 action. *See, e.g., Realvirt, LLC v. Lee*, 220 F. Supp. 3d 695, 704 (E.D. Va. 2016) (awarding more than \$48,000 in attorneys’ fees in § 145 action). The PTO also convinced a district court to impose a \$40,000 bond on a pro se plaintiff who filed suit under § 145. *Taylor v. Lee*, No. 1:15-CV-1607, 2016 WL 9308420, at \*2 (E.D. Va. July 12, 2016) (requiring payment of bond before permitting § 145 action to proceed, but noting uncertainty surrounding applicant’s finances).

ing.” *Summit Valley*, 456 U.S. at 722 (quoting *Perrin v. United States*, 444 U.S. 37, 42 (1979)).

According to the PTO, the American Rule does not govern our interpretation of § 145. Even if it does, the PTO and the dissent aver that the statutory text suffices to displace this long-standing, common-law rule. We disagree on both counts and address each issue in turn.

## A

At the outset, we hold that the American Rule applies to § 145. As noted, the American Rule provides that each litigant bears its own attorneys’ fees, win or lose, and a statute must use “specific and explicit” language to depart from this rule. The Supreme Court in *Baker Botts* emphasized that the American Rule is the starting point whenever a party seeks to shift fees from one side to the other in adversarial litigation. 135 S. Ct. at 2164 (explaining that “when considering the award of attorney’s fees,” the American Rule constitutes the “basic point of reference” (quoting *Hardt*, 560 U.S. at 252-53)). Because the PTO contends that § 145 should be construed to shift its attorneys’ fees to the patent applicants bringing suit, the American Rule necessarily applies. Accordingly, we must be able to discern from § 145’s text a “specific and explicit” congressional directive to make an award of attorneys’ fees available. *Alyeska Pipeline*, 421 U.S. at 260.

We are not persuaded by the PTO’s contrary arguments for why the American Rule should not apply to litigation under § 145. The PTO begins by relying on the Fourth Circuit’s *Shammas* opinion for the proposition that the American Rule only governs the interpretation of statutes that shift fees from a prevailing party

to a losing party. Because § 145 imposes “[a]ll the expenses” on the applicant, win or lose, the PTO asserts it is not a fee-shifting statute that falls within the American Rule’s ambit. We disagree. Given the primary purpose of the American Rule—protection of access to courts—the PTO’s alleged distinction makes little sense. We submit that the policy behind the American Rule would be even more strongly implicated where attorneys’ fees would be imposed on a winning plaintiff.

In *Shammas*, a divided panel of the Fourth Circuit awarded attorneys’ fees to the PTO under 15 U.S.C. § 1071(b)(3)—the trademark analogue to § 145—which also refers to “all the expenses of the proceeding.” The *Shammas* court reached this decision only by first holding that the American Rule does not apply to § 1071(b)(3). 784 F.3d at 223. Based on a narrow interpretation of the Supreme Court’s statement in *Alyeska Pipeline*, the Fourth Circuit held that “the American Rule provides only that ‘*the prevailing party may not recover attorneys’ fees from the losing party.*’” *Id.* (quoting *Alyeska Pipeline*, 421 U.S. at 245). The Fourth Circuit also relied on the Supreme Court’s observation in *Ruckelshaus* that “virtually every one of the more than 150 existing federal fee-shifting provisions *predicates fee awards on some success by the claimant*” to conclude that a statute mandating fees without regard to a party’s success is not a fee-shifting statute governed by the American Rule. *Id.* (quoting *Ruckelshaus*, 463 U.S. at 684).

We respectfully submit that *Shammas*’s holding cannot be squared with the Supreme Court’s line of nonprevailing party precedent applying the American

Rule. Although *Alyeska Pipeline* does refer to the American Rule in the context of a “prevailing party,” the rule is not so limited. Rather, the Supreme Court has consistently applied the rule broadly to any statute that allows fee shifting to either party, win or lose. For example, the Supreme Court in *Hardt* evaluated a request for attorneys’ fees under 29 U.S.C. § 1132(g)(1), which grants courts authority to award “reasonable attorney’s fee[s] . . . to either party” at the court’s “discretion.” 560 U.S. at 251-52. The Supreme Court held that “a fee claimant need not be a ‘prevailing party’ to be eligible for an attorney’s fees award under § 1132(g)(1)” because the statutory text contained no such limitation. *Id.* at 252. But the absence of a “prevailing party” requirement did not render the American Rule inapplicable to the fee-shifting inquiry. 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.

Our decision is in keeping with *Ruckelshaus*, relied on by the Fourth Circuit in *Shammas*. While the Court in *Ruckelshaus* acknowledged that the vast majority of fee-shifting provisions impose a “success” requirement, the Court made clear that its absence does not render the American Rule inapplicable. Instead, the Court applied the American Rule even though the district court awarded fees to a “party that achieved no success on the merits” based on a statute that authorized “reasonable attorney . . . fees[] whenever [the court] determines that such an award is appropriate.” *Ruckelshaus*, 463 U.S. at 682-85 (emphasis omitted) (quoting 42 U.S.C. § 7607(f)). Accordingly, we think that the Fourth Circuit’s reliance on *Ruckelshaus* to

support its view that the American Rule does not apply to statutes lacking a success requirement is misplaced.

Our understanding is likewise confirmed by numerous other cases that applied the American Rule to a variety of statutes that did not mention a “prevailing party.” The Supreme Court applied the American Rule to a bankruptcy statute allowing “reasonable compensation for actual, necessary services rendered by the trustee . . . or attorney.” *Baker Botts*, 135 S. Ct. at 2165 (emphasis omitted). An environmental statute permitting the recovery of any “necessary costs of response,” including “enforcement activities” was also analyzed by the Court under the American Rule. *Key Tronic*, 511 U.S. at 813, 819. So too with a statute authorizing an injured person to “recover the damages by him sustained and the cost of the suit.” *Summit Valley*, 456 U.S. at 722. The Court likewise held that the American Rule governed an attorneys’ fees request under a statute authorizing the recovery of “sums justly due.” *F. D. Rich Co.*, 417 U.S. at 128, 130-31.

The PTO also cites the Supreme Court’s decision in *Sebelius v. Cloer*, which interpreted a statute requiring the payment of attorneys’ fees regardless of the party’s litigation success without expressly discussing the American Rule. 569 U.S. 369 (2013). This, the PTO argues, shows that the American Rule does not apply to statutes that do not refer to a “prevailing party.” At issue in *Cloer* was the National Childhood Vaccine Injury Act of 1986 (“NCVIA”). The statute creates an “unusual scheme for compensating attorneys who work on NCVIA petitions”: it requires courts to award “reasonable attorneys’ fees” for a successful petition, and it grants courts discretion to make the same award

for an unsuccessful petition “brought in good faith [with] a reasonable basis for the claim.” *Id.* at 373-74 & n.1 (quoting 42 U.S.C. § 300aa-15(e)(1)). Therefore, Congress specifically and explicitly authorized the award of attorneys’ fees. The only question for the Court was whether attorneys’ fees could be recovered for untimely petitions.

The Court answered this question in the affirmative, but its analysis does not undercut the American Rule’s applicability to § 145. First, the Court rejected the government’s argument that an untimely petition was ineligible for fees because it was never “filed” within the meaning of the statute. *Id.* at 377-79. The Court then turned to the government’s argument that common-law principles, including the American Rule, barred the award of attorneys’ fees for untimely petitions. Citing the page of the government’s brief discussing the American Rule, the Court held that the “presumption favoring the retention of long-established and familiar [common-law] principles,” i.e., the American Rule, must “give way” to the unambiguous statutory language. *Id.* at 380-81 (alteration in original) (quoting Brief for the Petitioner at 32, *Sebelius v. Cloer*, 569 U.S. 369 (2013) (No. 12-236), 2013 WL 75285, \*32). *Cloer* thus stands for the unremarkable principle that a statute providing for the award of “attorneys’ fees” can displace the American Rule.

Given the Supreme Court’s line of non-prevailing party precedent and the inapposite nature of *Cloer*, we see no reason why the American Rule would not apply to § 145. As the Supreme Court has explained, the American Rule simply provides that each litigant bears its own attorney fees. *Hardt*, 560 U.S. at 253. The



PTO's reading of § 145 requires the opposite. Accordingly, § 145 should not escape the heightened standard required for congressional departure from this bedrock principle.

## B

Having concluded that the American Rule applies, we now ask whether § 145 displaces it. The Supreme Court has explained that when, as here, a statutory provision “does not expressly provide for the recovery of attorney’s fees . . . we are not presented with a situation where Congress has made ‘specific and explicit provisions for the allowance of’ such fees.” *Summit Valley*, 456 U.S. at 722 (quoting *Alyeska Pipeline*, 421 U.S. at 260 & n.33); *see also Key Tronic*, 511 U.S. at 815. But “[t]he absence of [a] specific reference to attorney’s fees is not dispositive if the statute otherwise evinces an intent to provide for such fees.” *Key Tronic*, 511 U.S. at 815. Congress can convey this intent through the ordinary meaning of the statutory term alleged to shift attorneys’ fees—here, “[a]ll the expenses of the proceedings”—although the ordinary meaning must supply a “specific and explicit” directive to depart from the American Rule. *See Summit Valley*, 456 U.S. at 722-23; *see also id.* at 721, 726 (declining to deviate from American Rule after finding no “express statutory authorization” in statute’s text to support contention that “damages” includes attorneys’ fees); *Key Tronic*, 511 U.S. at 819 (requiring “explicit statutory authority” to depart from American Rule).

In our view, § 145’s statement that “[a]ll the expenses of the proceedings shall be paid by the applicant” lacks the “specific and explicit” congressional authorization required to displace the American Rule.

Section 145 contains no reference to attorneys' fees, "reasonable compensation for actual, necessary services rendered by the . . . attorney," *Baker Botts*, 135 S. Ct. at 2165 (emphasis omitted), PTO attorney salaries, or any other equally clear language. To satisfy the Supreme Court's strict standard, the PTO must show that "[a]ll the expenses of the proceedings" specifically and explicitly includes attorneys' fees. But this phrase is at best ambiguous as to attorneys' fees. As explained below, the cases and definitions relied on by the PTO demonstrate that, at most, this language is merely capable of implicitly covering attorneys' fees. The American Rule and the "specific and explicit" requirement demand more than language that merely *can be* and *is sometimes used* broadly to implicitly cover attorneys' fees. Moreover, other statutory provisions enacted by Congress demonstrate that ordinarily, a statutory right to "expenses" does not include an implicit authorization to award attorneys' fees. This is further demonstrated by both contemporaneous and current court cases and other statutory provisions in the Patent Act.

We begin our analysis with contemporaneous definitions and usages of "expenses." In 1839, when Congress introduced the "whole of the expenses" language in § 145's predecessor, Act of Mar. 3, 1839, § 10, 5 Stat. at 354, the ordinary meaning of "expenses" did not implicitly encompass attorneys' fees. The PTO only cites one dictionary from this time period, which defined "expense" as "[a] laying out or expending; the disbursing of money, or the employment and consumption, as of time or labor." Appellant Br. 17 (quoting Noah Webster, *American Dictionary of the English Language* (1st ed. 1828)). Other 1830s dictionaries

defined “expense” as “cost; charges; money expended,” J.E. Worcester, *A Comprehensive Pronouncing and Explanatory Dictionary of the English Language, with Pronouncing Vocabularies of Classical and Scripture Proper Names* 117 (1830), and as “the disbursing of money,” “[m]oney expended,” “cost,” and “[t]hat which is used, employed, laid out, or consumed,” Noah Webster et al., *An American Dictionary of the English Language* 319 (Joseph Worcester ed., 1830). These vague definitions, however, do not establish that a statutory right to “expenses” includes “an implicit authorization to award attorney’s fees.” *Summit Valley*, 456 U.S. at 722.

More compelling than the dictionary definitions, though, is Congress’s usage of the terms “expenses” and “attorneys’ fees” in other statutes. These statutes demonstrate Congress’s understanding that the ordinary meaning of “expenses” does not include attorneys’ fees. Similar to the Supreme Court’s analysis in *West Virginia University Hospitals, Inc. v. Casey*, we think the “record of statutory usage” convincingly demonstrates that attorneys’ fees and expenses are regarded as separate elements unless specifically identified otherwise. 499 U.S. 83, 88 (1991) (reviewing statutes using terms “attorney’s fees” and “expert fees” to understand whether reference to “attorney’s fees” would necessarily shift expert fees as well).

Indeed, Congress has drafted numerous statutes authorizing the award of both “expenses” and “attorneys’ fees.” This first category of statutes list expenses and attorneys’ fees as separate items of recovery. *See, e.g.*, 11 U.S.C. § 363(n) (authorizing trustee to recover “any costs, attorneys’ fees, or expenses incurred” in

certain situations); 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) (“[C]ourt . . . may allow to any such party such reasonable expenses and attorneys’ fees as it deems just and proper. . . . ”); 25 U.S.C. § 1401(a) (discussing “payment of attorney fees and litigation expenses”); 26 U.S.C. § 6673(a)(2)(A) (allowing recovery of “excess costs, expenses, and attorneys’ fees” against attorney who vexatiously multiplied proceedings); 15 U.S.C. § 77z-1(a)(6) (discussing “[t]otal attorneys’ fees and expenses” that can be awarded by court); 31 U.S.C. § 3730(d)(1) (“Any such person shall also receive an amount for reasonable expenses which the court finds to have been necessarily incurred, plus reasonable attorneys’ fees and costs.”); 38 U.S.C. § 4323(h)(2) (“[T]he court may award any such person who prevails in such action or proceeding reasonable attorney fees, expert witness fees, and other litigation expenses.”); Act of Dec. 23, 1930, ch. 23, § 4, 46 Stat. 1033, 1034 (granting Court of Claims jurisdiction to “determine a reasonable fee . . . to be paid the attorney or attorneys employed as herein provided, together with all necessary and proper expenses”); Act of Mar. 23, 1932, ch. 90, § 7, 47 Stat. 70, 72 (requiring adequate security to cover “all reasonable costs (together with a reasonable attorney’s fee) and expense” before permitting issuance of temporary restraining order or temporary injunction). It is hard to imagine that the ordinary meaning of “expenses” specifically and explicitly includes “attorneys’ fees” given the volume of statutory provisions that treat expenses and attorneys’ fees as separate items.<sup>4</sup> If “expenses”

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<sup>4</sup> The dissent questions the import of these statutes because they

includes attorneys' fees, then many "statutes referring to the two separately become an inexplicable exercise in redundancy." *W. Va. Univ.*, 499 U.S. at 92.

A second category of statutes define expenses to include attorneys' fees, but they do so explicitly. These statutes demonstrate that "expenses" does not necessarily include attorneys' fees, else there would be no need to so define "expenses." *See, e.g.*, 12 U.S.C. § 5005(b)(2)(B) (providing that, in absence of breach of warranty, amount of indemnity shall be sum of "interest and expenses (including costs and reasonable attorney's fees and other expenses of representation)"); 10 U.S.C. § 2409(c)(1)(C) (permitting agency head to require that contractor pay "an amount equal to the aggregate amount of all costs and expenses (including attorneys' fees and expert witnesses' fees)" in connection with complaint regarding a reprisal); 15 U.S.C. § 2310(d)(2) (permitting recovery of "a sum equal to the aggregate amount of cost and expenses (including attorneys' fees based on actual time expended)"); 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."); 29 U.S.C. § 1370(e)(1) ("[T]he court in its discretion may award all or a portion of the costs and expenses incurred in connection with such action, including reasonable attorney's fees. . . ."); 30 U.S.C.

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post-date the enactment of § 145's predecessor. Dissent Op. 6-7 n.1. But Congress distinguished between attorneys' fees and expenses during the mid-1800s too, *see, e.g.*, S.J. Res. 25, 40th Cong. § 1, 15 Stat. 26, 26 (1867) (discussing payment to "agent or attorney [of] his lawful fees and expenses"). In any event, neither the PTO nor the dissent suggests that Congress's understanding in this regard changed between 1839 and the passage of the above-cited statutes.

§ 938(c) (allowing successful miner to recover “a sum equal to the aggregate amount of all costs and expenses (including the attorney’s fees)”); 33 U.S.C. § 1367(c) (“[A] sum equal to the aggregate amount of all costs and expenses (including the attorney’s fees) . . . shall be assessed. . . . ”); 41 U.S.C. § 4705(d)(1)(C) (noting that head of agency may “[o]rder the contractor to pay the complainant an amount equal to the aggregate amount of all costs and expenses (including attorneys’ fees and expert witnesses’ fees) that the complainant reasonably incurred”); 42 U.S.C. § 247d-6d(e)(9) (permitting party to recover “reasonable expenses incurred . . . including a reasonable attorney’s fee”); 2 U.S.C. § 396 (“The committee may allow any party reimbursement from the applicable accounts of the House of Representatives of his reasonable expenses of the contested election case, including reasonable attorneys fees. . . . ”).

Collectively, these statutes encompass diverse categories of legislation and demonstrate that Congress understood the “ordinary, contemporary, common meaning” of “expenses” as being something other than “attorneys’ fees” unless expressly specified. *See Summit Valley*, 456 U.S. at 722 (quoting *Perrin*, 444 U.S. at 42). Statutes awarding both expenses and attorneys’ fees suggest that Congress viewed them as distinct tools in its toolbox of recovery items that can be shifted at its discretion to accomplish a policy objective. If “expenses” necessarily included “attorneys’ fees,” the numerous statutes providing for both would have superfluous words and, as a general rule, courts should “avoid an interpretation of a statute that ‘renders some words altogether redundant.’” *See United States v. Alaska*, 521 U.S. 1, 59 (1997) (quoting *Gustafson v.*

*Alloyd Co.*, 513 U.S. 561, 574 (1995)). Likewise, Congress would have no reason to permit the recovery of “expenses”—and then specify whether it included “attorneys’ fees”—if the former always encompassed the latter. To us, the logical implication of Congress’s prior usage is that “attorneys’ fees” are not even ordinarily, let alone necessarily, included in “expenses” absent an express expansion of “expenses” to include “attorneys’ fees.” At best, whether “expenses” includes “attorneys’ fees” is ambiguous.<sup>5</sup> But ambiguity cannot satisfy the exacting standard erected by the American Rule for shifting attorneys’ fees.

In considering whether the ordinary meaning of a particular statutory provision shifted attorneys’ fees, the Supreme Court in *Key Tronic* found it persuasive that Congress included express provisions for fee awards in related statutes without including a similar provision in the statute at issue. 511 U.S. at 817-18. So too here.<sup>6</sup> The existence of several Patent Act pro-

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<sup>5</sup> We note that § 145 is not discretionary; it requires that “[a]ll the expenses of the proceedings *shall* be paid by the applicant.” 35 U.S.C. § 145 (emphasis added). To the extent the phrase “expenses” unambiguously includes attorneys’ fees, it is unclear why it took the PTO more than 170 years to appreciate the statute’s alleged clarity and seek the attorneys’ fees that are statutorily mandated under its interpretation. The dissent excuses the PTO’s failure to pursue fees in earlier proceedings, citing “dramatic[]” changes in the patent landscape, Dissent Op. 18, but this does nothing to soften the statute’s mandatory directive.

<sup>6</sup> The dissent cites *Key Tronic* as an example of the Supreme Court favorably citing the Eighth Circuit’s conclusion that a statute’s reference to “necessary costs of response” and “enforcement activities” constituted a “sufficient degree of explicitness” to permit the award of attorneys’ fees. Dissent Op. 15 (quoting *Key Tronic*, 511 U.S. at 815). But the Supreme Court analyzed the same sta-

visions awarding “attorneys’ fees” demonstrates Congress’s use of “specific and explicit” language in the Patent Act to shift fees when it so desired. For example, § 285 states: “The court in exceptional cases may award reasonable *attorney fees* to the prevailing party.” 35 U.S.C. § 285 (emphasis added). Other provisions of the Patent Act recognize the availability of attorneys’ fees by cross-referencing § 285. *See, e.g.*, 35 U.S.C. § 271(e)(4) (noting “that a court may award *attorney fees* under section 285” as part of remedy for infringement under § 271(e)(2) (emphasis added)); 35 U.S.C. § 273(f) (listing circumstances where “the court shall find the case exceptional for the purpose of awarding *attorney fees* under section 285” (emphasis added)). Finally, § 297(b)(1) permits customers who have been defrauded by an invention promoter to recover “reasonable costs and *attorneys’ fees*” in addition to damages. 35 U.S.C. § 297(b)(1) (emphasis added).

Congress elected in § 145 to provide for the recovery of the PTO’s “expenses,” not its “attorneys’ fees.” When “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.

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tutory language as the Eighth Circuit and held that it cannot support an award of attorneys’ fees: “To conclude that a provision that only impliedly authorizes suit nonetheless provides for attorney’s fees with the clarity required by *Alyeska* would be unusual if not unprecedented.” *Key Tronic*, 511 U.S. at 818. This decision was informed in part by the presence of “two express provisions for fee awards” in a related statute, which the Court understood to “strongly suggest a deliberate decision not to authorize such awards” here. *Id.* at 818-19.



16, 23 (1983) (quoting *United States v. Wong Kim Bo*, 472 F.2d 720, 722 (5th Cir. 1972)). Here, Congress did not award “attorneys’ fees” under § 145 but did make them available under other sections of the Patent Act. We presume this was intentional, *id.*, and thus the omission of “attorneys’ fees” from § 145 “strongly suggest[s] a deliberate decision not to authorize such awards.” *See Key Tronic*, 511 U.S. at 819 (declining to award fees under provision that did not refer to “attorneys’ fees,” in part because two other provisions in related statute contained express authority to shift fees).<sup>7</sup> We are dubious of the dissent’s attempt to distinguish § 285 from § 145 on the ground that § 145 does not “arise[] in traditional patent litigation.” Dissent Op. 8. To the contrary, § 145 is titled “Civil action to obtain patent,” and it provides “remedy by civil action against the Director in the United States District Court for the Eastern District of Virginia.” § 145. This statutory language clearly gives rise to “patent

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<sup>7</sup> The patent laws have been amended on numerous occasions since Congress enacted § 145’s predecessor in 1839. If the PTO’s decision not to seek fees during this time contradicted Congress’s intent, Congress could have revised the statute to make its intent more clear. For example, Congress amended the law in 1946 to permit the “award [of] reasonable *attorney’s fees* to the prevailing party” in infringement actions. Act of Aug. 1, 1946, ch. 726, 60 Stat. 778, 778 (emphasis added) (creating predecessor to § 285). Congress could have included similar language in § 145, but it did not. “When Congress amends one statutory provision but not another, it is presumed to have acted intentionally.” *Gross v. FBL Fin. Servs., Inc.*, 557 U.S. 167, 174 (2009). Although *Gross* drew this inference based on Congress’s decision to amend a provision in one statute but not amend a similar provision in another statute, we think the inference carries equal force with respect to two provisions within the same statutory scheme.

litigation” between the disappointed patent applicant and the Director of the PTO.

We have also considered judicial usage of “expenses.” *See W. Va. Univ.*, 499 U.S. at 92-93 (looking to contemporaneous court decisions to determine whether expert fees were shifted as element of attorneys’ fees). Many courts and litigants in the 1800s referred to “expenses” and “attorneys’ fees” as distinct items. *See, e.g., Morris v. Way*, 16 Ohio 469, 472 (1847) (referring to statement of accounts listing “attorney’s fees and expenses”); *Hayden v. Sample*, 10 Mo. 215, 221 (1846) (noting defendant’s request that jury be instructed to ignore evidence of “the expenses incurred . . . and the fees paid counsel and attorneys”); *Anderson v. Farns*, 7 Blackf. 343, 343 (Ind. 1845) (citing party’s request for indemnity from all “penalties, costs, damages, attorney’s fees, and expenses”); *State v. Williams*, 13 Ohio 495, 499 (1844) (providing that trustees had authority to settle “the expense of prosecuting suits, attorney’s fees, etc.”); *Bishop v. Day*, 13 Vt. 81, 83 (1841) (discussing contract containing indemnity from “any costs, lawyers’ fees, and expenses”); *Hickman v. Quinn*, 14 Tenn. 96, 107 n.1 (1834) (explaining that defendants deducted “their expenses, attorney’s fees, etc.” from amount voluntarily given to plaintiff); *see also* Br. of Amici Curiae Intellectual Prop. Owners Ass’n 8 (collecting cases).

This distinction remains evident in recent legal opinions. For example, one court recognized 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 also Tracy v. T & B Con-*

*str. 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.”); *McAdam v. Dean Witter Reynolds, Inc.*, 896 F.2d 750, 776 (3d Cir. 1990) (“[W]e can not find the vague reference in § 4-207(3) to ‘expenses’ [to be a] sufficient basis on which to predicate such an award [of attorneys’ fees].”); *Lewis v. Pension Benefit Guar. Corp.*, 197 F. Supp. 3d 16, 29 (D.D.C. 2016) (finding no authority to shift attorneys’ fees under 29 U.S.C. § 1303(f), subsection (3) of which permits court to “award all or a portion of the costs and expenses incurred in connection with such action”).

Finally, we emphasize that the PTO’s interpretation of § 145 would have a patent applicant pay the government’s attorneys’ fees even when the patent applicant succeeds. Other than what we believe to be an incorrect interpretation of the trademark analogue in *Shammas*, we are aware of no statute that requires a private litigant to pay the government’s attorneys’ fees without regard to the party’s success in the litigation. Indeed, the PTO could not identify any statute that shifts the salaries of an agency’s attorneys onto the party bringing suit to challenge the agency’s decision. See Oral Arg. at 26:53-27:09, [http://oralarguments.cafc.uscourts.gov/default.aspx?fl=2016-1794\\_382018.mp3](http://oralarguments.cafc.uscourts.gov/default.aspx?fl=2016-1794_382018.mp3); see also Br. of Amici Curiae Am. Bar Ass’n 5 (“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.”). Thus, adopting the PTO’s interpretation would create a particularly unusual divergence from the American Rule. Had Congress intended to produce such an anomalous result, we believe “it would

have said so in far plainer language than that employed here.” *Ruckelshaus*, 463 U.S. at 694.

The Supreme Court’s reluctance to endorse statutory interpretations that would create sweeping departures from the American Rule furthers our conclusion. For example, even in statutes where Congress has granted courts broad leeway to shift “attorneys’ fees,” the Supreme Court has restricted the availability of those awards. *See, e.g., Hardt*, 560 U.S. at 251-52, 255 (requiring “some degree of success on the merits” to recover attorneys’ fees even though statute permits “court in its *discretion* [to] allow a reasonable attorney’s fee and costs of action *to either party*” (emphases added)); *Ruckelshaus*, 463 U.S. at 682-83, 694 (requiring “some degree of success on the merits” before shifting attorneys’ fees even though statute allows court to “award costs of litigation (including reasonable attorney and expert witness fees) whenever it determines that such an award is *appropriate*” (emphasis added)); *Baker Botts*, 135 S. Ct. at 2165 (permitting recovery of attorneys’ fees for work done during bankruptcy proceeding, but not in fee-defense litigation, under statute allowing “reasonable compensation for actual, necessary services rendered by the trustee . . . or attorney” (emphasis omitted)).

And the Court often rejects fee-shifting requests under the American Rule where Congress employs vague statutory language that might, to a layperson, seem broad enough to cover attorneys’ fees as well as other items. *See, e.g., Summit Valley*, 456 U.S. at 722, 726 (declining to shift attorneys’ fees under statute permitting recovery of “the damages by him sustained and the cost of the suit”); *F. D. Rich Co.*, 417 U.S. at

128, 130-31 (declining to award attorneys’ fees pursuant to statute authorizing recovery of “sums justly due”); *Fleischmann*, 386 U.S. at 720 (declining to award attorneys’ fees under statute giving courts authority to award “costs of the action”); *Key Tronic*, 511 U.S. at 813, 819 (declining to shift attorneys’ fees pursuant to statute making responsible parties liable for “any . . . necessary costs of response,” including “enforcement activities”). Using these cases as a barometer, we cannot conclude that a statute awarding “[a]ll the expenses,” with nothing more, effects such an extreme departure from the American Rule.

#### IV

The PTO and the dissent resist our conclusion that § 145 does not displace the American Rule. They both begin—as we do—with the meaning of “expenses.” To support an expansive reading of “expenses” that includes attorney fees, the PTO and the dissent cite the Supreme Court’s statement in *Taniguchi* that “[t]axable costs are a fraction of the nontaxable *expenses borne by litigants for attorneys*, experts, consultants, and investigators.” 566 U.S. at 573 (emphasis added); *see generally* Appellant Br. 38-39; Dissent Op. 6. We acknowledge that the word “expenses” is broad and, like “costs” or “litigation costs,” is sometimes used in judicial opinions to refer to a variety of burdens incurred by a litigant, including attorneys’ fees. But the Supreme Court has never interpreted the phrase “expenses” or “all the expenses” to authorize a departure from the American Rule. Indeed, *Taniguchi* only analyzed “whether [the phrase] ‘compensation of interpreters’ covers the cost of translating documents.” *Id.* at 562.

In a similar vein, the PTO relies on a single sentence from *Arlington Central School District Board of Education v. Murphy*, 548 U.S. 291 (2006). See Appellant Br. 39. There, the Individuals with Disabilities Education Act (“IDEA”) permitted courts, in their discretion, to award “reasonable attorneys’ fees as part of the costs” to the prevailing party. *Arlington Central*, 548 U.S. at 297 (quoting 20 U.S.C. § 1415(i)(3)(B)). Respondents asserted that “costs” should be interpreted to cover all the costs of an IDEA proceeding, including expert fees. The Court rejected respondents’ argument, noting that the statute’s “use of this term of art [‘costs’], rather than a term such as ‘expenses,’ strongly suggests that § 1415(i)(3)(B) was not meant to be an open-ended provision that makes participating States liable for all expenses incurred.” *Id.* The PTO seizes on this language, but it omits the end of the sentence, which provides examples of the “open-ended . . . expenses” envisioned by the Court: “travel and lodging expenses or lost wages due to time taken off from work.” *Id.* Absent from the list is a reference to attorneys’ fees. Thus, *Arlington Central* does not address the interpretation of a statute containing the word “expenses” in light of the American Rule. Nor does it stand for the proposition that the ordinary meaning of “expenses” is broad enough to include “attorneys’ fees.”

The PTO likewise insists that a single sentence in *Baker Botts* suggests that a statutory reference to “litigation costs” alone would suffice to shift attorneys’ fees. Appellant Br. 39 (quoting 135 S. Ct. at 2164). Specifically, the Court in *Baker Botts* stated: “We have recognized departures from the American Rule” and these departures “tend to authorize the award of ‘a

reasonable attorney’s fee,’ ‘fees,’ or ‘litigation costs,’ and usually refer to a ‘prevailing party.’” *Id.* But none of the cited statutes—either in *Baker Botts* itself or in the cases *Baker Botts* cites—contain a stand-alone reference to “litigation costs.” See Appellee Br. 24-25. Rather, each of the statutes expressly provides for the award of attorneys’ fees in addition to, or as part of, the litigation costs. We therefore do not read *Baker Botts* to stand for the proposition that the phrase “litigation costs,” by itself, can displace the American Rule.<sup>8</sup>

The PTO and dissent next accuse us of transforming a statute requiring the payment of “[a]ll the expenses” to one demanding reimbursement for only “some” of the expenses. Appellant Br. 41; see Dissent Op. 9-10. Both emphasize the modifier “[a]ll” in arguing that Congress intended § 145 to be fully remedial. But the word “all” sheds no light on the breadth of “expenses” vis-à-vis attorneys’ fees—the crux of the dispute—and serves only to clarify that, whatever the “expenses”

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<sup>8</sup> *Alyeska Pipeline* also cited numerous statutory examples of “specific and explicit provisions for the allowance of attorneys’ fees.” 421 U.S. at 260-62 & n.33-35. Again, every cited statute referred to either “fees,” “attorneys’ fees,” or “reasonable compensation for services rendered” by an “attorney.” See *id.* The same holds true for the 2008 Congressional Research Service Report in which Congress compiled the text of several hundred other fee-shifting provisions. Each of these statutes referred to “attorneys’ fees,” “fees,” “compensation for . . . attorney[s],” “fees for attorneys,” “compensation for representation . . . equivalent to that provided for court-appointed representation,” “fees of counsel,” “legal fees,” or “compensation” for “foreign counsel.” Henry Cohen, Cong. Research Serv., *Awards of Attorneys’ Fees by Federal Courts and Federal Agencies* 64-114 (2008), available at <https://fas.org/sgp/crs/misc/94-970.pdf>. Notably, § 145 was not included in the statutory compilation.

are, all of them must be paid by the applicant. In addition, at least one statute expressly identifies “attorneys’ fees” as one of an enumerated list of “all expenses” recoverable, further supporting the notion that the phrase “all expenses” does not carry the weight afforded to it by the PTO and the dissent. See 50 U.S.C. § 4531(b)(4) (permitting recovery of “all expenses and losses incurred . . . including . . . attorneys’ fees and expenses of litigation”). Finally, we note that, even if “attorney’s fees are necessary to achieve *full* compensation [for the PTO’s involvement in a § 145 action], this justification alone is not sufficient to create an exception to the American Rule in the absence of express congressional authority.” *Summit Valley*, 456 U.S. at 724 (emphasis added). The argument by the PTO is “nothing more than a ‘restate[ment] of one of the oft-repeated criticisms of the American Rule.’” *Id.* at 725 (alteration in original) (quoting *F. D. Rich Co.*, 417 U.S. at 128).

The dissent next invokes “legislative history and the purpose of § 145” for displacing the American Rule. Dissent Op. 10-13. At the outset, we question the role of legislative history in this context where the very point of the “specific and explicit” standard is to demand clarity in the statute’s text. See *Baker Botts*, 135 S. Ct. at 2164 (“We have recognized departures from the American Rule only in ‘specific and explicit provisions for the allowance of attorneys’ fees under selected statutes.’” (quoting *Alyeska Pipeline*, 421 U.S. at 260)); cf. *Conroy v. Aniskoff*, 507 U.S. 511, 519 (1993) (Scalia, J., concurring) (“The law as it passed is the will of the majority of both houses, *and the only mode in which that will is spoken is in the act itself.* . . . ” (emphasis in original) (quoting *Aldridge v. Williams*, 44 U.S. (3 How.) 9, 24 (1844))).



Where the textual indications are unclear, we are skeptical of what legislative history and policy could add to satisfy this standard. But even if we set these concerns aside, the dissent's legislative history fails to advance its interpretation of § 145.

The dissent points to an expense reimbursement provision in the 1870 amendments to the patent laws, which it notes is similar to the language employed by Congress in § 145's predecessor. Dissent Op. 11. Initial versions of the House bill limited the reimbursement by using the word "costs" and capping it at \$25. *See* H.R. 1714, 41st Cong. § 52 (as passed by House, Apr. 25, 1870). The Senate, however, changed "costs" to "expenses" and removed the \$25 cap. *See* H.R. 1714, 41st Cong. § 52 (as amended by Senate, May 31, 1870). The enacted version reflects the Senate amendments, *see* Act of July 8, 1870, ch. 230, § 52, 16 Stat. 198, 205, which according to the dissent, "demonstrates—or at least strongly suggests—that Congress specifically intended that 'expenses' be broader than 'costs.'" Dissent Op. 12. We do not contest that "expenses" is broader than "costs." But the breadth of expenses relative to costs has no relevance here. Our task is to determine whether "expenses" includes attorneys' fees, and the dissent's legislative history is silent on this crucial point.

The PTO and the dissent also direct our attention to § 9 of the 1836 patent statute—a budgetary provision that uses the word "expenses." Appellant Br. 27-28; Dissent Op. 4. Section 9 requires that money paid by patent applicants into the Treasury be used "for the payment of the salaries of the officers and clerks herein provided for, and all other expenses of the Patent Office."

Act of July 4, 1836, ch. 357, § 9, 5 Stat. 117, 121. In the dissent’s view, this establishes that Congress “understood salaries to be within the scope of ‘expenses.’” Dissent Op. 4. But as the dissent recognizes, context is important when interpreting a statute. Dissent Op. 7. Here, § 9 is an accounting provision that earmarks money the PTO receives to cover various “expenses of the Patent Office”; it does not address how “expenses of the proceedings” are to be allocated in the context of adversarial litigation involving the PTO. Moreover, it is doubtful (or at least uncertain) whether any of the salaries of the particular “officers and clerks *herein provided for*” under § 9 included the salaries of PTO attorneys and paralegals who engaged in litigation on the agency’s behalf. § 9, 5 Stat. at 121 (emphasis added); *see id.* §§ 1-2, 5 Stat. at 117-18 (creating roles for Commissioner of Patents, Chief Clerk of Patent Office, an examining clerk, and two “other” clerks). Accordingly, § 9 at most supports the idea that “expenses” *can be* broad enough to cover salaries of some PTO employees in an unrelated context. But, even then, Congress felt it necessary to expressly enumerate “salaries of the officers and clerks” in addition to “all other expenses,” demonstrating again that the ordinary meaning of expenses does not include attorney salaries.

Both the dissent and the PTO contend that it would not make sense for Congress to use the phrase “attorneys’ fees” in the context of § 145 actions because it is more accurate to classify the salaries of the PTO’s attorneys as personnel “expenses.” Appellant Br. 42; Dissent Op. 8. In light of other statutes providing for the government’s recoupment of *attorneys’ fees*, as opposed to personnel expenses, in enforcement actions, we do not find this argument convincing. *See, e.g.,* 42 U.S.C.

§ 7413(d)(5) (“Any person who fails to pay on a timely basis a civil penalty ordered or assessed under this section shall be required to pay . . . the United States 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) (similar). Indeed, aside from the trademark analogue at issue in *Shammas*, the PTO did not identify a single statute that awards to the government prorated portions of its attorneys’ salaries without using the phrase “attorneys’ fees.”

Finally, the PTO and the dissent paint § 145 actions as a scourge on other patent applicants. Appellant Br. 21-25; Dissent Op. 12, 17-18. They claim it is unfair to burden all applicants with the additional costs caused by those who voluntarily initiate § 145 proceedings. But this policy debate on the value of § 145 actions is best left for Congress. And, as various amici indicate, Congress already addressed the debate by rebuffing an attempt to repeal § 145. Br. of Amici Curiae Intellectual Prop. Owners Ass’n 21 n.3; Br. of Amici Curiae Ass’n of Amicus Counsel 14. In any event, the dissent’s concerns appear to us exaggerated. A back-of-the-envelope calculation elucidates the minuscule impact of these proceedings on the overall cost of a patent application. Although neither party could provide an exact tally of the § 145 proceedings, at the panel stage the PTO estimated that there were four to five of these proceedings in the last three years. *See* Oral Arg. at 19:19-20:10, <http://oralarguments.cafc.uscourts.gov/default.aspx?fl=2016-1794.mp3>. If we were to take a conservative estimate of ten § 145 actions per year (five times the rate estimated by the PTO) and assume that the PTO expended \$100,000 in attorneys’ fees defend-

ing each action (\$20,000 more than the amount the PTO incurred in this case), the total expense for fiscal year 2018 would be \$1 million. The PTO estimates that it will receive more than 627,000 patent applications during this same time period. See U.S. Patent and Trademark Office, *Fiscal Year 2018 Congressional Justification* 11 (2017), <https://www.uspto.gov/sites/default/files/documents/fy18pbr.pdf>. When spread amongst the 627,000+ applications, the \$1 million price tag amounts to less than \$1.60 per application.

## V

The general rule in the United States is that each party pays for its own attorneys. To deviate from the status quo embodied in the American Rule, Congress must draft legislation—“specific and explicit” legislation—demonstrating its intent to make the award of attorneys’ fees available under that statute. Awarding “[a]ll the expenses” simply cannot supply the “specific and explicit” directive from Congress to shift attorneys’ fees, and nothing else in the statute evinces congressional intent to make them available. Other than *Shammas*’s interpretation of the trademark analogue, we are not aware of any statute requiring a private litigant to pay the government’s attorneys’ fees without regard to the party’s success in the litigation. We are unwilling to “invade the legislature’s province by redistributing litigation costs” in a way that would create such an anomalous statute here. See *Alyeska Pipeline*, 421 U.S. at 271. The judgment of the district court is affirmed.

**AFFIRMED**

## COSTS

Costs to Appellee.

UNITED STATES COURT OF APPEALS  
FOR THE FEDERAL CIRCUIT

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2016-1794

NANTKWEST, INC., PLAINTIFF-APPELLEE

*v.*

ANDREI IANCU, UNDER SECRETARY OF COMMERCE FOR  
INTELLECTUAL PROPERTY AND DIRECTOR OF THE  
UNITED STATES PATENT AND TRADEMARK OFFICE,  
DEFENDANT-APPELLANT

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Filed: July 27, 2018

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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

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PROST, *Chief Judge*, dissenting, with whom DYK,  
REYNA, and HUGHES, *Circuit Judges*, join.

The question for the en banc court is whether 35 U.S.C. § 145, which provides that “[a]ll the expenses of the proceedings shall be paid by the applicant,” requires the applicant to pay *all* the expenses of the proceedings, including the PTO’s personnel expenses, or just *some* of the expenses. When Congress said, “[a]ll the expenses,” I believe it meant *all* the expenses. The Fourth Circuit agrees. *Shammas v. Focarino*, 784 F.3d 219 (4th Cir. 2015), *cert. denied sub nom. Shammas v. Hirshfeld*, 136 S. Ct. 1376 (2016). The majority opinion creates an unfortunate and unnecessary conflict between the circuits. I respectfully dissent.

## I

When electing to pursue its § 145 action, NantKwest, a disappointed patent applicant, had two options for judicial review of the Patent Trial and Appeal Board’s decision. See *Kappos v. Hyatt*, 566 U.S. 431, 434 (2012). NantKwest could have “either: (1) appeal[ed] the decision directly to [this court], pursuant to § 141; or (2) file[d] a civil action against the Director of the PTO in the United States District Court for the [Eastern District of Virginia] pursuant to § 145.” *Id.* at 434 & n.1. Litigation in district court is expensive and time-consuming, much more so than direct appeals to this court limited to the administrative record. Section 145, unlike § 141, requires the applicant to pay “[a]ll the expenses of the proceedings,” 35 U.S.C. § 145, “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). Section 145 actions are also uncommon. *Id.* (noting that “the vast majority of applicants pursue an on-the-record appeal [under § 141] instead of a § 145 action”).

In defending the § 145 proceedings initiated by NantKwest, the PTO incurred expenses for expert witnesses and personnel expenses—that is, the expense of diverting agency attorneys and paralegals from other matters to this § 145 action. The district court ordered NantKwest to reimburse the agency’s expenses for its expert witness but not its personnel. The parties do not dispute that “[a]ll the expenses of the proceedings” includes the PTO’s expert witness expenses. On appeal, the PTO seeks reimbursement under § 145 for personnel expenses it incurred.

## II

I start, as I must, with the language of the statute. *E.g.*, *United States v. Ron Pair Enters., Inc.*, 489 U.S. 235, 241 (1989). And its plain text provides our answer. *See SAS Inst., Inc. v. Iancu*, 138 S. Ct. 1348, 1354 (2018). When § 145 says “[a]ll the expenses of the proceedings shall be paid by the applicant” it means the applicant must pay *all* the expenses of the proceedings. “Absent persuasive indications to the contrary, we presume Congress says what it means and means what it says.” *Simmons v. Himmelreich*, 136 S. Ct. 1843, 1848 (2016). Here, neither the majority opinion nor NantKwest’s arguments give me any reason to doubt what I see as the plain-text result in this case. *Id.*

## A

Initially, I note that the PTO did not retain outside counsel to assist in defending this § 145 action. Instead, it used its salaried government lawyers. These lawyers incurred expenses because the time they devoted to this case was not available for other work. *See Wis. v. Hotline Indus., Inc.*, 236 F.3d 363, 365 (7th Cir. 2000) (“[S]alaried government lawyers, like in-house and non-profit counsel, do incur expenses if the time and resources they devote to one case are not available for other work.”). Additionally, the PTO is not seeking reimbursement for its lawyers’ time at market rate. Rather, the PTO seeks personnel expenses it *actually* incurred in these proceedings. *Compare* J.A. 83-84 (the PTO’s request for the actual expenses it incurred in this § 145 action by calculating a proportional share of its attorneys’ salaries (citing *Hotline Indus.*, 236 F.3d at 368)), *with, e.g.*, *Raney v.*

*Fed. Bureau of Prisons*, 222 F.3d 927, 933 (Fed. Cir. 2000) (“[A] nonprofit legal services organization is entitled to receive a prevailing market rate pursuant to a statute that authorizes the prevailing party to be awarded ‘a reasonable attorney[s]’ fee as part of the cost.” (citing *Blum v. Stenson*, 465 U.S. 886, 894-96 (1984))).

Thus, the question in this case is whether “[a]ll the expenses of the proceedings” includes the personnel expenses the PTO actually incurred for attorneys in defending these § 145 proceedings. I conclude that it does.

## B

To determine whether the phrase “[a]ll the expenses” includes the PTO’s personnel expenses, I first look to the meaning of “expenses.” Although the statute does not expressly define that term, the Patent Act of 1836 did use the term “expenses” in a provision discussing application fees. That provision, which was retained when Congress added the expense-reimbursement language in 1839, read in relevant part:

[T]he applicant shall pay into the Treasury of the United States, or into the Patent Office, or into any of the deposite banks to the credit of the Treasury . . . the sum of thirty dollars. . . . 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*, and to be called the patent fund.

Patent Act of 1836, ch. 357, § 9, 5 Stat. 117, 121 (emphasis added). Congress understood “salaries of the officers and clerks” as one kind of “expense.” To be sure, there is a difference between “expenses of the



Patent Office” and “expenses of the proceedings,” but the point is that Congress, at the time it enacted the precursor to § 145, understood salaries to be within the scope of “expenses.”

When a term goes undefined in a statute, we give the term its ordinary meaning. *Taniguchi v. Kan Pac. Saipan, Ltd.*, 566 U.S. 560, 566 (2012). The ordinary meaning of “expenses” encompasses expenditures for personnel. Dictionaries in use when Congress enacted § 145’s precursor generally defined “expenses” as an expenditure of money, time, labor, or resources. For example, in 1830 “expense” was defined as “1. [a] laying out or expending; the disbursing of money, or *the employment and consumption, as of time or labor.*” Noah Webster, *An American Dictionary of the English Language* 319 (3d ed. 1830) (emphasis added). The majority points to other 1830s dictionary definitions, which defined “expense” as “cost; charges; money expended,” J.E. Worcester, *A Comprehensive Pronouncing and Explanatory Dictionary of the English Language, with Pronouncing Vocabularies of Classical and Scripture Proper Names* 117 (1830), and as “the disbursing of money,” “2. Money expended,” “cost,” and “3. That which is used, employed, laid out or consumed,” Noah Webster, *An American Dictionary of the English Language* 319 (3d ed. 1830). Based on these definitions, I agree with the government that the ordinary or common meaning of “expenses” includes personnel expenditures. It also includes out-of-pocket attorneys’ fees.

Although the PTO did not retain outside counsel in this case, the statute’s history suggests that Congress intended “expenses” to also include attorneys’ fees for

the PTO's retained outside counsel. At the time the expense-reimbursement provision appeared, proceedings in equity seem to have been quite rare. And when they occurred, it seems that the PTO incurred the expense of employing outside counsel. This conclusion is drawn from the Report of the Commissioner of Patents for the Year 1845, in which the Commissioner explained that "[t]wo 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).

The plain and ordinary meaning that the Supreme Court has ascribed to the word "expenses" comports with my reading of the dictionary definitions cited above. For example, the Court has recognized that "expenses" (as compared to taxable costs) contemplates the full range of expenditures a party must make in litigation (including attorneys). *Taniguchi*, 566 U.S. at 573 ("Taxable costs are a fraction of the nontaxable expenses borne by litigants for attorneys, experts, consultants, and investigators."). In other words, the Supreme Court has told us that the plain and ordinary meaning of the word "expenses" in the litigation context includes those incurred for attorneys.

Although NantKwest and the majority do not deny that "expenses" is broad enough to cover the PTO's personnel expenses, they contend that the term "is merely capable of implicitly covering attorneys' fees" and "is at best ambiguous as to attorneys' fees." Majority Op. 17. As support, NantKwest and the majority rely on

other federal statutes under various titles where Congress has employed the term “expenses” to authorize attorneys’ fees either in addition to expenses (e.g., “expenses *and* attorneys’ fees”), or as a component of them (e.g., “expenses *including* attorneys’ fees”).<sup>1</sup> The majority contends that “[t]hese statutes demonstrate Congress’s understanding that the ordinary meaning of ‘expenses’ does not include attorneys’ fees.” Majority Op. 18.

Certainly, “a definition [being] 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. But even if I were to agree with NantKwest and the majority’s characterization of what “expenses” *ordinarily* means, here the statutory context in which “expenses” appears indicates that it includes personnel expenditures for attorneys. *See id.* at 569 (observing that the context in which a word appears may over-override the word’s ordinary meaning). As noted, the word “expenses”

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<sup>1</sup> When the Supreme Court examines the “record of statutory usage” it focuses on contemporaneous statutes. *See W. Va. Univ. Hosps., Inc. v. Casey*, 499 U.S. 83, 88 (1991) (reviewing statutes enacted the same year as the statute at issue, and in one case a statute enacted “just over a week prior”); *see also id.* at 88-89 & n.4 (reviewing statutes enacted within a few years of the statute at issue). The majority acknowledges that its cited statutes were not enacted contemporaneously with Congress’s enactment of § 145’s precursor, so it points to an 1867 statute that distinguishes between an individual attorney’s fees and his or her expenses. Majority Op. 19 n.4. This distinction hardly suggests that “[a]ll the expenses of the proceedings” does not include the PTO’s personnel expenses. Regardless, my point is that because statutory interpretation depends very much on context, I would not assign the same probative value to unrelated, later-enacted statutes as does the majority.

showed up one other time in the Patent Act of 1836—where the Act expressly characterized the salaries of PTO officers and clerks as “expenses.” Patent Act of 1836, ch. 357, § 9, 5 Stat. 117, 121.

The majority addresses the statutory context by pointing to 35 U.S.C. § 285, which provides that “[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party.” The majority suggests that because this provision of the Patent Act specifically mentions attorneys’ fees, Congress must have intended to exclude them from “expenses” in § 145. Majority Op. 22-24. I disagree.

First, Congress intended a broader compensation scheme under § 145 than under § 285. *Compare* § 145 (“[a]ll the expenses of the proceedings”), *with* § 285 (“reasonable attorneys’ fees”). For example, NantKwest does not contest that the language of § 145 includes the PTO’s expert witness expenses. In § 285, Congress chose not to award all the expenses to the prevailing party, but only attorneys’ fees. Congress can certainly employ a broad word over other narrower alternatives if it so chooses.

Second, as salaried employees, the PTO’s attorneys do not bill individual hours for their work, nor do they collect fees from those whom they represent. In this context, the overhead associated with the PTO’s attorneys’ work is more aptly characterized as an “expense” to the PTO than a “fee.” *Compare Expense*, Black’s Law Dictionary (10th ed. 2014) (defining “expense” as “expenditure[s] of money, time, labor, or resources to accomplish a result”), *with Attorney’s fee*, Black’s Law Dictionary (10th ed. 2014) (defining “attorney’s fee” as “[t]he charge to a client for services performed for the

client, such as an hourly fee, a flat fee, or a contingent fee”). I would not require Congress to mimic § 285 and use the phrase “attorneys’ fees” when, in this context, “expenses” is the more apt term.

Third, the § 145 and § 285 provisions are implicated in different settings. Section 285 arises in traditional patent litigation, and authorizes a district court to award attorneys’ fees to the prevailing party. See *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749, 1752 (2014). In contrast, § 145 proceedings are, “in fact and necessarily, a part of the application for the patent.” *Gandy v. Marble*, 122 U.S. 432, 439 (1887). The “[a]ll the expenses” contemplated by § 145 are a direct counterpart to the application fees that are designed to reimburse the PTO’s examination expenses—application fees that, like the “[a]ll the expenses” of § 145, the applicant must pay regardless of whether it receives a patent. Congress’s use of different phrases therefore makes sense in these different settings. And Congress’s choice to depart from the model of a related statute is a choice we may not disregard.<sup>2</sup> *SAS Inst.*, 138 S. Ct. at 1355.

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<sup>2</sup> The majority proposes that Congress should have amended § 145 to include the “attorneys’ fees” language when it amended the Patent Act in 1946 to permit the “award [of] reasonable *attorney’s fees* to the prevailing party” in infringement actions (i.e., the precursor to § 285). Majority Op. 24 n.7 (quoting Patent Act of 1946, ch. 726, 60 Stat. 778, 778 (emphasis added)). In other words, the majority would require Congress to review and amend § 145, its already-clear expense-reimbursement statute, so as to make it extra clear. This just can’t be right. Especially not when, as I have detailed, the statutes are implicated in different settings and intentionally provide for compensation schemes of varying breadth. The majority seems to infer that because Congress added other

But I need not rely on the word “expenses” alone. Congress did not simply provide for “expenses of the proceedings” in § 145—it clarified that it was requiring the applicant to pay “[a]ll the expenses of the proceedings.”

The majority maintains that “the word ‘all’ sheds no light on the breadth of ‘expenses,’” and reasons that “all” “serves only to clarify that, whatever the ‘expenses’ are, all of them must be paid by the applicant.” Majority Op. 30. I disagree. Such an interpretation leaves little work for “all” to do; simply saying “the expenses” would seem to do just as well. While this latter, more limited phrasing would still not explicate the breadth of “expenses,” neither would it, by itself, provide a basis for excluding anything properly regarded as an “expense.” In my view, Congress used the word “all” to broadly and comprehensively capture anything fairly regarded as an “expense,” resolving any lingering doubt in favor of inclusion. The majority acknowledges that the term “expenses” is capable of including attorneys’ fees and cites to several statutes that list attorneys’ fees as part of expenses. Majority Op. 20-21 (citing ten such statutes). In § 145, Congress’s use of the word “all” indicated its desire to broadly and comprehensively include *all* of the expenses as it commonly understood them, which includes the personnel expenses the PTO incurs in defending § 145 actions.

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statutory provisions (which arise in different circumstances), that it necessarily intended to *not* provide for the PTO’s personnel expenses in those provisions it did not amend. This inference is far too attenuated to have any persuasive force.

Both the legislative history and the purpose of § 145 support my reading of the statutory text and context.

The majority questions the relevance of legislative history in interpreting fee statutes. Majority Op. 30-31. I note, however, that the Supreme Court has examined legislative history in cases implicating fee-shifting and the American Rule. *E.g.*, *Ruckelshaus v. Sierra Club*, 463 U.S. 680, 686-91 (1983); *Summit Valley Indus., Inc. v. Local 112, United Bhd. of Carpenters & Joiners of Am.*, 456 U.S. 717, 723-24 (1982).

Consideration of the history of § 145 suggests that Congress intended “expenses” to capture broadly, not narrowly. As the parties have noted, the “expenses” provision arose (in slightly different form) in the 1839 Amendments to the Patent Act, which provided that an applicant bringing a proceeding in equity to contest an adverse decision of the Patent Office would be required to pay “the whole of the expenses of the proceeding . . . whether the final decision shall be in his favor or otherwise.” Patent Act of 1839, ch. 88, § 10, 5 Stat. 353, 354.

When Congress revised the Patent Act in 1870, it used expense-reimbursement language very similar to the language used in the previously enacted 1839 statute. Initial versions of the House bill sought to limit the reimbursement provision by using the word “costs” instead of “expenses” and by limiting any reimbursement to \$25. But these changes were rejected and the word “expenses” was retained. The version of the bill reported in the House and referred to the Senate read, in relevant part:

SEC. 52. And be it further enacted, That when the Commissioner of Patents is the only defendant in any such suit, *all costs shall be paid by the complainant*, and whole amount of costs taxed against the complainant shall not exceed the sum of twenty-five dollars. . . .

H.R. 1714, 41st Cong. § 52 (as referred to the S. Committee on Patents, Apr. 25, 1870) (emphasis added). The Senate made significant amendments to the bill, including changing Section 52 to use “expenses” rather than “costs” and by removing the \$25 cap. The version passed by the Senate read, in relevant part:

SEC. 52. And be it further enacted, That whenever a patent on application is refused, for any reason whatever, either by the Commissioner or by the supreme court of the District of Columbia upon appeal from the Commissioner, the applicant may have remedy by bill in equity; . . . . And 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.*

H.R. 1714, 41st Cong. § 52 (as amended by the Senate, May 31, 1870) (emphasis added). The House disagreed with the Senate amendments and asked for a conference. Ultimately, the House members dropped their objections to the Senate amendments to § 52, and the enacted version reflected the Senate’s version using the word “expenses.” This demonstrates—or at least strongly suggests—that Congress specifically intended that “expenses” be broader than “costs.”



The statute's purpose also confirms that Congress intended all of the expenses associated with § 145 proceedings to be borne by the applicants who elect them—not by taxpayers or other PTO users whose fees fund the agency's operations. Section 145 proceedings are an optional extension of the application process. *See Gandy*, 122 U.S. at 439-40 (referring to § 145's precursor as “in fact and necessarily, a part of the application for the patent” and “clearly a branch of the application for the patent”). And litigation in district court is expensive and time-consuming, much more so than the direct appeals limited to the administrative record also available to disappointed applicants. Proceedings under § 145 force the PTO and its employees to dedicate time and effort to conducting discovery, interviewing witnesses, filing and responding to motions, and addressing new evidence. PTO's En Banc Br. 22.

Indeed, even in 1838, Congress was aware that proceedings in equity were adding to the Patent Office's expenses—including labor expenses. H.R. Rep. No. 25-797, at 3 (1838) (discussing the 1839 Act). A letter from the Commissioner of Patents annexed to the House Report stated:

The judicial decisions on interfering applications, subsequent to the examination, on application, will, both in number and importance, exceed all the patent cases before the United States courts. On the first of January three cases were pending a hearing, valued at upwards of \$100,000 each. The evidence is voluminous, and the arguments often lengthy. *The subject of appeals is beginning to add considerably to the labor of the office*, and the litigated cases demand many long copies.

*Id.* (emphasis added).

An applicant's choice to proceed under § 145 diverts the agency's resources from the PTO's principal mission of examining patent and trademark applications at the agency. The purpose of § 145's expense-reimbursement provision is to ensure that these expenses fall on the applicants who elect the more expensive district court proceedings over the standard appeal route.

### III

The majority concludes that the text of § 145 fails to provide the necessary congressional directive to overcome the American Rule's bar against shifting attorneys' fees. Under the American Rule, "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). Courts uniformly recognize an exception to this general proposition, however: when the statute itself "specific[ally]" and "explicit[ly]" authorizes an award of fees, the prevailing party may be entitled to collect its fees. *Alyeska*, 421 U.S. at 260.

I note that the Fourth Circuit reviewed 15 U.S.C. § 1071(b)(3), which contains language nearly identical to the relevant language in § 145, and concluded that the statute is "not a fee-shifting statute that operates against the backdrop of the American Rule" because it "mandates the payment of attorneys['] fees without regard to a party's success." *Shammas*, 784 F.3d at 223. While I assume that the American Rule applies here, I share the Fourth Circuit's doubt that the Rule applies in this context—i.e., where Congress has simply assigned payment responsibility to the applicant, con-

sistent with the various other application-related fees Congress has assigned to the applicant.

But even assuming the American Rule applies here, I still disagree with the majority’s analysis. For example, the majority attempts to create ambiguity by focusing on the word “expenses” in a vacuum. But, as I’ve discussed, Congress did not simply provide that under § 145 an applicant pays “expenses.” Nor did it say “may pay” or something that could be less than “all.” Congress said that the applicant “shall” pay “[a]ll the expenses of the proceedings.”

It is also well established that “[t]he absence of specific reference to attorney[s’] fees is not dispositive if the statute otherwise evinces an intent to provide for such fees.” *Key Tronic Corp. v. United States*, 511 U.S. 809, 815 (1994). Although the majority gives lip service to this principle, as a practical matter, it still seems to require a statute’s use of the magic words “attorneys’ fees” to meet the American Rule’s heightened demands.<sup>3</sup> For example, the majority spends pages contrasting § 145 unfavorably with other statutes that explicitly mention attorneys’ fees. Majority Op. 18-24. It further cites a Congressional Research

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<sup>3</sup> When asked during oral argument to propose other language that Congress could have employed to overcome the American Rule, NantKwest offered “including, without limitation, the time spent by lawyers working on the particular matter from the Solicitor’s office . . . and outside counsel” or “persons providing lawyer services who are hired internally or externally by the Patent Office” as the only alternatives. Oral Argument No. 2016-1794 (Mar. 8, 2018) 40:45-41:23, 43:57-44:05, <http://www.cafc.uscourts.gov/oral-argument-recordings>. I do not believe the American Rule requires such labored descriptions, when “[a]ll the expenses of the proceedings” suffices in this context.

Service Report compiling the text of other fee-shifting statutes. The majority notes that each of these statutes recites either the magic words “attorneys’ fees,” or the (slightly) less magical “fees,” “fees for attorneys,” “compensation . . . for attorney[s],” “fees of counsel,” and the like. Majority Op. 29 n.8.

But again, the absence of “attorneys’ fees” is not dispositive. In making clear that “[t]he absence of specific reference to attorney[s’] fees is not dispositive if the statute otherwise evinces an intent to provide for such fees,” the Supreme Court pointed to an Eighth Circuit decision, stating that “[t]he Eighth Circuit, for example, found ‘a sufficient degree of explicitness’ in [the Act’s] references to ‘necessary costs of response’ and ‘enforcement activities’ to warrant the award of attorney[s’] fees and expenses.” *Key Tronic*, 511 U.S. at 815. The Court then contrasted these sufficiently explicit phrases with “[m]ere ‘generalized commands,’ . . . [which would] not suffice to authorize such fees.” *Id.* Surely, “[a]ll the expenses of the proceedings” is just as, if not more, explicit than “necessary costs of response” or “enforcement activities” in reference to personnel expenses.

In sum, contrary to the majority’s views, the language of § 145 evinces Congress’s “specific and explicit” intent to depart from the American Rule and to impose upon the applicant payment of all the expenses of the proceedings, including the PTO’s personnel expenses.

#### IV

The majority also references certain policy justifications for its interpretation of § 145. First, the majority cites the access-to-justice concern underlying the

American Rule. Majority Op. 6. I am unconvinced that these disappointed applicants' access to justice is lacking. Applicants have the option to forgo § 145 actions altogether and pursue appeals before this court under § 141—a choice the overwhelming majority of applicants make. *See Hyatt*, 625 F.3d at 1337 (observing that “the vast majority of applicants pursue an on-the-record appeal [under § 141] instead of a § 145 action”). These disappointed applicants only reach the point of electing a § 145 action after an extended application examination process before the PTO. A patent examiner first determines whether the application satisfies the statutory prerequisites for granting a patent. *Kappos*, 566 U.S. at 434 (citing 35 U.S.C. § 131). If the examiner denies the application, the applicant may then file an administrative appeal with the PTO's Patent Trial and Appeal Board. *See id.* If the Board also denies the application, only *then* is the disappointed applicant faced with electing between an appeal under § 141 or a § 145 action. *Id.*

Second, and relatedly, the majority expresses special solicitude for “small businesses and individual inventors,” Majority Op. 6-7, presumably because they may be less able to afford the PTO's personnel expenses. This possibility is entirely speculative. And, even if it were always the case, it is of no moment. “Our unwillingness to soften the import of Congress'[s] chosen words even if we believe the words lead to a harsh outcome is longstanding.” *Baker Botts L.L.P. v. ASARCO LLC*, 135 S. Ct. 2158, 2169 (2015) (quoting *Lamie v. United States Tr.*, 540 U.S. 526, 538 (2004)).

While I do not deny that the PTO's personnel expenses may, in some cases, amount to substantial sums,

it is important to view these amounts against those expenses that applicants must undisputedly pay if they elect a § 145 action. For example, the parties do not dispute that “[a]ll the expenses of the proceedings” includes the PTO’s expert witness expenses. In *Booking.com B.V. v. Matal*, aside from the \$51,472.53 in personnel expenses, the applicant was required to pay \$21,750 in expert witness expenses. No. 1:16-CV-425, 2017 WL 4853755, at \*4 n.3 (E.D. Va. Oct. 26, 2017). In *Realvirt, LLC v. Lee*, the expert witness expenses amounted to *more* than the \$48,454.62 in PTO personnel expenses, costing the applicant \$50,160. 220 F. Supp. 3d 695, 704 (E.D. Va. 2016). Finally, in *Taylor v. Lee*, the court made it clear that the PTO’s motion for the \$40,000 bond cited by the majority should be granted, *even if* the PTO’s \$45,000 in personnel expenses were not included because the other anticipated expenses, including expert witness expenses, were reasonably expected to exceed \$40,000. No. 1:15-CV-1607, 2016 WL 9308420, at \*2 n.1 (E.D. Va. July 12, 2016).

Further, unless the applicant is proceeding pro se, it is of course quite likely that its own attorneys’ fees would vastly exceed the PTO’s personnel expenses.<sup>4</sup> Indeed, I wonder who the majority seeks to protect: the hypothetical applicant who would pay its own attorneys and the PTO’s expert witness expenses, yet balk at the PTO’s personnel expenses.

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<sup>4</sup> For example, in this case, the PTO’s calculations indicated that its attorneys earned only \$78.55 per hour, yet the district court has authorized a range of rates for private attorneys between \$300 and \$600 per hour. J.A. 84 & n.7 (citing *Tech Sys., Inc. v. Pyles*, No. 1:12-CV-374, 2013 WL 4033650, at \*7 (E.D. Va. Aug. 6, 2013)).

And while it may be true that the PTO's personnel expenses in some cases might amount to a significant sum for applicants who choose to proceed down the optional § 145 route, those expenses have to be paid by someone. As the PTO observes, at Congress's direction, the PTO now must operate entirely as a user-funded agency. PTO's En Banc Br. 23. All applicants pay a number of fees throughout the patent-examination process to cover the PTO's expenses of operation. *Id.* at 24. Thus, in asking this court to exclude personnel expenses from "[a]ll the expenses of the proceedings," NantKwest asks this court to require *other* PTO applicants to pay the PTO's personnel expenses incurred in response to its § 145 complaint, rather than NantKwest itself. This contravenes Congress's intent. The statutory language is clear: it is the applicant that voluntarily chooses a § 145 action, and not other PTO users, who must pay "[a]ll the expenses of the proceedings." Thus, the question of the equitable allocation of burdens is one that Congress has already addressed in the language of the statute. It is not this court's job to allocate those burdens differently based on our own policy preferences.

Finally, much is made of the fact that the PTO refrained from seeking reimbursement for its personnel expenses until recently, despite the provision's 170-year existence. Notably, however, while the PTO has historically refrained from seeking reimbursement of these expenses, it has never affirmatively disclaimed that authority. Given how dramatically the patent and litigation landscapes have changed since the provision was first enacted, it is hardly surprising that the PTO would have felt compelled in recent years to change its strategy. The PTO's past decisions to not seek reim-

bursement for its personnel expenses may be related to the fact that it is so rarely confronted by these cases. The PTO now points, however, to how § 145 proceedings have become more common and more expensive. PTO's En Banc Br. 30. Accordingly, the PTO has become increasingly reluctant to require other PTO users to subsidize the expenses of these optional proceedings, in light of Congress's mandate that the PTO fund itself exclusively through fees.

Even within the more rigorous administrative rule-making environment, "[a]gencies are free to change their existing policies as long as they provide a reasoned explanation for the change." *Encino Motorcars, LLC v. Navarro*, 136 S. Ct. 2117, 2125 (2016). Further, even where longstanding policies may have engendered reliance interests, an agency may still change its position as long as it shows that there are good reasons for the new policy. *Id.* at 2126. The PTO has done so here.

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Because Congress meant all the expenses of the proceedings when it said "[a]ll the expenses of the proceedings," I respectfully dissent.



APPENDIX B

UNITED STATES COURT OF APPEALS  
FOR THE FEDERAL CIRCUIT

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2016-1794

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

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Decided: June 23, 2017

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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

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Before: PROST, *Chief Judge*, DYK and STOLL, *Circuit Judges*.

Opinion for the court filed by *Chief Judge* PROST.

Dissenting opinion filed by *Circuit Judge* STOLL.

PROST, *Chief Judge*.

Nantkwest, Inc. appeals from a decision of the United States District Court for the Eastern District of Virginia granting-in-part and denying-in-part the United States Patent and Trademark Office (“USPTO”) Director’s motion for fees. In its order, the district court

granted the Director's requested witness' fees but denied the requested attorneys' fees. The Director appeals the court's denial of attorneys' fees. We reverse.

# I

In 2001, Dr. Hans Klingemann filed a patent application directed to a method of treating cancer by administering natural killer cells. After several years of examination, the USPTO rejected Dr. Klingemann's application on obviousness grounds. The Patent and Trial Appeal Board ("PTAB") affirmed the examiner's rejection and Nantkwest, as assignee of the application, appealed to the district court under 35 U.S.C. § 145. We have provided a summary of the technology and the proceedings at the USPTO and district court in Nantkwest's companion appeal. *Nantkwest, Inc. v. Michelle K. Lee*, No. 2015-2095, slip op. at 2-5 (Fed. Cir. May 3, 2017).

Section 145 provides that an applicant dissatisfied with the PTAB's decision may appeal directly to the United States District Court for the Eastern District of Virginia in lieu of immediate appeal to this court. 35 U.S.C. § 145. The statute further provides that the applicant must pay "[a]ll of the expenses of the proceeding," *id.*, "regardless of the outcome," *Hyatt v. Kappos*, 625 F.3d 1320, 1337 (Fed. Cir. 2010) (en banc), *aff'd and remanded*, 132 S. Ct. 1690 (2012). After prevailing at the district court on the merits, the Director filed a motion to recover \$111,696.39 of the USPTO's fees under the § 145 expense provision. *See*

J.A. 84 (seeking \$78,592.50 in attorneys’ fees (including paralegal fees) and \$33,103.89 in expert fees).<sup>1</sup>

Although the district court granted the USPTO’s expert fees, it denied its requested attorneys’ fees, citing the “American Rule.” J.A. 10-11. Under this Rule, litigants pay their 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). Applying this Rule, the court found that in order to recover these fees, “[d]efendants must be able to articulate a statutory provision that clearly and explicitly allows them to recovery attorneys’ fees from Plaintiff.” J.A. 3-4. The district court concluded that the “[a]ll expenses” provision of the statute was neither sufficiently specific nor explicit enough for the authorization of attorneys’ fees under this Rule. *Id.* On appeal, the Director argues that the district court erred by excluding the USPTO’s attorneys’ fees under § 145. We have jurisdiction under 28 U.S.C. § 1295(a)(4)(C).

## II

The principal issue on appeal is whether § 145’s “[a]ll expenses of the proceedings” provision authorizes an award of the USPTO’s attorneys’ fees under this section.<sup>2</sup>

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<sup>1</sup> To arrive at this value, the USPTO calculated the pro-rata share of the salaries of the two attorneys and one paralegal who worked on the appeal. J.A. 83-84. Nantkwest did not challenge the number of hours expended or the pro-rata share of salaries the USPTO proffered at the district court. J.A. 138-40.

<sup>2</sup> Throughout its briefing, the Director routinely refers to these attorneys’ fees as “personnel expenses.” *See, e.g.*, Appellant’s Br. 3. Because there is no genuine dispute that the terms “personnel ex-

We review a district court’s interpretation of a statute de novo. *Weatherby v. Dep’t of the Interior*, 466 F.3d 1379, 1383 (Fed. Cir. 2006). “In construing a statute or regulation, we begin by inspecting its language for plain meaning.” *Meeks v. West*, 216 F.3d 1363, 1366 (Fed. Cir. 2000) (citation omitted). In the absence of a definition of a term, courts give the words their “ordinary, contemporary, common meaning.” *Williams v. Taylor*, 529 U.S. 420, 421 (2000).

Under 35 U.S.C. § 145,

[a]n applicant dissatisfied with the decision of the [PTAB] . . . 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. . . . *All the expenses of the proceedings shall be paid by the applicant.*

*Id.* (emphasis added).

At the outset, we observe that we have previously construed other portions of § 145. *See, e.g., Hyatt*, 625 F.3d at 1322. Although *Hyatt* resolved a different issue than the one presented here, we based our holding, in part, on our recognition of the breath of the “all expenses” provision and the substantial financial burden that applicants must bear for initiating § 145 appeals. *Id.* at 1337. “To deter applicants from exactly the type of procedural gaming that concerns the Director, Congress imposed on the applicant the heavy economic burden of paying ‘[a]ll the expenses of the

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penses” and “attorneys’ fees” are interchangeable within the context of this appeal, we refer to them as “attorneys’ fees” throughout this opinion.

proceedings’ regardless of the outcome.” *Id.* (alteration in original) (citing 35 U.S.C. § 145). Put another way, Congress intended that all applicants unconditionally assume this financial burden when seeking review directly in district court—whether they win, or lose. We thus concluded that Congress drafted this provision without requiring any degree of success on the merits (much less a prevailing party) as a necessary precedent for shifting this “heavy economic burden” onto the applicant. *Id.*

## A

Before determining whether § 145 authorizes an award of the USPTO’s attorneys’ fees, we first address the government’s argument that the American Rule does not apply to these proceedings. Like the Fourth Circuit, we have substantial doubts that this provision even implicates this Rule. *See Shammas v. Focarino*, 784 F.3d 219, 223 (4th Cir. 2015), *cert. denied sub nom. Shammas v. Hirshfeld*, 136 S. Ct. 1376 (2016) (concluding that a nearly identical statutory provision governing Trademark appeals (15 U.S.C. § 1071(b)(3)) does not “operate[] against the backdrop of the American Rule” because that provision made no reference to prevailing parties).

In response to the government’s arguments, Nantkwest relies on *Baker Botts L.L.P. v. ASARCO LLC* to support its position that the American Rule applies *whenever* a litigant seeks to recover attorneys’ fees. 135 S. Ct. 2158, 2164 (2015).<sup>3</sup> *Baker Botts*, however,

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<sup>3</sup> In that case, although the statute made no reference to prevailing parties, Congress drafted the fees provision to apply exclusively to non-adversarial bankruptcy proceedings. *Id.* at 2163-65. Nev-

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. *See id.* at 2165. Nevertheless, despite our doubts as to the applicability of the American Rule here, we analyze § 145’s “[a]ll expenses of the proceeding” provision assuming the Rule applies, as we conclude that even under this Rule, the expenses at issue here include the USPTO’s attorneys’ fees.

## B

Under the American Rule, “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). Courts uniformly recognize an exception to this general proposition, however: when the statute itself “specific[ally]” and “explicit[ly]” authorizes an award of fees, the prevailing party may be entitled to collect its fees. *Id.* at 260. In agreement with two other circuits, we conclude that “expenses” here includes attorneys’ fees. *See Shammass*, 784 F.3d at 222-23 (holding that the term “expenses” covers the USPTO’s attorneys’ fees); *United States v. 110-118 Riverside Tenants Corp.*, 886 F.2d 514, 520 (2d Cir. 1989) (observing that attor-

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ertheless, Baker Botts used this provision as a basis to recover its fees for work it performed in a related, but adversarial, fee-defense litigation. *Id.* at 2166. By applying this statute to a proceeding Congress never contemplated in the first instance, Baker Botts effectively sought its fees in the absence of a fee statute altogether.

neys’ fees are “expenses of the proceedings” under § 6342 of the Internal Revenue Code).<sup>4</sup>

## 1

The definitions and explanations that standard legal dictionaries and treatises provide for the term “expense” support this conclusion. *Wright & Miller* on Federal Practice and Procedure, for example, defines this term as “includ[ing] all the expenditures actually made by a litigant in connection with the action,” including “attorney’s fees.” 10 Charles Alan Wright et al., *Federal Practice and Procedure* § 2666 (3d ed. 1998). Similarly, *Black’s Law Dictionary* defines “expenses” as “expenditure[s] of money, time, *labor*, or resources to accomplish a result.” *Black’s Law Dictionary* 698 (10th ed. 2014) (“*Black’s*”) (emphasis added).

The dissent summarily dismisses these definitions, declaring that “they are not contemporaneous with Congress’s introduction of the word ‘expenses’ into the Patent Act in 1839.” Dissenting Op. 14. Relying on Nineteenth Century dictionaries instead, the dissent concludes that “the words ‘expense,’ ‘cost,’ and ‘damage’ were considered synonymous around the time of the 1839 Amendments.”<sup>5</sup> *Id.* at 6. Not so. The Patent

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<sup>4</sup> The court in *Riverside* relied on the statutory language of this section’s “expenses of the [foreclosure] proceedings” provision when awarding the Apartment Corporation its attorneys’ fees. *See id.* (“The attorneys’ fees incurred . . . for selling the shares . . . are in the same category as expenses of foreclosure and sale proceedings. . . .”).

<sup>5</sup> The dissent’s position here not only lacks support in the briefing, but also directly undermines the party’s position it purports to advance. Specifically, in arguing that § 145 does not include attorneys’ fees, Nantkwest cited the same dictionary and definitions

Act of 1836 specifically distinguished among these three terms. *Compare* Act of July 4, 1836, ch. 357, 5 Stat. 117, § 9 (“[M]oneys received into the Treasury under this act shall constitute a fund for the payment of salaries of the officers and clerks herein provided for, and all other *expenses* of the Patent Office.” (emphasis added)), *with id.* § 14 (“[W]henever, in any action for damages for making, using, or selling the thing whereof the exclusive right is secured by any patent . . . , a verdict shall be rendered . . . , it shall be in the power of the court to render judgment for any sum above the amount found by such verdict as the actual *damages* sustained . . . , not exceeding three times the amount thereof, according to the circumstances of the case, with *costs*.” (emphases added)). The historical statute that the dissent relies on simply does not support its conclusion. If anything, this statute lends support to the majority’s position by expressly characterizing the salaries of USPTO officers and clerks and as “expenses.” *Id.* § 9. The Supreme Court has observed the distinction between “expenses” and “costs” recently, providing an interpretation that comports with the modern definitions that the dissent disregards.

In *Taniguchi v. Kan Pacific Saipan, Ltd.*, the Court recognized the distinction between costs and fees; determining that the term “fees” includes “expenses borne by litigants for attorneys.” 132 S. Ct. 1997, 2006 (2012). There, the Court distinguished “expenses” from the more limited term “costs,” which represent

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that the dissent now concludes bear no relevance to the interpretation of this statute. *See* Appellee’s Br. 27-28 (relying on the 2014 *Black’s Law Dictionary* definition for the term, “expense”).



only a fraction of expenses, relying specifically on the 1998 Wright & Miller treatise cited above.

Although costs has an everyday meaning synonymous with expenses, the concept of taxable costs . . . is more limited. . . . Taxable costs are limited to relatively minor, incidental expenses[;] . . . such items as clerk fees, court reporter fees, expenses for printing and witnesses, expenses for exemplification and copies, docket fees, and compensation of court-appointed experts. . . . Taxable costs are a fraction of the *nontaxable expenses borne by litigants for attorneys, experts, consultants, and investigators*.

*Id.* at 2006 (emphasis added) (citations and quotation marks omitted). The Court provided this analysis in direct support of its holding that resolved the breadth of taxable costs under 28 U.S.C. § 1920. *Id.* at 2000, 2006. Notably, neither the dissent nor Nantkwest provide contrary authority where the Supreme Court has held that the term “expenses” categorically excludes attorneys’ fees.

Nantkwest argues here that the term “expenses” lacks the requisite specificity to overcome the presumption of the American Rule that each party will pay its own attorneys’ fees. Although Nantkwest does not deny that this term supplies sufficient breath to cover the USPTO’s attorneys’ fees, it contends that the American Rule demands more. In particular, it argues “[o]n its own, the term ‘expenses’ is ambiguous.” Appellee’s Br. 32. As support, Nantkwest relies heavily on the fact that other federal statutes under various titles illustrate that Congress has employed the term “expenses” to authorize attorneys’ fees either in *addi-*

*tion* to expenses (e.g., “expenses *and* attorneys’ fees), or as a *component* of them (e.g., “expenses *including* attorneys’ fees”).<sup>6</sup> In other words, the term “expenses,” Nantkwest contends, can either include or exclude attorneys’ fees depending on the statute and, thus, the term is “far from clear.” Appellee’s Br. 33. Reviewing the list of statutes that Nantkwest provides, however, we conclude that Congress made clear that it meant to award attorneys’ fees under the broader term “expenses” within the context of these particular proceedings.

As noted above, the ordinary meaning as defined in dictionaries and the Supreme Court’s interpretation of this term lend significant weight to the conclusion that when Congress used the phrase “all expenses,” it meant to include attorneys’ fees. The fact that the dissent and Nantkwest compiled a list of statutory provisions for which Congress on occasion employed the term “expenses” to authorize attorneys’ fees *in ad-*

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<sup>6</sup> Nantkwest cites approximately twenty such statutory provisions covering a wide range of areas of law including: bankruptcy, administrative procedure, judicial proceedings, and financial management. Appellee’s Br. 32-34. Some of these statutes list attorneys’ fees in addition to expenses while others list attorneys’ fees as part of expenses. Roughly fifty percent of those statutes cited do not support the Appellee’s view because they treat attorneys’ fees as part of expenses. *Id.* The fact that the remaining provisions support Nantkwest’s position is neither reliable nor significant within the context of § 145 proceedings. Similarly, the dissent provides its own list of federal statutes, more than half of which actually *support* the majority’s view as well. Dissenting Op. 7-9. Notably, neither the dissent nor Nantkwest 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.

*dition* to expenses in other contexts cannot be sufficient to dislodge the reasonable and ordinary meaning of this term. This is especially true in the context of this particular statutory provision where Congress explicitly authorized compensation for “[a]ll expenses of the proceedings.” 35 U.S.C. § 145. At best, these examples demonstrate that Congress will not confine itself to a single word or phrase when referencing attorneys’ fees. Yet 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. For example, when asked during oral argument to propose other language that Congress could have employed to satisfy the American Rule, Nantkwest cited “reasonable compensation of attorneys” as the only alternative.<sup>7</sup> The dissent shares this view, stating and restating that the statute cannot award attorneys’ fees because Congress did not employ these exact words. *See, e.g.*, Dissenting Op. 1-2 (“Section 145 neither mentions ‘attorneys’ fees’ nor reflects congressional intent to authorize them.”); *id.* at 3 (“The phrase ‘attorneys’ fees’ is not mentioned [in § 145]. . . .”).

The Supreme Court, on the other hand, has provided other suitable alternatives without using any of these words. In *Baker Botts* for instance, the Court recognized the term “litigation costs” as one such example. 135 S. Ct. at 2164. Clearly, “litigation costs” does not include the phrase “attorneys’ fees.” Yet the dissent offers little to justify its conflict with the Supreme

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<sup>7</sup> Oral Argument 12:42-13:17, <http://oralarguments.ca9c.uscourts.gov/mp3/2016-1794.mp3>. We perceive no practical difference between “attorneys’ fees” and the “reasonable compensation of attorneys” example Nantkwest provided.

Court's conclusion that the use of the term "litigation costs" overcomes the American Rule. While a reference to a "prevailing party" may "usually" appear in fee-shifting statutes, *id.*, the Supreme Court has never suggested that such a reference is a requirement for fee shifting, contrary to what the dissent argues. *See* Dissenting Op. 9-10 ("Nothing in [§ 145] confines the award of expenses to a prevailing party.").

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. The term "expenses," like "litigation costs," is another example where Congress authorized fee awards without including the words "fees" or "compensation" in the statute. Nantkwest and the dissent simply demand too much.

Our conclusion that this term authorizes the USPTO's fee award is particularly important here in the context of § 145's all expenses provision. This unique provision requires that applicants uniformly name the Director as defendant to their suits. In representing the USPTO's interests, the Director relies on personnel from the Office of the Solicitor. *See* 37 C.F.R. § 11.40(b). These attorneys—the Solicitor, his deputy, and associates—and supporting paralegals receive fixed salaries as compensation for their government work. 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." *Compare Black's* 698 (defining "expense" as "expenditure[s] of

money, time, labor, or resources to accomplish a result”), *with Black’s* 154 (defining “attorney’s fee” as “[t]he charge to a client for services performed for the client, such as an hourly fee, a flat fee, or a contingent fee”). Under the dissent and Nantkwest’s view, Congress must use the word “fee” instead for the USPTO to receive remuneration. We do not view the American Rule so narrowly. To conclude otherwise, our interpretation 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.<sup>8</sup>

Given the Supreme Court’s construction of “expenses,” the guidance dictionary and treatises provide on this term, and the context in which Congress applied it, we conclude that the term “expenses” includes the USPTO’s attorneys’ fees under § 145.

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<sup>8</sup> Congress’s contrasting use of the term “attorneys’ fees” under 35 U.S.C. § 285 provides further evidence to this point. There, Congress chose not to award all expenses to the prevailing party, but only attorneys’ fees. The dissent appears to ignore this distinction, instead requiring that Congress recite the phrase “attorneys’ fees” to cover at least a subset of these “expenses” simply because other portions of Title 35 employ that phrase. Dissenting Op. 4-5. Put another way, under the dissent’s view, Congress must rigidly employ a phrase such as “attorneys’ fees and other expenses” in place of the broader term “expenses,” which already includes these fees. Relying on a flawed premise, the dissent simply dismisses—even as a theory—that Congress could have intended a broader compensation scheme under § 145 than § 285. Congress indisputably has the authority to employ a broad word over other narrower alternatives if it so chooses. And it may do so irrespective of how many times it amended other portions of Title 35 or employed narrower alternatives for other sections of the Code.

Nantkwest makes an additional argument regarding whether the USPTO's attorneys' fees are "expenses of the proceedings." 35 U.S.C. § 145. It contends that this provision does not provide a basis for attorneys' fees because the USPTO would have had to pay the portions of these full-time employees' salaries regardless of Nantkwest's suit.

We disagree. First, we have accorded similar relief in the past in the context of other salaried attorneys. In *Raney v. Federal Bureau of Prisons*, for example, we awarded salaried union attorneys an apportionment of their salaries because the litigation required the lawyers to divert their time away from other pending matters. 222 F.3d 927, 935 (Fed. Cir. 2000). Second, our sister circuits have recognized the costs associated with these diversions and awarded fees to salaried employees as well. *See, e.g., Shammass*, 784 F.3d at 223 (recognizing that the USPTO "incurred expenses when its attorneys were required to defend the Director in the district court proceedings, because their engagement diverted the PTO's resources from other endeavors"); *Wisconsin v. Hotline Indus., Inc.*, 236 F.3d 363, 365-66 (7th Cir. 2000) (holding that salaried government employees could recover their fees as they relate to the government's opposition to an improper removal of a state court case).

Section 145 proceedings similarly impact the USPTO's resources. These costs are particularly relevant here, where the USPTO attributes over seventy percent of its total expenses (\$78,592.50 of the \$111,696.39) to attorneys' fees. Nantkwest filed its appeal in district court and enjoyed the pro-applicant benefits of that

forum. *See Hyatt*, 625 F.3d at 1336-37 (obtaining de novo review with the ability to introduce new evidence). Under Nantkwest’s view, the government’s recovery would be limited only to certain ad hoc expenses, e.g., printing, travel, expert witness costs, Appellee’s Br. 35, while ignoring the vast majority of the expenses the USPTO incurred as the proximate cause of Nantkwest’s appeal. We cannot subscribe to this view.

It cannot be credibly disputed that the USPTO dedicated time and resources of its attorneys to the defense of this litigation when it could have otherwise applied those resources to other matters. Without acknowledging these concerns, Nantkwest essentially endorses 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. Logically, the meaning of “of the proceedings” cannot turn on the *type* of attorneys retained to defend the government’s interests. As we previously observed, we must equally regard salaried attorneys’ time and “tak[e] into account the opportunity costs involved in devoting attorney time to one case when it could be devoted to others.” *Raney*, 222 F.3d at 934-35.<sup>9</sup> We thus conclude that § 145 entitles the USPTO to compensation for the diversion of its resources in the defense of § 145 appeals.

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<sup>9</sup> Without shouldering these expenses itself, Nantkwest seeks a ruling that essentially requires other applicants to fund its own appeal. *See Leahy-Smith America Invents Act*, Pub. L. No. 112-29, § 10, 125 Stat. 284, 316 (2011) (recognizing the USPTO as exclusively an applicant-funded agency). Although this may be appropriate in the context of other agency proceedings, it does not accord with our requirement that the applicant *itself* must bear the burden of these appeals. *Hyatt*, 625 F.3d at 1337.

Accordingly, we hold that “[a]ll expenses of the proceedings” under § 145 includes the pro-rata share of the attorneys’ fees the USPTO incurred to defend applicant’s appeal. To conclude otherwise would conflict with *Hyatt*, where we recognized the “heavy economic burden” that § 145 shifts onto applicants for electing this favorable appellate path. *Hyatt*, 625 F.3d at 1337.

We have considered Nantkwest’s remaining arguments in this appeal but find them unpersuasive as well.

#### CONCLUSION

For the foregoing reasons, we reverse the district court and remand the case for it to enter an additional award of \$78,592.50 in favor of the Director.

**REVERSED AND REMANDED**



UNITED STATES COURT OF APPEALS  
FOR THE FEDERAL CIRCUIT

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2016-1794

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

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Filed: June 23, 2017

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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

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STOLL, *Circuit Judge*, dissenting.

Under the American Rule, “each party in a lawsuit ordinarily shall bear its own attorney’s fees unless there is express statutory authorization to the contrary.” *Hensley v. Eckerhart*, 461 U.S. 424, 429 (1983). It erects a strong presumption against fee-shifting, requiring an explicit provision permitting a departure from the American Rule or other evidence of congressional intent to make such an award available. Section 145 neither mentions “attorneys’ fees” nor reflects a congressional intent to authorize them. Because I believe § 145 fails to provide the necessary congressional

directive to overcome the American Rule’s bar against shifting attorneys’ fees, I respectfully dissent.

# I.

The majority expresses “substantial doubts” regarding whether the American Rule applies to § 145. Maj. Op. 5. But Supreme Court precedent makes clear that the American Rule marks the starting point for any analysis that shifts fees from one litigant to another. Often referred to as a “bedrock principle,” the American Rule requires that “[e]ach litigant pay[] his own attorney’s fees, win or lose, unless a statute or contract provides otherwise.” *Baker Botts L.L.P. v. ASARCO LLC*, 135 S. Ct. 2158, 2164 (2015) (quoting *Hardt v. Reliance Standard Life Ins. Co.*, 560 U.S. 242, 253 (2010)). This presumption against fee shifting in American litigation dates back more than 200 years to *Arcambel v. Wiseman*, 3 U.S. (3 Dall.) 306 (1796). “[T]he law of the United States, but for a few well-recognized exceptions not present [here], has always been that absent explicit congressional authorization, attorneys’ fees are not a recoverable cost of litigation.” *Runyon v. McCrary*, 427 U.S. 160, 185 (1976) (footnote omitted).

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,” for Congress has not “extended any roving authority to the Judiciary to allow counsel fees as costs or otherwise whenever the courts might deem them warranted.” *Alyeska Pipeline Serv. Co. v. Wilderness Soc’y*, 421 U.S. 240, 260-62 (1975) (citing statutory provisions containing the phrase “attorney’s fees” as examples of “specific and explicit provisions for the al-

lowance of attorneys' fees"). Several cases have recognized that 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." *See, e.g., Key Tronic Corp. v. United States*, 511 U.S. 809, 815 (1994). This necessitates resort to the ordinary meaning of the phrase that is alleged to shift attorneys' fees and the legislative history of the statutory provision to see if such an intent exists. *Id.* at 817-19; *Summit Valley Indus. Inc. v. Local 112, United Bhd. of Carpenters & Joiners of Am.*, 456 U.S. 717, 722-23 (1982).

## II.

It is against this backdrop that we analyze whether Congress expressed an intent "to set aside this long-standing American rule of law," *Runyon*, 427 U.S. at 185-86, and award attorneys' fees under § 145. In order to shift the PTO's attorneys' fees to NantKwest in this case, we must find in the text of § 145 a "specific and explicit" authorization from Congress. *See Alyeska Pipeline*, 421 U.S. at 260. Without express authority, the ordinary meaning of "expenses" or § 145's legislative history has to provide it. A searching review exposes no such authorization.

### A.

The language of § 145 does not explicitly grant us authority to shift attorneys' fees. Section 145 requires a patent applicant electing to challenge the PTO's unfavorable decision in district court to pay "[a]ll the *expenses* of the proceedings." 35 U.S.C. § 145 (emphasis added). 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. See *Summit Valley*, 456 U.S. at 722 (noting that statute does not expressly mention attorneys’ fees); *Key Tronic*, 511 U.S. at 814-15 (same); *F. D. Rich Co. v. U.S. for the Use of Indus. Lumber Co.*, 417 U.S. 116, 126 (1974) (same).

In this case, the 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. Section 285 of the America Invents Act, for example, provides: “The court in exceptional cases may award reasonable *attorney fees* to the prevailing party.” 35 U.S.C. § 285 (emphasis added). Several other sections of the Patent Act cross-reference § 285, and each of those sections recognizes the availability of “attorney fees” under § 285. See, e.g., *id.* § 271(e)(4); § 273(f). Similarly, Section 297 of the AIA permits a customer who has been defrauded by an invention promoter to recover “reasonable costs and *attorneys’ fees*,” in addition to other damages incurred by the customer. *Id.* § 297(b)(1) (emphasis added).

It is a fundamental principle 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.” *Russello v. United States*, 464 U.S. 16, 23 (1983) (quoting *United States v. Wong Kim Bo*, 472 F.2d 720, 722 (5th Cir. 1972)). Congress decided to exclude “attorney fees” from § 145 but not § 285—the exact type of disparate exclusion we ordinarily pre-

sume to be intentional.<sup>1</sup> The omission of attorneys’ fees from § 145 “strongly suggest[s] a deliberate decision not to authorize such awards.” *Key Tronic*, 511 U.S. at 818-19. It reveals Congress’s intent “to pick and choose among its statutes and to allow attorneys’ fees under some, but not others.” *Alyeska Pipeline*, 421 U.S. at 263.

Congress’s knowledge of the American Rule lends even more force to this argument. At least as early as 1973, Congress formed subcommittees to study attorneys’ fees and other issues affecting legal services. *See F. D. Rich Co.*, 417 U.S. at 131 & n.20. And when warranted, Congress has drafted statutes to overcome the American Rule. *See Hensley*, 461 U.S. at 429 (stating that Congress enacted Civil Rights Attorney’s Fees Awards Act of 1976 in response to American Rule to provide explicit authorization for shifting attorneys’ fees). As it did with the Civil Rights Attorney’s Fees Awards Act of 1976, Congress could have revised § 145 to expressly provide for the award of attorneys’ fees. Congress, however, did not. We should defer to Congress’s decision. *See Gross v. FBL Fin. Servs., Inc.*, 557 U.S. 167, 174 (2009) (“When Congress amends one

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<sup>1</sup> Congress has expressly awarded attorneys’ fees in many other statutory contexts. *See, e.g.*, 7 U.S.C. § 2565 (“The court in exceptional cases may award reasonable attorney fees to the prevailing party.”); 10 U.S.C. § 1089(f)(2) (recognizing that statute provides “the authority to provide for reasonable attorney’s fees”); 15 U.S.C. § 1117(a) (permitting award of “reasonable attorney fees to the prevailing party” for certain trademark violations); 22 U.S.C. § 277d-21 (permitting Commissioner to “allow reasonable attorneys’ fees”); 42 U.S.C. § 2000e-16c(e) (stating “attorney’s fees may be allowed by the court”); 46 U.S.C. § 41305(e) (“[T]he prevailing party may be awarded reasonable attorney fees.”).

statutory provision but not another, it is presumed to have acted intentionally.”).

B.

Because § 145 lacks specific and explicit statutory authority to shift attorneys’ fees, we must be able to glean a congressional intent to do so from the ordinary meaning of “expenses” or the legislative history of § 145. The majority concludes that the ordinary meaning of “expenses” necessarily includes attorneys’ fees.<sup>2</sup> I disagree.

It is a fundamental canon of statutory construction that, “[u]nless otherwise defined, words will be interpreted as taking their ordinary, contemporary, common meaning’ at the time Congress enacted the statute.” *Amoco Prod. Co. v. S. Ute Indian Tribe*, 526 U.S. 865, 873-74 (1999) (quoting *Perrin v. United States*, 444 U.S. 37, 42 (1979)). As the Director points out in her brief, Congress amended the Patent Act in 1839 to require 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, ch. 88, § 10, 5 Stat. 353, 354; Appellant Br. 21. In the 1830s, the definition of “expense” included “cost,” and the definition of “cost” included “expense.” J.E. Worcester, *A Pronouncing and Explanatory Dictionary of the English Language with Pronouncing Vocabularies of Classical and Scripture Proper Names* 75, 117 (1830); see also Noah Webster et al., *An American Dictionary of the English Language* 197, 319 (Joseph Emerson ed., 1830) (listing definition

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<sup>2</sup> The majority does not rely on the legislative history to support its position.

for “expense” as “cost” and vice versa). Moreover, the words “expense,” “cost,” and “damage” were considered synonymous around the time of the 1839 Amendments. Peter Mark Roget, *Thesaurus of English Words and Phrases* 227 (Barnas Sears ed., 1856).

These definitions suggest that, at the time Congress introduced the word “expenses” into the Patent Act, its ordinary meaning did not include attorneys’ fees. The Supreme Court has twice held that the word “damages”—a synonym for “expenses” at the time of enactment—is insufficient to override the American Rule. See *Summit Valley*, 456 U.S. at 722-23 (“Ordinarily a statutory right to ‘damages’ does not include an implicit authorization to award attorney’s fees. Indeed, the *American Rule* presumes that the word ‘damages’ means damages exclusive of fees.” (emphasis added)); *Arcambel*, 3 U.S. (3 Dall.) at 306. And even the majority agrees that the word “costs” cannot displace the American Rule. See Maj. Op. 8-9. There can be no doubt that the ordinary meaning of “expenses” at the time of its inclusion in the Patent Act falls short of overcoming the American Rule. That the PTO did not rely on this provision 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.

Congress’s frequent use of “expenses” and “attorneys’ fees” in other statutory provisions further reinforces that “[a]ll the expenses of the proceedings” does not necessarily include attorneys’ fees. The U.S. Code is replete with examples of Congress awarding “expenses” and then separately clarifying that attorneys’ fees are also available. See, e.g., 11 U.S.C. § 363(n)

(authorizing trustee to recover “any costs, attorneys’ fees, or expenses incurred” in certain situations); 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. . . . ”); 12 U.S.C. § 5005(b)(2)(B) (providing that, in absence of breach of warranty, amount of indemnity shall be sum of “interest and expenses (including costs and reasonable attorney’s fees and other expenses of representation)”); 25 U.S.C. § 1401(a) (discussing “payment of attorney fees and litigation expenses”); 26 U.S.C. § 6673(a)(2)(A) (allowing recovery of “excess costs, expenses, and attorneys’ fees” against attorney who vexatiously multiplied proceedings); 15 U.S.C. § 77z-1(a)(6) (discussing “[t]otal attorneys’ fees and expenses” that can be awarded by court); 2 U.S.C. § 396 (“The committee may allow any party reimbursement from the applicable accounts of the House of Representatives of his reasonable expenses of the contested election case, including reasonable attorneys fees. . . . ”); 10 U.S.C. § 2409(c)(1)(C) (permitting agency head to require that contractor pay “an amount equal to the aggregate amount of all costs and expenses (including attorneys’ fees and expert witnesses’ fees)” in connection with complaint regarding a reprisal); 15 U.S.C. § 2310(d)(2) (permitting recovery of sum “equal to the aggregate amount of cost and expenses (including attorneys’ fees based on actual time expended)”; 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.”); 29 U.S.C. § 1370(e)(1) (“[T]he court in its discretion may award all or a portion of the costs and expenses incurred in connection with such action, including reasonable attorney’s fees. . . . ”); 30 U.S.C. § 938(c) (allowing successful miner to recover “a sum equal to the aggregate amount of all costs and expenses (including the attorney’s fees)”); 31 U.S.C. § 3730(d)(1) (“Any such person shall also receive an amount for reasonable expenses which the court finds to have been necessarily incurred, plus reasonable attorneys’ fees and costs.”); 33 U.S.C. § 1367(c) (“[A] sum equal to the aggregate amount of all costs and expenses (including the attorney’s fees) . . . shall be assessed. . . . ”); 38 U.S.C. § 4323(h)(2) (“[T]he court may award any such person who prevails in such action or proceeding reasonable attorney fees, expert witness fees, and other litigation expenses.”); 41 U.S.C. § 4705(d)(1)(C) (noting that head of agency may “[o]rder the contractor to pay the complainant an amount equal to the aggregate amount of all costs and expenses (including attorneys’ fees and expert witnesses’ fees) that the complainant reasonably incurred”); 42 U.S.C. § 247d-6d(e)(9) (permitting party to recover “reasonable expenses incurred . . . including a reasonable attorney’s fee”).

The message is clear: Congress did not view “[a]ll the expenses of the proceedings” as necessarily including “attorneys’ fees.” If “expenses” included “attorneys’ fees,” there would be no reason for Congress to specify the availability of attorneys’ fees in statutes that already provide for the award of expenses. Instead, the logical implication is that “expenses” and “attorneys’ fees” mean different things and that expenses do not necessarily include attorneys’ fees. At

best, Congress’s reference to “[a]ll the expenses” is ambiguous. As such, Congress’s intent is not clear, and the statutory language does not overcome the American Rule.

Although Congress has enacted statutes that award the government attorneys’ fees in a district court action, in each circumstance, Congress explicitly referred to attorneys’ fees, making its fee-shifting intent abundantly clear. For example, in the context of an agency enforcement action for assessment of a civil penalty, 42 U.S.C. § 7413(a)(5)(B) provides that “[a]ny person who fails to pay on a timely basis a civil penalty ordered or assessed under this section shall be required to pay . . . the United States enforcement expenses, including but not limited to attorneys fees.” Likewise, 33 U.S.C. § 1319(g)(9)(B) provides that “[a]ny person who fails to pay on a timely basis the amount of an assessment of a civil penalty . . . shall be required to pay [the agency] . . . attorneys fees and costs for collection proceedings.” Unlike these statutes, Congress’s alleged intent to award attorneys’ fees to the government in § 145 actions is not so clear.

Finally, 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. “[W]hen 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.” *Ruckelshaus v. Sierra Club*, 463 U.S. 680, 684 (1983); *see also Baker Botts*, 135 S. Ct. at 2164 (recognizing deviations from 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.’”). Nothing in § 145 confines the award of expenses to a prevailing party. Instead, it requires the applicant to pay “[a]ll the expenses of the proceedings,” which according to the majority means the applicant pays for the PTO’s attorneys’ fees in every § 145 proceeding. In these atypical circumstances, I think Congress’s intent to award the PTO attorneys’ fees in every case should have been more clear. I cannot agree that Congress used the word “expenses” to effect such an unusual departure from the American Rule—a departure that would saddle even prevailing applicants with the PTO’s attorneys’ fees.<sup>3</sup>

### C.

The maintenance of a robust American Rule also finds support in public policy. For example, uncertainty is inherent in any litigation, and “one should not be penalized for merely defending or prosecuting a lawsuit,” as this could have a disproportionate effect in discouraging less wealthy individuals “from instituting actions to vindicate their rights if the penalty for losing included the fees of their opponents’ counsel.” *Fleischmann Distilling Corp. v. Maier Brewing Co.*, 386 U.S.

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<sup>3</sup> 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. *See* Maj. Op. 11, 12, 13 n.8. This is incorrect. My opinion only addresses whether the word “expenses” is a specific and explicit directive from Congress to shift attorneys’ fees *or* whether § 145 otherwise signals Congress’s intent to make an award of attorneys’ fees available. I express no opinion as to what other words carry enough weight to displace the American Rule.

714, 718 (1967); *see also Summit Valley*, 456 U.S. at 725 (“[C]onsiderations [favoring application of the American Rule] include the possible deterrent effect that fee shifting would have on poor litigants with meritorious claims.”). Independent advocacy could also be threatened, the Supreme Court warned, “by having the earnings of the attorney flow from the pen of the judge before whom he argues.” *F. D. Rich Co.*, 417 U.S. at 129. Finally, if the word “expenses” in every statute or contract trumped the American Rule, then “the time, expense, and difficulties of proof inherent in litigating the question of what constitutes reasonable attorney’s fees would pose substantial burdens for judicial administration.” *Fleischmann*, 386 U.S. at 718.

Here, the majority’s interpretation would compel any prospective patentee who avails herself of the review afforded by § 145 to pay the PTO’s attorneys’ fees even if the applicant prevails and proves error by the PTO.<sup>4</sup> These high and uncertain costs will likely deter applicants, particularly solo inventors and other smaller entities, from pursuing review under § 145. And every § 145 proceeding would involve litigation over whether the PTO’s attorneys’ fees were reasonable, creating an additional burden for the district court. I am not convinced that Congress intended such an outcome.

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<sup>4</sup> The AIA offers two options for judicial review of a Board decision rejecting a patent application. The applicant can appeal to the Federal Circuit under § 141 or it can file a civil action in the Eastern District of Virginia against the Director of the PTO under § 145. *See Kappos v. Hyatt*, 132 S. Ct. 1690, 1694 (2012). Seeking review under § 145 offers certain benefits to the applicant, including the ability to conduct discovery and introduce additional evidence. *See id.* at 1700-01.

## III.

The majority’s arguments to the contrary do not persuade me to conclude otherwise. The majority relies heavily on our statement in *Hyatt v. Kappos*, 625 F.3d 1320, 1337 (Fed. Cir. 2010) that plaintiffs who proceed under § 145 bear “the heavy economic burden of paying ‘[a]ll the expenses of the proceedings’ regardless of outcome.” Maj. Op. 5, 15. This observation, however, does not require that expenses include attorneys’ fees. Indeed, the PTO has traditionally interpreted this statutory language to include expert fees, court reporter fees, deposition travel expenses, and printing expenses—all of which can be significant and pose a “heavy economic burden” in district court litigation.

The majority also claims that its holding is consistent with opinions from the Second and Fourth Circuits that have interpreted “expenses” to include attorneys’ fees. But the rationale adopted by the majority diverges from that of the Fourth Circuit in *Shammas v. Focarino*, 784 F.3d 219 (4th Cir. 2015), and the Second Circuit’s opinion in *United States v. 110-118 Riverside Tenants Corp.*, 886 F.2d 514 (2d Cir. 1989) is easily distinguished.<sup>5</sup>

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<sup>5</sup> In addition, the majority cites to dicta in *Taniguchi v. Kan Pacific Saipan, Ltd.*, 132 S. Ct. 1997 (2012) as evidence that the Supreme Court has blessed its interpretation of “expenses.” As described by the Court, the question presented in *Taniguchi* was whether the phrase “compensation of interpreters” includes the cost of translating written documents. The Court answered this question by concluding that “both the ordinary and technical meanings of ‘interpreter,’ as well as the statutory context in which the word is found, lead to the conclusion that § 1920(6) does not apply to translators of written materials.” *Id.* at 2005. Only then did

In interpreting a section of the Lanham Act requiring the party bringing the case to pay “all the expenses of the proceeding,” 15 U.S.C. § 1071(b)(3), the *Shammas* majority<sup>6</sup> found the American Rule did *not* apply. *Shammas*, 784 F.3d at 223. 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. *Id.* at 224. Simply reaching the same result, however, does not make the majority’s opinion consistent with *Shammas*. This is particularly so here because the two opinions offer conflicting views on the applicability of the foundational common law principle embodied in the American Rule.

The Second Circuit’s decision in *110-118 Riverside* is inapposite because it does not address the interpretation of “expenses” in a contract or statutory provision. Instead, *110-118 Riverside* dealt with an apartment corporation that incurred expenses in foreclosing a lien that the government placed on one of the apartment corporation’s tenants. The government bore responsibility for foreclosing the tax lien, but the apart-

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the Court explain that its holding was consistent with the “narrow scope of taxable costs,” which it characterized as a fraction of the nontaxable expenses. *Id.* at 2006. It never interpreted a statutory provision containing the word “expenses” to include attorneys’ fees.

<sup>6</sup> Judge King dissented. In his view, the American Rule controls the analysis, and attorneys’ fees should not be shifted because the statutory provision at issue “makes no reference to attorney’s fees awards and does not reflect a Congressional intention to authorize such awards.” *Shammas*, 784 F.3d at 227 (King, J., dissenting).

ment corporation effectuated the foreclosure and shouldered the expenses associated with the proceeding. Because it was the government's duty to foreclose the tax lien, the court found no reason why the government should not reimburse the apartment corporation for the expenses of the foreclosure proceeding, including attorneys' fees. *110-118 Riverside*, 886 F.2d at 520. As these facts demonstrate, *110-118 Riverside* is a case where a private party performed the legal obligations of the government and was made whole for its efforts; it does 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."

Next, the majority relies on dictionary definitions to illuminate the ordinary meaning of "expenses." The majority's dictionaries, however, are from 1998 and 2014—they are not contemporaneous with Congress's introduction of the word "expenses" into the Patent Act in 1839. Therefore, they shed no light on the ordinary meaning of "expenses" more than 175 years ago. *See Amoco Prod. Co.*, 526 U.S. at 873-74 ("[U]nless otherwise defined, words will be interpreted as taking their ordinary, contemporary, common meaning' *at the time Congress enacted the statute.*" (alteration in original) (emphasis added) (quoting *Perrin*, 444 U.S. at 42)). And unlike the 1998 definition from Wright and Miller, the contemporaneous definitions do not mention "attorneys' fees." *See* Section II.B, *supra*.

Finally, the majority posits 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. *See* Maj. Op. 11. These statutes, in my view, compel the opposite conclusion, especially when read in light of the American Rule. As explained above, 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. Rather, in the context of § 145, the term "expenses" is ambiguous and shows no clear intent to award attorneys' fees.

#### IV.

The American Rule is the starting point for our analysis, and it imposes a high bar for any litigant seeking to shift its attorneys' fees to the opposing party. Despite assuming the American Rule's applicability to this case, the majority believes § 145 provides the requisite authorization. But § 145 lacks the specific and explicit provision for the allowance of attorneys' fees, and the ordinary meaning of "expenses" fails to fill the void. I respectfully dissent.



**APPENDIX C**

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

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

NANTKWEST, INC., PLAINTIFF

*v.*

MICHELLE K. LEE, DEPUTY UNDER SECRETARY OF  
COMMERCE FOR INTELLECTUAL PROPERTY AND DEPUTY  
DIRECTOR OF THE UNITED STATES PATENT AND  
TRADEMARK OFFICE, DEFENDANT

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Signed: Feb. 5, 2016

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**MEMORANDUM OPINION AND ORDER**

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GERALD BRUCE LEE, United States District Judge

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

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

ble given that Plaintiff's own expert, specializing in the same field, only charged \$400/hr.

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

## I. BACKGROUND

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

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

## II. STANDARD OF REVIEW

Under the "American Rule," parties are responsible for their own attorneys' fees. *In re Crescent City Estates, LLC*, 588 F.3d 822, 825 (4th Cir. 2009) (citing *Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 533, 114 S. Ct.

1023, 127 L. Ed. 2d 455 (1994)). Thus, a prevailing litigant is generally not entitled to recover attorneys' fees from the non-prevailing litigant. *Id.* (citing *Alyeska Pipeline Serv. Co. v. Wilderness Soc'y*, 421 U.S. 240, 247, 95 S. Ct. 1612, 44 L. Ed. 2d 141 (1975)). However, there is an exception to this rule when attorney's fees are provided by a statute. *Travelers Cas. & Sur. Co. of Am. v. Pac. Gas & Elec. Co.*, 549 U.S. 443, 448, 127 S. Ct. 1199, 167 L. Ed. 2d 178 (2007). Nevertheless, a statute will only be interpreted as allowing a deviation from the American Rule if it requires another party to pay attorney's fees in specific and explicit provisions. *Baker Botts L.L.P. v. ASARCO LLC*, — U.S. —, 135 S. Ct. 2158, 192 L. Ed. 2d 208 (2015). The party seeking to recover attorneys' fees has the burden of demonstrating that it is entitled to fees and that the amount it seeks is reasonable. *See Airlines Reporting Corp. v. Sarrion Travel, Inc.*, 846 F. Supp. 2d 533, 536 (E.D. Va. 2012).

### III. ANALYSIS

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

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

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

Defendants are not entitled to attorneys' fees because the American Rule specifically forbids it. The American Rule states that each litigant pays his own attorneys' fees, win or lose, unless a statute or contract

provides otherwise. *Baker Botts L.L.P. v. ASARCO LLC*, — U.S. —, 135 S. Ct. 2158, 2164, 192 L. Ed. 2d 208 (2015); *Hardt v. Reliance Standard Life Ins. Co.*, 560 U.S. 242, 252-53, 130 S. Ct. 2149, 176 L. Ed. 2d 998 (2010) (“[e]ach litigant pays his own attorney’s fees, win or lose, unless a statute or contract provides otherwise.”). Because the American Rule is rooted in common law, dating as far back as the 18th century, a party who seeks to deviate from the American Rule by requesting attorneys’ fees from his opposing party, must have statutory justification. *Baker Botts*, 135 S. Ct. at 2164 (“The basic point of reference when considering the award of attorneys’ fees is the bedrock principle known as the American Rule.”); *Alyeska Pipeline Serv. Co. v. Wilderness Soc’y*, 421 U.S. 240, 271, 95 S. Ct. 1612, 44 L. Ed. 2d 141 (1975) (“absent statute or enforceable contract, litigants pay their own attorneys’ fees.”).

More precisely, the Supreme Court has stated that departures from the American Rule are authorized *only* when there is a “specific and explicit provision[] for the allowance of attorneys’ fees under [the] selected statute[ ].” *Id.* at 2164 (quoting *Alyeska Pipeline Service*, 421 U.S. at 260, 95 S. Ct. 1612.) In other words, “absent explicit statutory authority,” to the contrary, a court must follow the American Rule. *Id.* In light of this “specific and explicit provision” standard, Defendants must be able to articulate a statutory provision that clearly and explicitly allows them to recover attorneys’ fees from Plaintiff.

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

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

The American Rule requires a statute to expressly indicate a deviation from its bedrock principle that each side pays its own fees. This deviation from the American Rule does not require a statute to specifically state “attorneys’ fees” in order for attorneys’ fees to be one of the statute’s contemplated “expenses.” Instead, the statute must, in keeping with the “specific and explicit” standard, clearly indicate that it requires a party to pay attorneys’ fees. *See Baker Botts*, — U.S. —, 135 S. Ct. 2158, 192 L. Ed. 2d 208. In *Baker Botts*, the Supreme Court held that a statute successfully deviated from the American Rule and therefore mandated a party pay its opponent’s attorneys’ fees

*even though the statute never used the term “attorneys’ fees.”* *Id.* The Supreme Court crucially noted that the statute satisfied the “specific and explicit” standard because the statute’s language authorizing “reasonable compensation for actual, necessary services rendered” *undisputedly* authorized an award of attorneys’ fees for the work in question. *See id.* (“no one disputes that § 330(a)(1) authorizes an award of attorneys’ fees for that kind of work”). More specifically, the Supreme Court noted the statute’s use of the term ‘services rendered,’ in reference to what fees should be paid, further indicated Congress’s intent to include attorneys’ fees in the party’s required expenses. *Id.* This ruling shows that a statute can depart from the American Rule without requiring the term “attorneys’ fees” as long as its deviation is clear and unambiguous.

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

where “one side” is against “the other.” *See Baker Botts*, 135 S. Ct. at 2164. Instead, the attorney sought to use the relevant statute to recover attorney’s fees for he had previously imposed on his *own* client, and thus was defending, that removed this particular scenario from the “classic adversarial” case.

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

Second, Defendant alleges that *Baker Botts* stands for the proposition that a broad term like “reasonable compensation” is sufficient to deviate from the American Rule. This conclusion fails for many reasons. Primarily, Defendant’s position ignores the requirement that a statute requiring attorney’s fees be specific and explicit, as well as previous statutes that adhere to the ‘specific and explicit’ requirement. To be clear, when Congress intends a statute to deviate from the

American Rule, it does so explicitly. *See, e.g.*, 35 U.S.C. § 285 (authorizing, in “exceptional cases,” awards of “reasonable attorney fees”); 15 U.S.C. § 1114(2)(D)(iv) (imposing liability on party making material misrepresentations “for any damages, including costs and attorney’s fees”); 15 U.S.C. § 1116(d)(11) (authorizing, in action for wrongful seizure of goods or marks, award of “a reasonable attorney’s fee”); 15 U.S.C. § 1117(a) (authorizing, in “exceptional cases,” awards of “reasonable attorney fees”); 15 U.S.C. § 1117(b) (authorizing, in counterfeit mark litigation, recovery of “a reasonable attorney’s fee”).

Further, even when a statute authorizes a broad term like ‘costs’ or ‘expenses,’ if such terms are intended to include attorney’s fees, Congress will modify the term to specify or clarify the statute’s meanings. *See, e.g.*, 11 U.S.C. § 363(n) (authorizing recovery of “any costs, attorneys’ fees, or expenses incurred”); 12 U.S.C. § 1464(d)(1)(B)(vii) (at the court’s discretion, obligating federal savings associations to pay “reasonable expenses and attorneys’ fees” in enforcement actions); 26 U.S.C. § 6673(a)(2)(A) (requiring lawyers who cause excessive costs to pay “excess costs, expenses, and attorneys’ fees”); 31 U.S.C. § 3730(d)(4) (authorizing, in false claims suit, “reasonable attorneys’ fees and expenses” to prevailing defendant); 12 U.S.C. § 5009(a)(1)(B) (holding party at fault liable for “interest and expenses (including costs and reasonable attorney’s fees and other expenses of representation)”); Fed. R. Civ. P. 37(a)(5)(A) (requiring party at fault to pay “reasonable expenses . . . including attorney’s fees”).



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

The Equal Access to Justice Act and the Supreme Court’s interpretation of the specific and explicit language in *Baker Botts*, provide examples of statutory provisions that specifically and explicitly authorize attorneys’ fees. In both statutes, Congress’ intentional inclusion of the term *fees*, rather than ‘costs’ or ‘expenses’ when it wanted to authorize attorneys’ fees, make it is evident that § 145 simply does not meet the standard articulated in *Baker Botts*. In § 145 Congress neither used the phrase “attorneys’ fees” nor “fees” nor any alternative phrase demonstrating a clear

reference to attorneys' fees. *See* 35 U.S.C. § 145 (2011). Such ambiguity regarding the exact reach of the term "expenses" means § 145 does not meet the Supreme Court's *Baker Botts* standard and therefore, cannot deviate from the American Rule.

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

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

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

standard that directly *opposes* the exception the *Shammas* court articulated, this Court is bound to apply *Baker Botts* to the current case.<sup>1</sup> Granted, the *Shammas* decision cited Supreme Court cases that included the phrase “the prevailing party,” however, those cases made no reference to an express holding that the American Rule *only* applied to prevailing parties. For example, the *Shammas* court cited the Supreme Court’s decision in *Ruckelshaus v. Sierra Club*, which merely stated that “the consistent rule is that complete failure will not justify shifting fees.” 463 U.S. 680, 684, 103 S. Ct. 3274, 77 L. Ed. 2d 938 (1983). However, this affirmative statement does not necessitate its inverse. In other words, simply because the Supreme Court holds that a party’s failure does not justify shifting fees to its opponent, does not necessarily mean that in cases where “failure” is not possible (because the parties have agreed that one party will pay all expenses), the American Rule does not apply. Neither the *Shammas* court, nor Defendant has pointed to a Supreme Court case that affirmatively states that the American Rule only applies in contexts of prevailing parties. This complete omission, in light of a clearly articulated standard from the Supreme Court, reinforces the fragility in the *Shammas* justification. Given this, the Supreme Court’s 2015 standard articulated in *Baker Botts* should guide all determinations of whether a statute deviates from the American Rule.

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<sup>1</sup> Both Plaintiff and Defendant correctly recognize that the Fourth Circuit’s decision in *Shammas* is not binding on this Court because the Federal Circuit is the exclusive appellate authority for this action brought pursuant to part of the Patent Act (35 U.S.C. § 145). See Def’s Mtn. for Expenses at 9 n.2; Plt. Opp. at 13 n.12.

Finally, the *Shammas* court notes that, even if it had erroneously concluded that the term “expenses” in § 145 deviates from the American Rule, its conclusion is nonetheless supported because it is clear from “ordinary parlance” that “expenses” is “sufficiently broad to include attorneys’ fees.” *Id.* at 22. But once again, this misinterprets the standard articulated in *Baker Boots*. The issue, when deciding if statutory language sufficiently deviates from the American Rule, is whether the language specifically and *explicitly* states that attorneys’ fees—in some way or another—are authorized, *not* whether a term is broad enough to where it appears applicable under the terms in the statute.

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

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

Plaintiff additionally contests Defendants’ use of an expert witness costing between \$800-\$1000/hr. given that Plaintiffs expert only cost \$400/hr. This disparity in experts’ rates is not indicative of any misconduct by

the Defendants. Before selecting their expert witness, Defendants sought nine different experts, did not choose the highest one, and eventually selected an expert whose fee is similar to recent cases the expert has served as a witness. Thus the Court holds that the USPTO's expert Lewis Lanier's total rate of \$33,103.89 was not excessive in light of his previous rates and experience. Accordingly, the Court GRANTS Defendants' Motion for Expenses for \$33,103.89, for the costs of retaining its expert witness, Lewis Lanier.

## V. CONCLUSION

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

For the reasons stated above, it is hereby,

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

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

**IT IS SO ORDERED.**

101a

**APPENDIX D**

UNITED STATES COURT OF APPEALS  
FOR THE FEDERAL CIRCUIT

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2015-2095

NANTKWEST, INC., FORMERLY CONKWEST, INC.,  
PLAINTIFF-APPELLANT

*v.*

MICHELLE K. LEE, DIRECTOR, U.S. PATENT AND  
TRADEMARK OFFICE, DEPUTY UNDER SECRETARY OF  
COMMERCE FOR INTELLECTUAL PROPERTY AND DEPUTY  
DIRECTOR OF THE UNITED STATES PATENT AND  
TRADEMARK OFFICE, DEFENDANT-APPELLEE

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Decided: May 3, 2017

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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

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**OPINION**

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Before: PROST, Chief Judge, DYK, and STOLL, Circuit Judges.

Opinion for the court filed by Circuit Judge DYK, in which PROST, Chief Judge, joins.

Dissenting Opinion filed by Circuit Judge STOLL.

DYK, Circuit Judge.

The United States Patent and Trademark Office (“USPTO”) rejected claims 20, 26, and 27 of U.S. Patent Application No. 10/008,955 (“’55 patent application”) on the ground that the claims would have been obvious. NantKwest sought review in district court, pursuant to 35 U.S.C. § 145, asserting that claims 20, 26, and 27 of the application were nonobvious. The district court granted the USPTO’s motion for summary judgment of obviousness. NantKwest appeals. We *affirm*.

#### BACKGROUND

NantKwest is the assignee of the patent application at issue, filed by Hans Klingemann (“patent applicant”), directed to the use of a specific type of immune cells for treating cancer.

The immune system can be divided into its innate and adaptive responses. The innate immune response—which is the first line of defense—comprises immune cells like natural killer (“NK”) cells that rapidly attack anything that they sense as foreign. NK cells generally have limited target-recognition specificity and attack rather indiscriminately. The adaptive immune response—which is the second line of defense—comprises immune cells like T cells that attack specific foreign antigens that they have been trained to recognize. The adaptive immune response is thus slower but more target-specific. NK cells and T cells have different cell surface proteins and respond to certain target cell receptors differently. The patent applica-

tion here concerns the use of a particular cell line<sup>1</sup> of NK cells—NK-92.

Despite these differences between NK cells and T cells, throughout the 1980s and 1990s, various prior art references taught that both T cells and NK cells were capable of lysing (destroying) cancer cells. These references described *in vitro*, *ex vivo* and *in vivo* experiments demonstrating this ability. By 1997, NK cells and T cells were the only two types of immune cells known “to recognize and lyse tumor cells *in vivo* in mammals.” J.A. 779-80.

Two specific prior art references are involved here. First, U.S. Patent No. 5,272,082, by Santoli *et al.* (“Santoli”), taught that a specific cell line of T cells, TALL-104, can be used *in vivo* to treat cancer. Second, Gong, Maki, and Klingemann (the ’955 patent applicant) published a study (“Gong”) that taught that a specific NK cell line, NK-92, can lyse cancer cells *in vitro* with high efficacy. The question here is whether these references rendered the ’955 application’s claims obvious.

On December 7, 2001, the patent application was filed with a priority date of April 30, 1997. Claim 20, an independent claim on appeal here, provides

A method of treating a cancer *in vivo* in a mammal comprising the step of administering to the mammal a medium comprising an NK-92 cell line ATCC De-

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<sup>1</sup> Immune cells harvested in the laboratory are derived from “cell lines,” which refer to cancerous cells that continue reproducing more of their own cell type. For example, tumor cells that produce T cells or NK cells nonstop (and hence cause cancer) can be removed from a patient and nourished in the laboratory to reproduce more T cells or NK cells for subsequent experimental use.



posit No. CRL-2407, wherein said cancer is recognized and lysed by said NK-92 cell line.

J.A. 5. Also on appeal are two dependent claims. Claim 26 teaches that “[t]he method of treating a cancer described in claim 20 wherein the route of administration of the cells to the mammal is intravenous and the mammal is human.” *Id.* Claim 27 teaches that “[t]he method of treating a cancer described in claim 20 further comprising the step of administering to said mammal a cytokine that promotes the growth of said NK-92 cell line.” *Id.*

The USPTO Examiner rejected the claims at issue and found that “it would have been *prima facie* obvious to a person of ordinary skill in the art . . . in April 1997 to combine the teachings of Santoli and Gong to arrive at the claimed method because Gong . . . teaches use of NK-92 cells to lyse tumor cells, while Santoli . . . teaches *in vivo* use of cytotoxic cell lines.” J.A. 8 (internal quotation marks omitted).

The applicant then appealed to the Board of Patent Appeals and Interferences (“Board”). The Board affirmed the Examiner’s rejection on the ground that a person of ordinary skill in the art “would have been motivated to replace the TALL-104 cells in Santoli’s method with NK-92 cells based on Gong’s disclosure that NK-92 cells spontaneously kill [leukemia and lymphoma cancer] cells with high efficiency.” J.A. 10 (internal quotation marks omitted).

Pursuant to 35 U.S.C. § 145, NantKwest then filed a complaint in district court, seeking judgment that claims 20, 26, and 27 of the patent application were nonobvious. The USPTO moved for summary judg-

ment. In response, NantKwest argued that this case involves disputes of factual issues that cannot be resolved on summary judgment, relying on expert reports from Dr. Miller (“Miller”) and new references submitted for the § 145 proceeding. The district court granted summary judgment “because there is no genuine material factual dispute as to whether the invention claimed in the [patent application] was obvious over the prior art, as found by both the Examiner and the Board.” J.A. 15.

NantKwest appeals. We have jurisdiction under 28 U.S.C. § 1295(a)(1).

## DISCUSSION

### I

This court reviews the district court’s grant or denial of summary judgment *de novo*. *MicroStrategy Inc. v. Bus. Objects, S.A.*, 429 F.3d 1344, 1349 (Fed. Cir. 2005) (citations omitted). Summary judgment may be granted only “if the movant shows that there is no genuine dispute as to any material fact.” Fed. R. Civ. P. 56(a). Claim construction is an issue of law that we review *de novo* where, as here, there is no relevant extrinsic evidence. *Teva Pharm. USA, Inc. v. Sandoz, Inc.*, — U.S. —, 135 S. Ct. 831, 841, — L. Ed. 2d — (2015).

A patent is obvious if “a skilled artisan would have been motivated to combine the teachings of the prior art references to achieve the claimed invention, and that the skilled artisan would have had a reasonable expectation of success in doing so.” *Procter & Gamble Co. v. Teva Pharm. USA, Inc.*, 566 F.3d 989, 994 (Fed. Cir. 2009) (internal quotation marks omitted).

### II

NantKwest contends that we should reverse the grant of summary judgment because the district court used an incorrect claim construction. Initially, the district court construed “cancer” to mean a “plurality or multiple cancer cells.” J.A. 16. However, in addressing the reasonable expectation of success, the court appeared to consider “cancer” as meaning “one or more cancer cells.” J.A. 22. We agree with NantKwest that this is an incorrect construction of “cancer.” The correct construction of the claim term “treating a cancer” “require[s] lysis of many cells, in order to accomplish the goal of treating cancer,” and not merely lysing one or a few cancer cells. J.A. 722.

However, the district court’s erroneous claim construction creates no basis for reversal. First, we review the district court’s decision *de novo*. In addressing the issue of obviousness, we will use the correct construction, which renders the district court’s erroneous construction harmless error. Second, there is no assertion here that the relevant prior art references taught methods that only lysed one cancer cell or otherwise lysed insufficient numbers of cells for treating cancer.

### III

#### a

Under 35 U.S.C. § 145,

[a]n applicant dissatisfied with the decision of the [Board] . . . may . . . have remedy by civil action against the Director in [district court]. . . . 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 [Board], as the facts in the case may appear. . . .

In § 145 proceedings, “the district court may consider new evidence” presented by the applicant that was not before the Board. *Kappos v. Hyatt*, 566 U.S. 431, 132 S. Ct. 1690, 1696, 182 L. Ed. 2d 704 (2012). If there are genuine issues of material fact, “the district court must make *de novo* factual findings that take account of both the new evidence and the administrative record before the PTO.” *Id.* at 1701.

We agree with the district court that there is no material dispute that the combination of Santoli and Gong used here produced the invention and that persons of ordinary skill in the art would have been motivated to combine Santoli and Gong.

Santoli was an important advance because it showed that T cells from a cell line, not belonging to a patient, can be administered into a patient to produce *in vivo* therapeutic effects. Such an approach is called “allogeneic” or “adoptive immunotherapy.” Santoli specifically taught that the TALL-104 cell line can be used in adoptive immunotherapy *in vivo* for lysing cancer cells.<sup>2</sup>

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<sup>2</sup> We reject NantKwest’s argument that Santoli does not “disclose a successful *in vivo* therapy for TALL-104.” Appellant Br. 32. A study of TALL-104 *in vivo* therapy in dogs showed clinical responses in eight out of nineteen dogs tested. Another study showed that mice treated with TALL-104 cells remained cancer-free for at least 2 months, while untreated mice all died within 10 to 20 days. In fact, the patent application itself acknowledged that prior TALL-104 studies demonstrated “antitumor activity *in vivo* . . . to induce remissions of spontaneous lymphomas in dogs.” J.A. 53; Cesano, J.A. 947, tbl. 3. The alleged post-filing failure of

Gong taught that the NK-92 cell line showed *in vitro* efficacy in lysing cancer cells. In fact, NK-92 was found to have “high efficiency” in lysing the same leukemia tumor cell type as TALL-104 did. *See* J.A. 128, 142. Both TALL-104 and NK-92 lysed cancer cells via the same mechanism, *i.e.*, in a “non-MHC-restricted” manner, in which they do not require presentation of antigens on the MHC cell surface proteins of the tumor cells. J.A. 131, 145.

Prior art publications by the patent applicant himself indicated that there was a motivation to seek clinical applications for the NK-92 cell line. For example, Gong noted that “[b]ecause of their ability to lyse malignant cells, NK . . . cells have been utilized in several clinical trials in cancer patients.” J.A. 140. In a separate publication, Klingemann et al. cited to the fact that because “NK-92 cells . . . can lyse [tumor cells] *in vitro*,” the authors wanted “[t]o test the suitability NK-92 cells for *ex vivo* purging.”<sup>3</sup> J.A. 344. While the appellant is correct that these experiments are different from allogeneic *in vivo* therapy, in that they used the patient’s own NK cells, they indisputably indicate that skilled artisans were motivated to pursue clinical applications for NK cells and the NK-92 cell line.

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TALL-104 therapy in human clinical trials—not known at the time of the application—is irrelevant. *See In re Vaeck*, 947 F.2d 488, 493 (Fed. Cir. 1991) (“[E]xpectation of success must be founded in the *prior art*.” (emphasis added)).

<sup>3</sup> *Ex vivo* purging entails removing “a patient’s [own] blood . . . cells . . . from the body, activat[ing them] . . . , and then return[ing them] back to the patient” for therapy, with the effects stemming from the activated cells. J.A. 7.

Indeed, the '955 patent application itself referred to Gong to describe the superior qualities of the NK-92 cell line. *See, e.g.*, '955 patent application, ¶ 50 (“The NK-92 cell line has been described by Gong et al. (1994)”); *id.* at ¶ 74 (“NK-92 cells (Gong et al. (1994)) were derived from cells obtained from a patient suffering from non-Hodgkin’s lymphoma.”). The patent application highlighted NK-92’s “superior” *in vitro* efficacy (as well as the later-determined *in vivo* efficacy), compared against other immune cells, as “activities [that] are . . . unexpected by a worker in the field of tumor cytotherapy.” *Id.* at ¶ 121. The patent application also teaches that NK-92’s *in vitro* efficacy was “superior to those activities manifested by the known preparations of cytolytic cells normally present in humans,” which suggests NK-92’s therapeutic utility based on *in vitro* data. *Id.* In fact, the '955 patent application concluded from *in vitro* data that “the NK-92 cells of the invention are surprisingly and significantly more effective in lysing patient-derived tumor cells . . . than . . . the cells from [the TALL-104] cell line[] known in the field.” *Id.* at ¶ 104.

Santoli taught that “[t]here remains a need in the art for therapeutic methods . . . for cancers which can utilize cytotoxic T cell lines and avoid the present need . . . for patient’s own killer cells.” J.A. 130, col. 2, ll. 33-37. Santoli thus provided an explicit suggestion to use cell lines (allogeneic therapy) in cancer treatments because of their greater availability. In fact, the '955 patent application itself recognized that prior investigators turned to allogeneic therapy in preference to using a patient’s own cells. *See* '955 patent application, ¶ 9 (To overcome the “major obstacle” of “expand[ing] NK cells . . . *in vivo*” for clin-

ical use, “many investigators have turned to the use of established NK-like cell lines.”). Thus, prior art references on successful *in vivo* therapy using non-allogeneic NK cells taught toward using cell lines.

Finally, there were specific studies undertaken to determine whether the NK-92 cell line would be useful for *in vivo* therapy. Yan et al. (“Yan”) is a prior art reference relied on by the Board, in which investigators compared the *in vitro* efficacies between TALL-104 and NK-92 cell lines against various tumors, in order to study the potential of using these cell lines for *in vivo* therapy. J.A. 226 (“To study the potential of using biological reagents in adoptive immunotherapy, we tested the tumoricidal capacity of T104 [and] NK92.”). Yan concluded that the *in vitro* efficacy of NK-92 was even greater than the *in vitro* efficacy of TALL-104, which had already been used for *in vivo* therapy. Through this head-to-head comparison, Yan taught persons skilled in the art to combine the teachings of Santoli—using a cell line in adoptive immunotherapy—with the teachings of Gong—the use of the NK-92 cell line.

b

We also find that it would have been at least obvious for skilled artisans to try to combine the teachings of Santoli and Gong.

When there is a . . . problem and there are a finite number of identified, predictable solutions, a person of ordinary skill has good reason to pursue the known options. . . . If this leads to the anticipated success, it is likely the product not of innovation but of ordinary skill and common sense.

In that instance the fact that a combination was obvious to try might show that it was obvious under § 103.

*KSR Int'l Co. v. Teleflex Inc.*, 550 U.S. 398, 421, 127 S. Ct. 1727, 167 L. Ed. 2d 705 (2007). Generally, the only situations where this does not apply is where “the inventor would have had to try all possibilities in a field unreduced by direction of the prior art . . . [or] where vague prior art does not guide an inventor toward a particular solution.” *Bayer Schering Pharma AG v. Barr Lab., Inc.*, 575 F.3d 1341, 1347 (Fed. Cir. 2009).

Even NantKwest’s expert conceded that in 1997, skilled artisans knew that NK cells and T cells were the only two types of immune cells known to have anti-tumor efficacy. Moreover, both Santoli and Gong recognized that TALL-104 and NK-92 cells attack cancer cells via the same mechanism, which induced skilled artisans like Yan to compare the efficacies of these two cell lines. Thus, TALL-104 and NK-92 were known to be similar and were among a very limited number of immune cells for use in anticancer therapy. Given the limited number of possibilities in the prior art and the many explicit suggestions “toward a particular solution,” *Bayer*, 575 F.3d at 1347, we conclude that combining the teachings of Santoli and Gong would have been at least obvious to try.

#### IV

NantKwest claims that expert reports by Dr. Miller submitted for the first time in the district court proceeding and new prior art references also submitted for the § 145 proceeding raise genuine disputes of material



fact about the reasonable likelihood of success for combining Gong with Santoli. We disagree.

Our cases recognize that there is no general rule that a skilled artisan cannot reasonably extrapolate *in vivo* success from *in vitro* results. “Obviousness does not require absolute predictability of success. Indeed, for many inventions that seem quite obvious, there is no absolute predictability of success until the invention is reduced to practice.” *In re O’Farrell*, 853 F.2d 894, 903 (Fed. Cir. 1988). “[P]roviding proof sufficient to justify conducting *in vivo* procedures on humans, while useful, is not a test of patentability.” *PharmaStem Therapeutics, Inc. v. ViaCell, Inc.*, 491 F.3d 1342, 1364 (Fed. Cir. 2007).

Rather, our cases hold that whether the skilled artisan can extrapolate *in vivo* success from *in vitro* results is highly fact-specific. See *In re Gangadharam*, 889 F.2d 1101, 1989 WL 127023 (Fed. Cir. 1989) (“The issue . . . is *not* whether *in vitro* results can be used to predict *in vivo* success; rather it’s simply whether the [USPTO], in this case, carried its burden of proving a *prima facie* case of obviousness of the claimed invention.” (emphasis in original)); *In re Carroll*, 601 F.2d 1184, 1186 (C.C.P.A. 1979) (holding that there was teaching away because a witness had stated that *in vitro* testing was unreliable for *in vivo* effectiveness in a specific context).

The fact that *in vitro* success does not always translate into *in vivo* success cannot defeat summary judgment. “[O]bviousness cannot be avoided simply by a showing of some degree of unpredictability in the art so long as there was a reasonable probability of success.” *Pfizer, Inc. v. Apotex, Inc.*, 480 F.3d 1348, 1364 (Fed. Cir.

2007). Indeed, NantKwest itself simply argues that “[p]ositive results *in vitro* do not *necessarily* establish a reasonable probability of success for therapeutic use of that drug *in vivo*.” Appellant Br. 43 (emphasis added). But here, as we have discussed above, there is over-whelming specific evidence that a skilled artisan could reasonably extrapolate from the *in vitro* data with respect to TALL-104 and NK-92 that would reasonably teach their successful substitution *in vivo*.<sup>4</sup>

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<sup>4</sup> NantKwest argues that the Vujanovic et al. reference (“Vujanovic”) teaches that “although the A-NK and NA-NK cells used for therapy showed similar levels of cytotoxicity against HR [gastric cancer] cells tested [*in vitro*] (Table I), A-NK cells demonstrated dramatically and significantly greater antitumor activity than NA-NK cells *in vivo* (Table V, Fig. 4).” J.A. 960. From this, NantKwest concludes that there is “difficulty [in] predicting efficacious *in vivo* cancer treatments from *in vitro* assays,” in particular for NK cells. Appellant Rep. Br. 5. We reject this out-of-context reading. Vujanovic indeed teaches that A-NK and NA-NK have similar *in vitro* efficacy against gastric cancer cells. J.A. 957, tbl. I. Vujanovic also teaches that against gastric cancer cells *in vivo*, mice undergoing NA-NK treatment develop only 20% of the cancer metastases that would develop in untreated mice, while mice undergoing A-NK treatment develop only 6% of the cancer metastases that would develop in untreated mice. J.A. 960, tbl. V. To be sure, this is a statistically significant difference between the NA-NK and A-NK treatments. However, what NantKwest fails to highlight is that despite this difference, both NA-NK and A-NK treatments produced very statistically significant reductions in cancer metastases as compared to untreated mice. Vujanovic thus does not support the argument that NK cells’ *in vitro* efficacy in anti-tumor activity cannot be extrapolated to *in vivo* success; at most, it only suggests that the exact magnitude of that success may not be predictable.

However, the appellant asserts five specific material disputes as to whether *in vitro* success here would translate into *in vivo* success.

First, NantKwest argues that Miller shows that there is a teaching away from using unmodified NK-92 cells *in vivo* because Santoli used TALL-104 cells modified to contain a “suicide gene.” Appellant Br. 38. Santoli thus “strongly discourages the skilled artisan from attempting to introduce unmodified [immune] cells into a new host” without this genetic modification, because such cells may cause cancer. J.A. 392.

NantKwest conceded during oral argument that the claim language here does not require administering “unmodified” NK-92 cells; that is, administering modified NK-92 cells is encompassed by the claimed invention. Oral Arg. 33:40-56. Therefore, whether Santoli teaches away from using unmodified NK-92 cells is irrelevant. Furthermore, the prior art had disclosed that TALL-104 cells could be “lethally irradiated,” so that they became “non-proliferating,” without sacrificing TALL-104’s ability to lyse cancer cells. J.A. 183. There is no dispute that there would be motivation to irradiate cell lines to address this problem if it arose.<sup>5</sup> Thus, safely using a genetically unmodified immune cell line was already taught in the prior art.

Second, NantKwest argues that Miller shows that there is a teaching away from using allogeneic NK-92 therapy because “[i]t was not well understood at the time of the invention whether allogeneic NK cells

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<sup>5</sup> It was ultimately determined that NK-92 cells did not present this risk because they “do not need to be modified or irradiated to prevent uncontrolled proliferation.” Appellant Rep. Br. 17 n.2.

would be subject to [attack by the] foreign host or whether [the administered NK cells would] indiscriminate[ly] kill[] . . . host cells.” J.A. 411.

This was a broad and general concern known to skilled artisans. In fact, USPTO expert Dr. Lanier agreed that the “use of foreign immune cells in allogeneic therapies may be associated with” reactions from the host and the foreign cells against each other. J.A. 573. It would be necessary “to test immune cells for reactivity and cytotoxicity against allogeneic normal host cells *in vitro* prior to developing treatments . . . *in vivo*.” *Id.* There was no testimony here that such an adverse reaction was likely in this context, and there was no testimony that this well-known, general phenomenon (that administering foreign cells into a host could cause untoward reactions) would prevent a skilled artisan from trying NK-92 cells *in vivo* while undertaking the necessary and known precautions. If the need for such pre-administration trials could prevent securing a patent, then no patent on *in vivo* therapy would ever issue before clinical trials were complete. While that appears to have been Dr. Miller’s own view,<sup>6</sup> that view does not correspond to the existing standard for patentability. *See PharmaStem*, 491 F.3d at 1364; *Pfizer*, 480 F.3d at 1364 (“[A] rule of law equating un-

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<sup>6</sup> Dr. Miller stated the following during deposition:

Q. Is there anything less than an *in vivo* study in mammals using NK-92 cells that could provide a reasonable expectation of success for the claimed method?

A. . . . I’m not sure that there’s any predictability that I would be comfortable with, short of doing those types of experiments with the NK-92 cell line.

J.A. 776-77.

predictability to patentability . . . would mean that any new [drug] . . . would be separately patentable . . . [after its] properties . . . [are] verified through testing.”).

Third, NantKwest argues that Yan taught away from substituting NK-92 for TALL-104 because it showed that TALL-104 and NK-92 “differed in cytolytic activity against” the tumors tested. Appellant Br. 34 n.6. However, the appellant failed to mention that this difference was actually the fact that “[t]he NK92 [cell line] was highly cytotoxic towards all” of the tumors tested, while TALL-104 only lysed four out of the thirteen tumors tested. J.A. 226. Therefore, NK-92 was much more efficacious than TALL-104, which would teach a skilled artisan *toward* the substitution.

Fourth, NantKwest argues that Yan does not provide a motivation to combine because it cautioned that extrapolating immunotherapy results from one context to another may be unpredictable. Specifically, Yan stated that “our studies suggest that [immune cells’] cytotoxic activity towards [cancer cells derived from laboratory] cell lines cannot be extrapolated to [cancer] cells derived directly from patients. . . . [S]uch . . . immunotherapy . . . must be accompanied by careful study of the unique patterns of activity” of the anti-tumor immune cells used. J.A. 226. Contrary to Miller’s assertion that this caveat “admonishes against relying on *in vitro* tests to predict *in vivo* activity,” J.A. 439, Yan is not in fact comparing *in vitro* and *in vivo* efficacies. In fact, Yan contains no *in vivo* experiments. Rather, Yan is cautioning against extrap-

olating lysis results against tumors derived from cell lines to tumors derived directly from patients.

And as the data shows, this caveat applies only to TALL-104, but not NK-92.<sup>7</sup> As discussed above, TALL-104 lysed three out of four types of cancer cells derived from laboratory cell lines, but only one out of nine types of cancer cells derived directly from patients. In the same comparison, NK-92 lysed all of the four types of cancers derived from cell lines and all of the nine types of cancers derived directly from patients. In other words, NK-92 showed no difference in lysis efficacy against laboratory cell line cancers and patient-derived cancers. Therefore, unlike TALL-104, which lyses cancer cells differently depending on their source, NK-92's efficacy appears to not be context-dependent. *See* Yan, J.A. 226.

Fifth, NantKwest makes much of the differences between T cells' and NK cells' cell-surface receptors, to argue that these differences would have made it difficult to extrapolate NK-92 behavior from TALL-104's. However, while Miller indeed highlights these differences, he conceded that "NK-92 killing and T-ALL killing [of cancer cells] has not, to my knowledge, in [1997], been associated with the[ir] specific receptor pattern." Miller Deposition, ECF 59-1, at 34. Therefore, these cell-surface receptor differences are not material for the two cell lines' similar ability to lyse cancer cells.

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<sup>7</sup> NantKwest also points out that a similar caveat is found in two other publications. *See* Appellant Br. 46–47; J.A. 953; J.A. 961. Those caveats, like Yan's, also apply only to TALL-104.

## V

NantKwest argues that even against a *prima facie* case of obviousness, it had presented secondary considerations of nonobviousness that “may raise a genuine issue of material fact that precludes summary judgment.” Appellant Br. 61. “[E]vidence . . . of . . . secondary considerations must always when present be considered en route to a determination of obviousness.” *In re Cyclobenzaprine Hydrochloride Extended-Release Capsule Patent Litigation*, 676 F.3d 1063, 1075 (Fed. Cir. 2012) (quotation marks and citation omitted). However, “[f]or . . . secondary considerations to be accorded substantial weight, its proponent must establish a nexus between the evidence and the merits of the claimed invention. . . . Moreover, secondary considerations . . . cannot overcome a strong *prima facie* case of obviousness.” *Wyers v. Master Lock Co.*, 616 F.3d 1231, 1246 (Fed. Cir. 2010) (quotation marks and citation omitted).

For secondary considerations of nonobviousness, NantKwest presents a news article announcing a \$48 million investment in NantKwest as evidence of commercial success, and some results from NK-92’s Phase I clinical trials as evidence of unexpected results.

With respect to the investment, we agree with the district court that there is no direct nexus between the \$48 million stock purchase and the merits of the claimed invention to demonstrate commercial success. The report indicates that the stock purchase was made for corporate control purposes.

NantKwest also contends that it “presented evidence of the clinical success of NK-92 *in vivo* therapy

. . . [that] has demonstrated unexpected, superior results in two recent . . . Phase I” clinical trials. Appellant Br. 57. There is no evidence that the efficacy results were unexpected compared to what was expected based on the *in vitro* data. Indeed, as discussed above, the *in vitro* data suggested that the *in vivo* trials would be successful. With respect to the Phase I trials’ safety results, there was no support for the conclusion that the NK-92 cell line was surprisingly safer than the TALL-104 cell line therapy. *See Miller*, J.A. 393-94 ¶ 48, J.A. 396 ¶ 53.

We conclude that the district court properly granted summary judgment that claims 20, 26, and 27 were invalid as obvious.

## VI

The dissent appears to agree that there is substantial evidence supporting the district court’s finding of obviousness. However, the dissent concludes that NantKwest submitted contrary evidence that raises genuine issues of material fact.

The two cases cited by the dissent for the proposition that “lesser evidence [than what is presented here was] sufficient to reverse rejections by the PTO in the past” are clearly distinguishable. Dissent Op. 876-77. As discussed above, both *Carroll*’s and *Gangadharam*’s holdings are highly fact-specific. In *Carroll*, the court held that the prior art on the *in vitro* use of an antibiotic did not render its *in vivo* use obvious because there was a teaching away from *in vivo* extrapolation for that specific antibiotic. *In re Carroll*, 601 F.2d at 1186. *Carroll* does not discuss *in vivo* extrapolation generally. In *Gangadharam*, the court simply found



that “in this case,” the USPTO failed to “carr[y] its burden of proving a *prima facie* case of obviousness” because the sole prior art only made “general reference . . . [to] positive results that were obtained . . . in an entirely different context, . . . and [made only] precatory, encouraging statements relating to uncertain future investigations” of *in vivo* applications. 1989 WL 127023, at \*1-2. Here, in contrast, there is in fact teaching *towards* the invention.

The dissent also reads Vujanovic, Yan, and Cesano—as well as Miller’s testimony concerning these studies—as creating genuine issues of material fact. The cited passages do not show what Miller argues.

First, the dissent cites Vujanovic for the teaching that “[w]e suggest that standard in vitro cytotoxicity *assays* with target cells in suspensions have little relevance in predicting the in vivo antitumor activity of effector cells.” J.A. 962 (emphasis added). This is merely stating that a certain type of experiment setup (“cells in suspension” assay) is not suitable for predicting *in vivo* results. Indeed, the very next sentence addresses spheroids assays and concludes that “[o]ur results further imply that in vitro *assessment* of effector cell functions with multicellular CA spheroids [assays] instead of CA cell suspensions [assays] or monolayers [assays] might be of greater relevance in predicting the in vivo therapeutic antitumor potential of immune effector cells.” *Id*; see also J.A. 956. Therefore, this passage does not support Miller’s testimony that Vujanovic “caution[s] against relying on *in vitro* cytotoxicity *results*.” J.A. 458 (emphasis added).

Second, the dissent cites Yan for the teaching that “our studies suggest that cytotoxic activity towards

leukemic cell lines cannot be extrapolated to cells derived directly from patients. The use of such biologic reagents *in vitro* or *in vivo* for immunotherapy or purging must be accompanied by careful study of the[ir] unique patterns of activity. . . . ” J.A. 226. From this, Miller concludes that “Yan admonishes against relying on *in vitro* tests to predict *in vivo* activity.” J.A. 439-40. However, as discussed above, the cited passage from Yan is speaking about the differences in lysis efficacy against tumors from cell lines versus against tumors derived directly from patients. All of the experiments presented in Yan were performed *in vitro* (albeit for the *purpose* of studying the potential of using NK-92 and TALL-104 *in vivo*). This Yan passage therefore cannot provide support for Miller’s warning against *in vivo* extrapolation.

Third, the dissent cites Cesano for the teaching that “the sensitivity of the dogs’ tumors to TALL-104 cell lysis *in vitro* did not appear to be a good indicator of clinical responses.” J.A. 953. This sentence does not address NK-92 and, as discussed above, NK-92 was shown to be more efficacious than TALL-104. Therefore, this would actually teach a skilled artisan toward substituting NK-92 for TALL-104 (as Yan suggested to do).

“When opposing parties tell two different stories, one of which is blatantly contradicted by the record, . . . a court should not adopt that version of the facts for purposes of ruling on a motion for summary judgment.” *Scott v. Harris*, 550 U.S. 372, 380, 127 S. Ct. 1769, 167 L. Ed. 2d 686 (2007). That is the situation here. Miller’s reading of the prior art is contradicted

by the art itself. Miller's testimony thus does not raise genuine issues of material fact.

**AFFIRMED**

STOLL, Circuit Judge, dissenting.

Absent the procedural safeguards provided to the non-moving party at the summary judgment stage, I might very well agree with the majority that the PTO demonstrated the obviousness of these claims. When evaluating a case on appeal from summary judgment, however, "[t]he evidence of the non-movant is to be believed, and all justifiable inferences are to be drawn in his favor." *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 255, 106 S. Ct. 2505, 91 L. Ed. 2d 202 (1986). NantKwest submitted evidence and accompanying expert testimony showing that an ordinarily skilled artisan at the time of the invention would not have had a reasonable expectation of success in combining Santoli's *in vivo* results for TALL-104 cells with Gong's *in vitro* experiments for NK-92 cells. Drawing all reasonable inferences in favor of NantKwest, as we must, this evidence creates a genuine dispute of material fact that bars the grant of summary judgment. Because the majority explains away NantKwest's evidence instead of giving it the weight required by law, I respectfully dissent.

I.

As an initial matter, the difference between *in vitro* and *in vivo* testing is critical to understanding the difficulty in using results from the former to predict efficacy in the latter. *In vitro* experiments typically

occur in the controlled environment of a petri dish or test tube; *in vivo* experiments are performed in a living organism. J.A. 886. Experiments *in vitro* cannot account for the variable environment of a living organism and cannot replicate a cell line's interaction with the host's immune system, among other things. J.A. 384, ¶ 24; J.A. 886. This disparity in testing environments can lead to unpredicted *in vivo* results. For example, cell lines with encouraging cytotoxic activity *in vitro* can unexpectedly lose all activity *in vivo*. J.A. 414, ¶ 93. The host's immune system can even destroy the cell line, rendering it ineffective *in vivo*. *Id.* It is also possible for the cell line to trigger severe immune reactions in the host that produce serious complications. J.A. 393, ¶ 47. Therefore, demonstrated cytotoxic activity *in vitro* does not always translate to success *in vivo*.

## II.

The presence of each claimed element in the prior art is insufficient to render a claim obvious. Rather, there also must be a motivation to combine the prior art and an ordinarily skilled artisan must have had a reasonable expectation of success in doing so. *Kinetic Concepts, Inc. v. Smith & Nephew, Inc.*, 688 F.3d 1342, 1360 (Fed. Cir. 2012) (internal quotation marks and citations omitted). Whether a skilled artisan would have had a reasonable expectation of success is a question of fact, *Cumberland Pharm. Inc. v. Mylan Institutional LLC*, 846 F.3d 1213, 1222 (Fed. Cir. 2017), and contemporaneous evidence of what skilled artisans thought at the time of the invention can help inform our inquiry into whether the expectation of success was reasonable. *In re Carroll*, 601 F.2d 1184, 1186-87 (C.C.P.A. 1979).

When determining whether a person of ordinary skill possessed a reasonable expectation of success in predicting *in vivo* efficacy based on *in vitro* results, we have recognized that “simply because a drug gives positive results *in vitro*, it does not necessarily follow that there is a reasonable probability of success for therapeutic use of that drug *in vivo*.” *In re Gandharam*, 889 F.2d 1101, 1989 WL 127023, at \*3 (Fed. Cir. 1989) (non-precedential) (citing *Carroll*, 601 F.2d at 1186).

The majority concludes that a person of ordinary skill in the art would have been motivated to combine Santoli with Gong because Santoli demonstrated *in vivo* efficacy for TALL-104 cells, Gong detailed NK-92’s *in vitro* ability to lyse cancer cells, and the prior art indicated a desire to seek clinical applications for the NK-92 cell line. Maj. Op. 867-69. NantKwest’s arguments that a person of ordinary skill in the art would not have had a reasonable expectation of success in combining Santoli with Gong were not persuasive to the majority in light of the “over-whelming specific evidence that a skilled artisan could reasonably extrapolate from the *in vitro* data with respect to TALL-104 and NK-92 that would reasonably teach their successful substitution *in vivo*.” Maj. Op. 870. In reaching its conclusion, the majority failed to give NantKwest’s evidence the weight it deserved and declined to draw all reasonable inferences in NantKwest’s favor.

Numerous contemporaneous references identified by NantKwest warned that *in vitro* results were not predictive of *in vivo* efficacy in this field. For example, the Vujanovic reference questioned the correlation between *in vitro* studies and *in vivo* behavior for the

NK-92 cell line: “We suggest that standard *in vitro* cytotoxicity assays with target cells in suspensions have *little relevance* in predicting the *in vivo* antitumor activity of effector cells.” J.A. 962 (emphasis added). As confirmed by Dr. Miller, this passage from Vujanovic “caution[s] against relying on *in vitro* cytotoxicity results, such as those in Gong, to predict *in vivo* behavior.” J.A. 458, ¶ 94. Yan contains similar warnings. Yan concluded his comparison of NK-92 and TALL-104 cells by noting: “[O]ur studies suggest that cytotoxic activity towards leukemic cell lines *cannot be extrapolated* to cells derived directly from patients. The use of such biologic reagents *in vitro* or *in vivo* for immunotherapy or purging must be accompanied by careful study of the unique patterns of activity. . . .” J.A. 226 (emphasis added). Dr. Miller reiterated that “Yan admonishes against relying on *in vitro* tests to predict *in vivo* activity,” which was consistent with “the common understanding in the art.” J.A. 439-40, ¶ 48. Finally, in Cesano’s article describing a Phase I Clinical Trial for TALL-104 in dogs, the authors acknowledged that, “[s]urprisingly, the sensitivity of the dogs’ tumors to TALL-104 cell lysis *in vitro did not appear to be a good indicator* of clinical responses.” J.A. 953 (emphasis added).

NantKwest’s evidence and supporting expert testimony laid bare the uncertainty in this complex field. As Dr. Miller explained, the authors in the above references did not feel confident in predicting *in vivo* activity based on *in vitro* experiments at the time of the invention. J.A. 439-40, ¶ 48; J.A. 458, ¶ 94. This creates a dispute of material fact regarding the reasonable expectation of success. In my view, the majority’s willingness to discredit Dr. Miller’s understanding of

the disclosures in Vujanovic and Yan does not dispose of the genuine dispute of material fact. Although the majority believes its view of the prior art references is superior to Dr. Miller's, its analysis is not supported by citations to the USPTO's expert report or the district court opinion. See Maj. Op. 873-74. Dr. Miller's opinion, on the other hand, is illuminated by the background knowledge of a skilled artisan in this field, and I am not convinced that his opinion lacks support in the record. The result is a genuine dispute of material fact that I believe is not suited for resolution at the summary judgment stage.

Indeed, we have found lesser evidence sufficient to reverse rejections by the PTO in the past. In *Carroll*, for example, the PTO's Board of Appeals rejected as obvious claims of a patent for treating *M. paratuberculosis* with lauric acid based on the patentee's master's thesis. The thesis disclosed two types of studies: 1) *in vitro* studies, from which the patentee reported that lauric acid completely inhibited the growth of three strains of *M. paratuberculosis*, and 2) *in vivo* studies, from which the patentee reported the suitability of a certain strain of C57 black mice as laboratory animals for studying the diseases caused by *M. paratuberculosis*. *Carroll*, 601 F.2d at 1185. An expert in the field, Dr. Merkal, discounted the patentee's thesis at the time of its publication because, among other reasons, "*in vitro* testing was an unreliable indicator for the *in vivo* effectiveness." *Id.* at 1186. When the patentee sought a patent for his later discovery that mammals can be treated with lauric acid orally to treat *M. paratuberculosis*, the PTO argued that the claims were obvious because his earlier thesis disclosed lauric acid's activity *in vitro* and that mice were suitable

animals for studying the disease. *Id.* at 1185-86. Our predecessor court disagreed with the PTO, relying principally on Dr. Merkal's "*contemporaneous* evaluation of appellant's thesis[] that one skilled in this art would have given no weight to the findings reported therein." *Id.* at 1186-87 (emphasis added).

Similarly, in *Gangadharam*, we held that the Board of Patent Appeals and Interferences erred in finding a reasonable expectation of success for using CQQ to treat tuberculosis in mammals (*in vivo*) based on *in vitro* results. *Gangadharam*, 1989 WL 127023, at \*3 (nonprecedential). The Board relied on a single reference authored in part by the applicant to reject the claims. It found that the Gangadharam reference's disclosure of "very positive *in vitro* bactericidal activity of CQQ against the [pertinent] bacteria reported by Gangadharam certainly favors the *in vivo* use of said compound in the treatment of tuberculosis in mammals." *Id.* at \*1. But simply "[r]emarking that the positive *in vitro* results 'favored' use *in vivo* does not meet the statutory standard," we explained, and therefore the PTO "fell woefully short of its burden" to establish a reasonable expectation of success. *Id.* at \*2. Importantly, the Gangadharam reference contained a proviso that further studies were needed "before CQQ can be suggested as a possible antimycobacterial drug for treating humans with [tuberculosis]," and a contemporaneous article warned that *in vitro* tests were neither equivalent to, nor a substitute for, *in vivo* experiments. *Id.* at \*2-3. Because "there [wa]s evidence in this record . . . regarding the noncorrelation of *in vivo* from *in vitro* efficacy generally and with respect to tuberculosis," we found that the PTO failed to demonstrate a reasonable expectation of suc-



cess. *Id.* at \*3; *see also Abbott Labs. v. Sandoz, Inc.*, 544 F.3d 1341, 1350-52 (Fed. Cir. 2008) (affirming non-obviousness in context of district court’s grant of preliminary injunction because, *inter alia*, the patentee’s evidence demonstrated that “it was not predictable” how an antibiotic would perform *in vivo* based on *in vitro* experiments using a closely related antibiotic).

As was the case with both *Carroll* and *Gangadharam*, the record here contains ample evidence that persons of ordinary skill in the art were skeptical about the ability of *in vitro* tests to predict *in vivo* efficacy for the two relevant cell lines. Vujanovic, Yan, and Cesano—in the very same articles where they discussed the promising *in vitro* results for the NK-92 and TALL-104 cell lines—proceeded to expressly caution against inferring efficacy *in vivo* based on these outcomes. A reasonable reading of these references supports the conclusion that one skilled in the art would not have had a reasonable expectation of success in combining Santoli’s *in vivo* testing for TALL-104 with Gong’s NK-92 cell line. Because NantKwest is the non-movant at the summary judgment stage, it is a reasonable inference that we must draw in its favor. *See Anderson*, 477 U.S. at 255, 106 S. Ct. 2505.

### III.

Our standard of review for the grant of summary judgment requires us to believe the evidence of the non-movant and to draw all reasonable inferences in its favor. The majority did neither in finding the claims in NantKwest’s patent application obvious. Accordingly, I respectfully dissent.

**APPENDIX E**

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

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Case No. 1:13-cv-01566-GBL-TCB

CoNKWEST, INC., PLAINTIFF

*v.*

MICHELLE K. LEE, DEPUTY UNDER SECRETARY OF  
COMMERCE FOR INTELLECTUAL PROPERTY AND DEPUTY  
DIRECTOR OF THE UNITED STATES PATENT AND  
TRADEMARK OFFICE, DEFENDANT

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Filed: Sept. 2, 2015

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**MEMORANDUM OPINION AND ORDER**

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THIS MATTER is before the Court on Defendant Michelle K. Lee's Motion for Summary Judgment (Doc. 44); Plaintiff CoNKwest, Inc.'s Motion in Limine to Preclude Defendant from Relying on Evidence not Timely Disclosed Under Rule 26(A)(2) (Doc. 33); Plaintiff's Motion in Limine to Preclude Defendant from Relying on the Inventor's Work Published Within a Year of the Filing Date (Doc. 35); Plaintiff's Motion in Limine to Preclude Defendant from Relying on Post-Filing References as Prior Art or in Support of Obviousness (Doc. 38); and Defendant's Motion in Limine (Doc. 39). This case arises from the United States Patent and Trademark Office's ("USPTO") denial of Plaintiff CoNKwest Inc.'s ("CoNKwest") patent. The

USPTO found that the claims of CoNKwest's Patent Application No. 10/008,955 (the "'955 application") would have been obvious under 35 U.S.C. § 103(a) to a hypothetical person of skill in the art. CoNKwest seeks a judgment, pursuant to 35 U.S.C. § 145, that it is entitled to a patent for the invention specified in claims 20, 26, and 27 of the '955 application.

The issue before the Court is whether the Court should grant Defendant's Motion for Summary Judgment, where Defendant argues that CoNKwest's patent application is obvious under 35 U.S.C. § 103(a), while Plaintiff argues that a person of ordinary skill in the art would not have been motivated to combine the prior art references and that there are genuine issues of material fact in dispute which cannot be resolved on summary judgment. The Court GRANTS Defendant's Motion for Summary Judgment, because there is no genuine material factual dispute that the invention claimed in the '955 application is obvious over the prior art, as found by both the Patent Examiner and the Patent Trial and Appeals Board. There is no dispute that, together, the Santoli and Gong prior art references disclose all the elements of the claimed invention. Even considering the new evidence, 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 prior art references. Additionally, CoNKwest's secondary consideration evidence is unpersuasive.

## **I. BACKGROUND**

CoNKwest Inc., the assignee of the '955 application, brings this action seeking this Court's reversal of a Patent Trial and Appeal Board's (the "Board") decision, which rejected the methods claimed in the

'955 application as obvious under 35 U.S.C. § 103(a). The '955 application claims an *in vivo* method of treating a cancer by administering the NK-92 cell line to a mammal to recognize and lyse cancer cells. CoNKwest seeks to present additional evidence supporting the patentability of its claims pursuant to 35 U.S.C. § 145. CoNKwest challenges two of the Board's findings underlying the *prima facie* case of obviousness against its claims; namely, that (1) the prior art provides a motivation to combine the prior art according to CoNKwest's claims; and (2) the prior art provides a reasonable expectation of success for the claimed method.

#### A. The '955 Application

The '955 application, titled "Natural Killer Cell Lines and Methods of Use" was filed December 7, 2001. (Doc. 10-2 at 1.) Hans Klingemann, M.D., Ph.D ("Applicant") is listed as the sole inventor on the '955 application. (*Id.*) The '955 application claims priority to U.S. Provisional Patent Application No. 60/045,885, which was filed on April 30, 1997. (*Id.* at 4.) The parties agree that April 30, 1997 is the relevant date to determine the knowledge comprising the prior art against CoNKwest's claims. (Doc. 50 at 1 and 4.) The claims of the '955 application cover a method of treating cancer in a mammal or a human by administering NK-92 cells to recognize and lyse cancer cells *in vivo*, i.e., in the mammal or the human. (Doc. 10-2.)

On June 6, 2002, prior to any examination on the merits, the USPTO published the '955 application. On January 27, 2005, having not received an examination on the merits of the invention, Applicant sent a "Status Inquiry" to the USPTO noting that "[t]o date, Appli-

cant[] ha[s] not received an Official Action on the merits.” (Doc. 10-5 at 96.) On September 7, 2006, the PTO, through Primary Examiner Ronald Schwadron, mailed a Restriction Requirement requiring Applicant to elect only a single group of claims to be examined on the merits. (Doc. 10-6 at 28.) The Examiner required an election of one of: Group I claims (claims 1-9), Group II claims (claims 10-19), or Group III claims (claims 20-29). (*Id.*) On October 6, 2006, Applicant filed a response to the Restriction Requirement in which Applicant elected the claims of Group III (claims 20-29) for examination on the merits, and withdrew the claims of Groups I and II (claims 1-19) from consideration. (*Id.* at 30-36.) On December 28, 2006, Examiner Schwadron mailed a second Restriction Requirement requiring Applicant to elect, from among claims 20-29, only a “single disclosed species for prosecution on the merits.” (*Id.* at 38.) In particular, the Examiner required an election of one of: Species A (“method of treating a cancer or a pathogenic virus”), or Species B (“method using cells wherein HLA expression has been inhibited or wherein the cells have been transfected with a vector encoding a cytokine or the cells of claim 28”). (*Id.* at 38-42.) On April 27, 2007, Applicant filed a response to the second Restriction Requirement electing Species A related to treating cancer as claimed in claims 20, 22, 23, 26, and 27 for examination on the merits, and withdrawing claims 21, 24, 25, 28, and 29 from consideration. (*Id.* at 50-61.) Applicant also amended claim 20 to comply with the Examiner’s election requirement. (*Id.*)

On June 5, 2007, more than five years after the filing of the ’955 application, the USPTO mailed its first Office Action on the merits of Applicant’s invention.

(*Id.* at 64.) Examiner Schwadron notified Applicant that claims 20, 22, 23, 26, 27, 30 and 31 were rejected as not patentable on the grounds of non-statutory obviousness-type double patenting over the claims of co-pending U.S. Patent Application No. 10/701,359 and under 35 U.S.C. § 103(a) as being unpatentable over a journal article authored by Gong et al., *Characterization of a Human Cell Line (NK-92) with Phenotypical and Functional Characteristics of Activated Natural Killer Cells*, 8 LEUKEMIA 652-658 (1994) (“Gong”), in view of U.S. Patent No. 5,272,082 issued to Santoli et al. (“Santoli”). (*Id.* at 64-71.)

On October 5, 2007, Applicant filed an Amendment and Response to the first Office Action. (*Id.* at 81.) Responding to the rejection under 35 U.S.C. § 103(a), Applicant explained why he believed that Gong, in view of Santoli, did not render obvious claims 20, 22, 23, 26, 27, 30 and 31. (*Id.* at 81-95.) On April 15, 2008, Examiner Schwadron mailed a Final Office Action rejecting claims 20, 22, 26, 27, and 30 as obvious under 35 U.S.C. § 103(a).<sup>1</sup> (Doc. 11-2 at 70.)

On October 15, 2008, Applicant filed a Request for Continued Examination, accompanied by a Declaration of Hans Klingemann, the inventor and Applicant, to provide an expert opinion explaining why claims 20, 22, 26, 27, and 30 would not have been obvious under 35 U.S.C. § 103(a) over Gong in view of Santoli. (*Id.* at 84.) On March 24, 2009, Examiner Schwadron mailed a Final Office Action rejecting claims 20, 22, 26, 27, and

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<sup>1</sup> The final Office Action addressed claims 20, 22, 26, 27, and 30. Only claims 20, 26, and 27 are at issue here. The Patent Examiner listed claims 23, and 31 as withdrawn.

30 on the same grounds as those previously set forth in the Final Office Action. (Doc. 11-4 at 55-65.)

Only claims 20, 26, and 27 of the '955 application are at issue here. Claims 20, 26, and 27, of the '955 application recite:

20. A method of treating a cancer *in vivo* in a mammal comprising the step of administering to the mammal a medium comprising an NK-92 cell line ATCC Deposit No. CRL-2407, wherein said cancer is recognized and lysed by said NK-92 cell line.

26. The method of treating a cancer described in claim 20 wherein the route of administration of the cells to the mammal is intravenous and the mammal is human.

27. The method of treating a cancer described in claim 20 further comprising the step of administering to said mammal a cytokine that promotes the growth of said NK-92 cell line.

#### **B. Prior Art**

Claims 20, 26, and 27 were rejected as obvious under 35 U.S.C. § 103 over the combined teachings of Daniela Santoli *et al.*, U.S. Patent No. 5,272,082 (Santoli patent, Doc. 45-2 at 2.); and Jiang-Hong Gong, "Characterization of a Human Cell Line (NK-92) with Phenotypical and Functional Characteristics of Activated Natural Kill Cells," *Leukemia* 8:652 (1994) (Gong, Doc. 45-2 at 15.). The Examiner found that the two prior art publications disclosed all of the limitations of the claims. (Doc. 11-4 at 55-65.)

Santoli's patent discloses that cells of the TALL-104 cell line recognize and lyse cells from several cancer

cell lines (i.e., K562, U937, Raji, and HL60 cells). (Santoli patent, at col.13, ll.17-37.) Santoli's patent also discloses that TALL-104 cells stop cancer cell growth and prolonged survival when administered to severe combined immunodeficiency (SCID) mice—i.e., a breed of mice with a highly ineffective immune system that is easily modified, as in Dr. Santoli's experiments, to develop cancers like leukemia. (Santoli patent, at col.14, ll.7-13.) The TALL-104 cell line is an immortalized (or transformed) cell line, developed from the peripheral blood cells of a human patient with a form of leukemia. (Santoli patent, at col.4, ll.31-35.) (citing Santoli *et al.*, Blood 77:1534-1545 (1991)). Santoli's patent discloses that, "when compared to LAK cells from normal donors (i.e., a mixture of NK cells and T cells), TALL-104 cells display higher killing efficiency against more tumor targets." (Santoli patent, at col.4, ll.31-35.) In addition to the work disclosed in Santoli's patent, Dr. Santoli and Dr. Alessandra Cesano published studies showing that, like NK cells, TALL-104 cells recognize and lyse a variety of solid tumor cell lines and leukemic cell lines, e.g., the K562 leukemia cell line. (See Doc. 45-4 at 2.) Based on these *in vitro* results, Drs. Cesano and Santoli tested TALL-104 cells *in vivo* and published data showing that TALL-104 cells display an aggressive pattern of tumor infiltration and tumor cell lysis when administered *in vivo* to SCID mice. (Doc. 45-5 at 6; *see also* Santoli patent, at col.14, ll.8-13.)

Around the time Drs. Cesano and Santoli reported the use of the TALL-104 cell line in adoptive therapies, Drs. Gong and Klingemann reported the development of the NK-92 cell line from the peripheral blood cells of a human patient with a leukemia. (Gong, at 1.) Gong



teaches that NK-92 cells are able to lyse the cells of a variety of human leukemic cell lines, including K562 cells, Daudi cells, TF-1 cells, and ML-193 cells. (Gong, at p.654, right col.) Based on these and other characteristics, Gong states that NK-92 cells have “the phenotypical and functional characteristics of [activated] NK cells.” (Gong, at p.652, right col.) More than a year before he filed the ’955 application, Dr. Klingemann also co-authored an abstract for presentation at a national scientific meeting disclosing “data showing the immunological purging of leukemic cells from blood cell preparations using the highly cytotoxic cells from the clone NK-92. . . .” (Doc. 46-5 at 12.) This abstract describes these data as “suggest[ing] that the cytotoxic NK-92 clone could be used as an efficient tool for immunological *ex vivo* purging.” (*Id.*)

In 1995, Yan *et al.* also published the results of head-to-head comparisons of NK-92 cells and TALL-104 cells. (Doc. 45-7 at 27.) Yan (1995) discloses that “[r]ecent studies have shown that the human MHC unrestricted T cell clone T[ALL]104 and natural killer cell clone NK-92 are cytotoxic to human leukemic cell lines without toxicity towards normal [blood cell] progenitors.” *Id.* Yan (1995) also states that “[t]o study the potential of using biological reagents in adoptive immunotherapy, we tested the tumoricidal capacity of [TALL-104 and NK-92].” *Id.* Yan (1995) further reports that, while TALL-104 cells were cytotoxic to certain cancer cell lines and primary cancer cells, NK-92 cells were “highly cytotoxic towards all cell lines and primary tumor [cell targets].” *Id.*

In the mid-1980s—i.e., prior to the development of the TALL-104 and NK-92 cells lines—researchers had

previously developed cancer therapies based on the tumoricidal activity of LAK cells, i.e., mixed populations of cytotoxic T cells and NK cells derived from peripheral blood activated *in vitro* with the cytokine IL-2. (See, e.g., Ex.46-1 at 2.) LAK cells had shown initial success in at least two types of therapeutic regimes: (1) *in vivo* therapies in which a patient's LAK cells were activated by the administration of IL-2; and (2) *ex vivo* therapies in which a patient's peripheral blood mononuclear cells were removed from the body, activated with IL-2, and then returned back to the patient. (*Id.*; see also Doc. 45-7 at 29; Doc. 45-8; and Doc. 46-1 at 12.)

Santoli's patent further discloses that TALL-104 may be used in "a method of treating human cancers, including leukemias, by administering to a patient an effective tumoricidal amount of a modified cytotoxic T-ALL cell lines preferably TALL-104." (Santoli patent, at col.10, ll.19.) Santoli's patent also discloses that this method "may be performed either *in vivo* or *ex vivo*, depending on the type of cancer to be treated." (Santoli patent, at col.10, ll.30-31.) Santoli's patent describes the intravenous administration of TALL-104 cells to human patients. (Santoli patent, at col.10, ll.52-54) ("For human patients, the T-ALL cells may be injected intravenously (i.v.).").

### C. The Examiner's Findings

The Examiner found that it would have been *prima facie* obvious to a person of ordinary skill in the art ("POSA") in April 1997 to combine the teachings of Santoli and Gong to arrive at the claimed method "because Gong et al. teach[es] use of NK-92 cells to lyse tumor cells, while Santoli *et al.* teach[es] *in vivo* use of

cytotoxic cell lines.” (Doc. 13-4 at 92.) The Examiner further found that a POSA would have been motivated to create the claimed invention because “Santoli *et al.* teach that lytic human derived cell lines can be used *in vivo* to treat disease or in preclinical *in vivo* studies (see column 10) whilst NK-92 was . . . known [by persons in the art to also be a] human derived lytic cell line.” (Doc. 13-4 at 94.) The Examiner also found motivation to use the NK-92 cell line in Dr. Santoli’s method based on Dr. Santoli’s disclosure that “there is a need for therapeutic methods for treating cancers using cytotoxic cell lines because said cell lines avoid the need to produce LAK cells derived from the particular patient.” (Doc. 13-4 at 96-97) (citing Santoli patent, at col.2, ll.32-38.)

The Examiner explained that “[t]he fact that NK-92 cells and TALL 104 can lyse different types of tumors (as per the *in vitro* data that was disclosed in the prior art) would lead a [POSA] to use NK-92 . . . to treat tumors *in vivo* that were not lysed by TALL-104 cells.” (Doc. 13-4 at 99.) Second, the Examiner found that the prior art provided a reasonable expectation of success for the claimed method because “Santoli *et al.* had already established that a lytic cell line with *in vitro* activity could be used *in vivo* to lyse target cells/treat disease.” (*Id.*) Further, the Examiner found that “[t]he lytic properties of the NK-92 cells in *in vitro* assays [were] already known in the art.” (*Id.* at 101.) Applicants appealed the Examiner’s decision to the Board.

#### **D. The Administrative Appeal**

On September 15, 2009, Applicant filed a notice of appeal from the Examiner to the Board of Patent Appeals and Interferences (now the PTAB). (Doc. 11-4

at 90.) On July 9, 2010, Examiner Schwadron *sua sponte* reopened prosecution by mailing a non-final Office Action, thereby terminating Applicant's appeal. (Doc. 12-3 at 89.) Examiner Schwadron again rejected claims 20, 22, 26, 27, and 30. (*Id.*) On December 20, 2010, Examiner Schwadron mailed a Final Office Action rejecting claims 20, 26, 27, and 30. (Doc. 13-2 at 101.) The Examiner withdrew the rejection under 35 U.S.C. § 112, but maintained the other two rejections. (Doc. 13-3 at 1-8.) On March 18, 2011, Applicant once again appealed the Examiner's decision by filing a Notice of Appeal with the Board of Patent Appeals and Interferences (now the PTAB). (*Id.* at 21.)

On January 9, 2013, having received no communication from the PTAB since the second appeal was docketed on January 27, 2012, Applicant filed a "Request for Status" with the PTAB requesting a status update. (Doc. 14-1 at 16.) On October 25, 2013, after more than 11 years and 10 months since the filing of the '955 application, the PTAB issued a "Decision On Appeal" affirming-in-part and reversing in-part the Examiner's December 20, 2010 Final Office Action. (*Id.* at 30-40.)

The Board affirmed the Examiner's rejection, concluding that "the Examiner ha[d] set forth a prima facie case that it would have been obvious to administer NK-92 *in vivo* to a mammal to treat cancer." (*Id.* at 33.) The Board agreed with the Examiner's finding that a POSA would have been motivated to replace the TALL-104 cells in Santoli's method with NK-92 cells based upon Gong's disclosure that "'NK-92 cells spontaneously kill K562 [leukemia] and Daudi [lymphoma] cells with high efficiency.'" (*Id.* at 34 (Gong, at pp. 653-654).) This appeal followed.

### **E. The Present Civil Action**

On December 20, 2013, pursuant to 35 U.S.C. § 145, CoNKwest filed its Complaint seeking a judgment that it is entitled to a patent for the invention specified in claims 20, 26, and 27 of the '955 application. (Doc. 1.) On May 11, 2015, Defendant USPTO timely filed Defendant's Motion for Summary Judgment. (Doc. 44.) Plaintiff CoNKwest filed its opposition on May 29, and Defendant filed its Reply Memorandum of Law in Support of Defendant's Motion for Summary Judgment on June 9. (Docs. 53 and 59.) Defendant's motion is now properly before the Court.

#### **1. New Evidence**

Pursuant to 35 U.S.C. § 145, Plaintiff may present to this Court, new evidence relevant to disputed issues of fact that was not presented to the USPTO. CoNKwest produced three expert reports by Dr. Jeffrey S. Miller to support the patentability of claims 20, 26, and 27. (Doc. 46-8.) The USPTO likewise produced an expert report by Dr. Lewis L. Lanier as additional evidence that the Board correctly found these claims obvious. (Doc. 53-4.)

During the examination and appeals processes, CoNKwest relied solely on the testimony of Dr. Klingemann, the inventor. (Doc. 53 at 19-23.) Here, CoNKwest presents for the first time new evidence in the form of expert testimony by a person of ordinary skill in the art—Dr. Miller. (*Id.*) Dr. Miller bases part of his opinion on the notion that the Board and Examiner both misunderstood the prior art, including the mistaken assumption that isolated NK cells has been used in vivo, in patients, to treat cancer, prior to the invention.

(Doc. 53 at 21.) Dr. Miller testifies that pure NK cells had never been used to treat patients prior to the invention. (Doc. 46-8 at ¶ 41.) Dr. Miller's expert report also explores the differences between LAK cells and NK-92 cell lines and notes that LAK therapy had been found to be toxic and ineffective prior to CoNK-west's invention. (*Id.* at ¶ 37-40.) Plaintiff asserts that these findings call into question "whether the prior art LAK teaching have any application to the claimed invention or otherwise support motivation to combine." (Doc. 53 at 22.)

Dr. Miller also notes that the Board failed to appreciate that Santoli attributes activity to T cells, and thus LAK studies would have provided motivation to pursue T cells, not NK cells. (Doc. 46-8 at ¶ 41.) In his expert report, Dr. Miller, goes on to further opine that the primary references, Santoli and Gong, actually teach away from the invention. (*Id.* at ¶ 23.) For instance, Dr. Miller points to the fact that Santoli's use of unmodified TALL-104 caused cancer and rapid death in the host animal, which is why Santoli used a suicide gene. (*Id.*) The NK-92 cell lines used here do not require a suicide gene and thus Dr. Miller testifies that a POSA would have expected NK-92 cells to cause cancer and rapid death. (*Id.* at ¶ 88.) Moreover, Dr. Miller states that Gong teaches that NK-92 cells are IL-2 dependent, while Santoli teaches that IL-2 is toxic to patients, thus the combination of Gong and Santoli would require co-administration of toxic IL-2 to an animal or human. (*Id.*) Dr. Miller also provides opinion testimony as to why the differences between NK-92 and TALL-104 cells would lead a POSA to expect different behavior in a mammalian host when using different cell types. (*Id.* at ¶ 20-25.)

Plaintiff argues, based on Dr. Miller's testimony, that there exists a material dispute of fact as to the reasonable expectation of success a POSA would have had in April 1997. (Doc. 53 at 18.) CoNKwest also argues that its objective evidence of non-obviousness further supports the patentability of the claimed invention. Specifically, Plaintiff relies on an article entitled "L.A. Billionaire Invests \$48M in S.D. Cancer Biotech CoNKwest" ("Fikes") to establish evidence of objective indicia of non-obviousness based on commercial success, secondary considerations of unexpectedly superior results, long felt need, and failure of others, with respect to the use of NK-92 cells for treatment of cancer. (Doc. 46-3.)

Defendant presents the expert report of Lewis L. Lanier, Ph.D., who opines that the prior art provided a motivation to combine and a reasonable expectation of success. (Doc. 53-4.)

## II. STANDARD OF REVIEW

### A. Summary Judgment Standard

Under Federal Rule of Civil Procedure 56, the Court must grant summary judgment if the moving party demonstrates that there is no genuine issue as to any material fact, and that the moving party is entitled to judgment as a matter of law. Fed. R. Civ. P. 56(c) (2013).

In reviewing a motion for summary judgment, the Court views the facts in a light most favorable to the nonmoving party. *Boitnott v. Corning, Inc.*, 669 F.3d 172, 175 (4th Cir. 2012) (citing *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 255 (1986)). Once a motion for summary judgment is properly made and support-

ed, the opposing party has the burden of showing that a genuine dispute exists. *Matsushita Elec. Indus. Co. v. Zenith Radio Corp.*, 475 U.S. 574, 586-87 (1986); *Bouchat v. Baltimore Ravens Football Club, Inc.*, 346 F.3d 514, 522 (4th Cir. 2003) (citations omitted). “[T]he mere existence of some alleged factual dispute between the parties will not defeat an otherwise properly supported motion for summary judgment; the requirement is that there be no genuine issue of material fact.” *Emmett v. Johnson*, 532 F.3d 291, 297 (4th Cir. 2008) (quoting *Anderson*, 477 U.S. at 247-48).

A “material fact” is a fact that might affect the outcome of a party’s case. *Anderson*, 477 U.S. at 248; *JKC Holding Co. v. Wash. Sports Ventures, Inc.*, 264 F.3d 459, 465 (4th Cir. 2001). Whether a fact is considered to be “material” is determined by the substantive law, and “[o]nly disputes over facts that might affect the outcome of the suit under the governing law will properly preclude the entry of summary judgment.” *Anderson*, 477 U.S. at 248; *Hooven-Lewis v. Caldera*, 249 F.3d 259, 265 (4th Cir. 2001).

A “genuine” issue concerning a “material” fact arises when the evidence is sufficient to allow a reasonable jury to return a verdict in the nonmoving party’s favor. *Resource Bankshares Corp. v. St. Paul Mercury Ins. Co.*, 407 F.3d 631, 635 (4th Cir. 2005) (quoting *Anderson*, 477 U.S. at 248). Rule 56(e) requires the nonmoving party to go beyond the pleadings and by its own affidavits, or by the depositions, answers to interrogatories, and admissions on file, designate specific facts showing that there is a genuine issue for trial. *Celotex Corp. v. Catrett*, 477 U.S. 317, 324 (1986).



### B. 35 U.S.C. § 145 Standard

This civil action was brought pursuant to 35 U.S.C. § 145, which “gives the Court the power to set aside any ruling refusing a patent and determine patentability *de novo*.” *Hitachi Koki Co., Ltd. v. Doll*, 620 F. Supp. 2d 4, 16 (D.D.C. 2009) (citing *Mazzari v. Rogan*, 323 F.3d 1000, 1004 (Fed. Cir. 2003); *Newman v. Quigg*, 877 F.2d 1575, 1579 (Fed. Cir. 1989)) (citation and internal quotation marks omitted). Accordingly, in addition to the summary judgment standard of review, this Court’s review under 35 U.S.C. § 145 is guided by the administrative record. *See Johnson v. Rea*, No. 1:12-CV-440, 2013 WL 1499052, at \*2 (E.D. Va. Apr. 9, 2013).

Section 145 provides that “[a]n 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. . . . ” 35 U.S.C. § 145. In a civil action under § 145, “the court may adjudge that [the] applicant is entitled to receive a patent for his invention, as specified in any of his claims involved in the decision of the [USPTO], and as the facts in the case may appear and such adjudication shall authorize the Director to issue such a patent on compliance with the requirements of law.” *Id.* Unlike applicants who seek review to the Federal Circuit, applicants who first seek review in this Court by civil action may present new evidence relevant to disputed issues of fact that was not presented to the USPTO. *Kappos v. Hyatt*, 132 S. Ct. 1690, 1696 (2012). When an application does so, the Court “must make *de novo*

factual finding that take account of both the new evidence and the administrative record before the [US]PTO.” *BTG Int’l Ltd. v. Kappos*, No. 1:12-CV-682, 2012 WL 6082910, at \*4 (E.D. Va. Dec. 6, 2012) (quoting *Hyatt*, 132 S. Ct. at 1701) (internal quotation marks omitted).

The evidentiary rules applicable to all civil actions govern § 145 actions, such that § 145 proceedings are subject to the Federal Rules of Evidence and the Federal Rules of Civil Procedure. *Hyatt*, 132 S. Ct. at 1699-1700. The Supreme Court has held that § 145 actions “should be conducted according to the ordinary course of equity practice and procedure and . . . should be prepared and heard upon all competent evidence adduced and upon the whole merits.” *Id.* (quoting *Butterworth v. United States ex rel. Hoe*, 112 U.S. 50, 61 (1884)) (internal quotation marks omitted). Because “the district court acts as a fact finder when new evidence is introduced in a § 145 proceeding,” it “must assess the credibility of new witnesses and other evidence, determine how the new evidence comports with the existing administrative record, and decide what weight the new evidence deserves.” *Id.* at 1700. The standard of review of the new evidence must therefore “[a]s a logical matter” be “*de novo* because [the district court] is the first tribunal to hear the evidence in question.” *Id.* The Court retains discretion, however, to determine what weight to afford an applicant’s newly admitted evidence by considering the proceedings before the USPTO. *Id.* at 1700. If the applicant presents no new evidence, this Court reviews the USPTO’s decision under the deferential standard provided by Administrative Procedure Act (“APA”). *Johnson*, 2013 WL 1499052, at \*2. Thus, under the latter standard, the

Court will only set aside a Board decision that is arbitrary, capricious, or otherwise not in accordance with law. *Id.* (citing 5 U.S.C. § 706(2)(a) and *Star Fruits S.N.C. v. United States*, 393 F.3d 1277, 1281 (Fed. Cir. 2005)).

### III. ANALYSIS

The Court GRANTS Defendant’s Motion for Summary Judgment, because there is no genuine material factual dispute as to whether the invention claimed in the ’955 application was obvious over the prior art, as found by both the Examiner and the Board.

As an initial matter the Court first addresses the necessity to construe the claims at issue, particularly the term “cancer” as used in independent claim 20. Claim terms are given their ordinary and customary meaning, absent an explicit alternative definition provided in the applicant’s specification. *See In re Morris*, 127 F.3d 1048, 1054 (Fed. Cir. 1997). Moreover, it is well-established that—unlike the claims in an issued patent—the claims in a patent application must be given their “broadest reasonable interpretation consistent with the specification.” *See, e.g., Phillips v. AWH Corp.*, 415 F.3d 1303, 1316 (Fed. Cir. 2005) (en banc); *In re Prater*, 415 F.2d 1393, 1404-05 (C.C.P.A. 1969). The Court finds that there is no dispute as to the definition of the term “cancer.” CoNKwest and the USPTO agree that “cancer” as used in the claims at issue means “said cancer cells” or in other words that the claims are directed at multiple “cancer cells.” The disagreement as to *how many* cancer cells the claims are directed to is immaterial to the ultimate question the Court must consider. While the Court finds no need to construe the term “cancer,” the Court agrees

with Plaintiff that the term means a “plurality or multiple cancer cells.”

Title 35, United States Code, Section 145 (“§ 145”) provides in pertinent part as follows:

An applicant dissatisfied with the decision of the Board of Patent Appeals and Interferences 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. . . . 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 Board of Patent Appeals and Interferences, 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.

In *Hyatt*, the Supreme Court considered (1) whether there are any limitations on a patent applicant’s ability to introduce new evidence before the district court in an action filed pursuant to § 145; and (2) what standard of review the district court should apply when considering new evidence. *Hyatt*, 132 S. Ct. at 1692). The Supreme Court first concluded that “there are no evidentiary restrictions beyond those already imposed by the Federal Rules of Evidence and the Federal Rules of Civil Procedure.” *Id.* *Hyatt* also explicitly defines the only situation where consideration of the Board’s decision is permitted. The Court adopted the Federal Circuit’s rule that “the district court may, in its discretion, ‘consider the proceedings before and findings of the Patent Office in deciding what weight to afford an

applicant’s newly-admitted evidence.’” *Id.* at 1700 (quoting *Hyatt v. Kappos*, 625 F.3d 1320, 1335 (Fed. Cir. 2010)). Accordingly, where new evidence is submitted, *de novo* review of the entire record is required because the district court “cannot meaningfully defer to the USPTO’s factual findings if the USPTO considered a different set of facts.” *Id.*

The Court’s analysis is thus framed by three intersecting legal frameworks: (1) the rules governing actions pursuant to 35 U.S.C. § 145, under which “the district court must make *de novo* factual findings that take account of both the new evidence and the administrative record before the PTO,” *Kappos v. Hyatt*, 132 S. Ct. at 1701; (2) the obviousness standard which includes “the scope and content of the prior art . . . ; differences between the prior art and the claims at issue . . . ; and the level of ordinary skill in the pertinent art,” *Graham v. John Deere Co. of Kan. City*, 383 U.S. 1, 17 (1966); and (3) the summary judgment standard, pursuant to which “the movant [must] show[] that there is no genuine dispute as to any material fact,” Fed. R. Civ. P. 56(a), and the “evidence of the non-movant is to be believed, and all justifiable inferences are to be drawn in his favor,” *Anderson*, 477 U.S. at 255, 106 S. Ct. 2505.

In sum, the question before the Court is: has the Director shown that no reasonable trier of fact could find that CoNKwest’s evidence outweighs the Director’s own evidence regarding whether the claimed invention is obvious? Here, considering all the necessary legal framework, the Court holds that no reasonable trier of fact could find that the claimed invention was not obvious over the prior art. Accordingly, the

Court grants Defendant's Motion for Summary Judgment. Each of the relevant legal frameworks are discussed in turn.

**A. 35 U.S.C. § 145**

The Court is unpersuaded by the new evidence CoNKwest presents in the form of Dr. Miller's expert reports and instead finds that the evidence supports the Board's decision that the three claims at issue are obvious.

Because Plaintiffs offer new evidence to support their position with respect to the Board's final rejection for obviousness, the Court employs a *de novo* standard as to the necessary factual findings, taking into account both Plaintiffs' new evidence and the administrative record. *Hyatt*, 132 S. Ct. at 1701; *Johnson*, 2013 WL 1499052, at \*2. Under *Hyatt*, a plaintiff in a § 145 action is entitled to present all evidence admissible under the rules of evidence as to all claims, whether or not that evidence was first presented to the Board.

Here, Plaintiff presented three expert reports from Dr. Jeffrey S. Miller to support the patentability of claims 20, 26, and 27. The USPTO likewise produced an expert report by Dr. Lewis L. Lanier as additional evidence that the Board correctly found these claims to be obvious. The Court, as instructed by *Hyatt*, considered the newly presented evidence *de novo* along with the administrative record. As discussed above, CoNKwest presents for the first time new evidence in the form of expert testimony by an independent person of ordinary skill in the art—Dr. Miller. (Doc. 53 at 19-23.)

In his expert report, Dr. Miller, opines that the primary references, Santoli and Gong, actually teach away

from the invention. (Doc. 46-8 at ¶ 23.) For instance, Dr. Miller points to the fact that Santoli's use of unmodified TALL-104 caused cancer and rapid death in the host animal, which is why Santoli used a suicide gene. (*Id.*) The NK-92 cell lines used here do not require a suicide gene and thus Dr. Miller testifies that a POSA would have expected NK-92 cells to cause cancer and rapid death. (*Id.* at ¶ 88.) Moreover, Dr. Miller states that Gong teaches that NK-92 cells are IL-2 dependent, while Santoli teaches that IL-2 is toxic to patients, thus the combination of Gong and Santoli would require co-administration of toxic IL-2 to an animal or human. (*Id.*)

The Court is unpersuaded by Dr. Miller's report and finds that the evidence, including the newly admitted evidence, supports the Board's decision that the claims are obvious. Dr. Miller's expert reports do not persuade the Court as to the obviousness of the claims at issue. Particularly, the Court finds that it would have been obvious to administer the NK-92 cell line *in vivo* to a mammal to treat cancer, in light of the Gong and Santoli references. While the Court finds that Dr. Miller is a POSA, his conclusions stand in contrast to the prior art. The Court finds that a POSA in 1997 would have had motivation to combine the prior art with a reasonable expectation of success.

#### **B. Obviousness**

The Court finds that CoNKwest's claimed invention would have been obvious to a person of ordinary skill in the art in 1997.

Section 103(a) of Title 35 of the United States Code provides that a patent may not be obtained if the dif-

ferences between the claimed invention “as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art.” 35 U.S.C. § 103(a). In other words, under the patent statute, an invention that would have been obvious to a person of ordinary skill in the relevant art at the time of the invention is not patentable. Obviousness is a question of law to be decided by the Court and “is focused on the scope of the patent in suit, not the patentee’s goal in creating the patent.” *Pfizer Inc. v. Teva Pharm. USA, Inc.*, 803 F. Supp. 2d 409, 440 (E.D. Va. 2011) (citing *KSR Int’l Co. v. Teleflex, Inc.*, 550 U.S. 398, 419 (2007)). The factors guiding the obviousness inquiry are (1) the scope and content of the prior art; (2) the level of skill in the art; (3) differences between the claimed invention and the prior art; and (4) any relevant secondary considerations, including commercial success, long-felt but unsolved needs, and the failure of others. *Graham v. John Deere Co.*, 383 U.S. 1, 17-18 (1966); *DyStar Textilfarben GmbH & Co. v. C.H. Patrick Co.*, 464 F.3d 1356, 1360-61 (Fed. Cir. 2006).

A patent “is not proved obvious merely by demonstrating that each of the elements was, independently, known in the prior art.” *Teleflex*, 550 U.S. at 418. “[W]hen the prior art teaches away from combining certain known elements, discovery of a successful means of combining them is more likely to be nonobvious.” *Id.* at 416. An inventor’s decision to act contrary to the accepted wisdom of the art is indicia of nonobviousness. See *United States v. Adams*, 383 U.S. 39, 52 (1966). However, if a person of ordinary skill, who is typically able to combine the teachings of multiple patents, is able to “implement a predictable variation”



based on that combination, then such variation is unpatentable as obvious. *Johnson*, 2013 WL 1499052, at \*3. The Supreme Court recognized that an obviousness analysis will often require “a court to look to interrelated teachings of multiple patents; the effects of demands known to the design community or present in the marketplace; and the background knowledge possessed by a person having ordinary skill in the art, all in order to determine whether there was an apparent reason to combine the known elements in the fashion claimed by the patent at issue.” *Id.* at 418.

Objective evidence of nonobviousness must also be considered, including “secondary considerations” such as “commercial success, long felt but unsolved needs, failures of others, etc.” *Disney Enterprises, Inc. v. Rea*, 940 F. Supp. 2d 288, 293 (E.D. Va. 2013) (internal citations omitted); *see also KSR Int’l Co. v. Teleflex Inc.*, 550 U.S. 398, 407 (2007). In short, however, “[a]n obviousness analysis measures the difference between the claimed invention and the prior art to determine whether the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art.” *Disney Enterprises, Inc.*, 940 F. Supp. 2d at 291 (quoting *Alza Corp. v. Mylan Labs., Inc.*, 464 F.3d 1286, 1289 (Fed. Cir. 2006)).

The Court finds that CoNKwest’s claimed invention—an *in vivo* method of treating a cancer by administering the NK-92 cell line to a mammal to recognize and lyse cancer cells—would have been obvious to a person of ordinary skill in the art in 1997. Here, a POSA would have been motivated to “implement a predictable variation” based on the Santoli and Gong

references, which renders the variation unpatentable as obvious. *See Johnson*, 2013 WL 1499052, at \*3. Specifically, it would have been *prima facie* obvious to a POSA in April 1997 to have combined the teachings of Santoli and Gong to arrive at the claimed method “because Gong *et al.* teach[es] use of NK-92 cells to lyse tumor cells, while Santoli *et al.* teach *in vivo* use of cytotoxic cell lines.” The Court further finds that a POSA in 1997 would have been motivated to substitute the TALL-104 cell with the functionally similar NK-92 cells to achieve the claimed method and would have reasonably expected success in doing so.

In deciding whether or not a claimed invention is obvious, the Federal Circuit has instructed the USPTO to consider objective evidence of nonobviousness. *In re Huang*, 100 F.3d 135, 139 (Fed. Cir. 1996). Secondary considerations like “commercial success, long felt but unsolved needs, failure of others, etc., might be utilized as . . . indicia of obviousness or nonobviousness. *Graham v. John Deere Co. of Kansas City*, 383 U.S. 1, 17-18, (1966) (citing Note, Subtests of ‘Nonobviousness’: A Nontechnical Approach to Patent Validity, 112 U. PA. L. REV. 1169 (1964)). However, the USPTO lacks the means or resources to gather evidence which supports or refutes an applicant’s assertion that the sales constitute commercial success, so accordingly the USPTO relies upon the applicant to provide hard evidence of commercial success. *Id.* The “success is relevant in the obviousness context only if there is proof that the sales were a direct result of the unique characteristics of the claimed invention—as opposed to other economic and commercial factors unrelated to the quality of the patented subject matter.” *Id.* (internal citations omitted).

The Court is unpersuaded by CoNKwest's evidence of secondary considerations. Neither Dr. Miller nor the U-T San Diego article authored by Fikes offer any persuasive evidence of commercial success, long-felt but unsolved needs, failures of others, etc. The Fikes article does little more than reveal that there was a \$48 million dollar investment in CoNKwest as part of a stock trade. Though the article mentions phase I clinical trials, the article does little in the way of proving that the alleged success, or investment, was the "direct result . . . of the claimed invention—as opposed to other economic and commercial facts." The Court is not convinced that there is a direct nexus between Dr. Soon-Shiong's \$48 million dollar investment in CoNKwest and the merits of the claimed invention.

### C. Summary Judgment

Here, the Court finds, based on the newly-presented evidence as well as the administrative record, that there is no genuine material factual dispute that the invention claimed in the '955 application is obvious over the prior art, as found by both the Examiner and the Patent Trial and Appeals Board. There is no dispute that, together, Santoli and Gong disclose all the elements of the claimed invention. Even considering the new evidence and drawing all inferences in CoNKwest's favor, it is clear that a POSA in 1997 would have had a reasonable expectation that NK-92 cells would recognize and lyse one or more cancer cells *in vivo* in a mammal. Additionally, CoNKwest's secondary consideration evidence is unpersuasive.

#### IV. CONCLUSION

The Court grants Defendant's Motion for Summary Judgment, because there is no genuine material factual dispute that the invention claimed in the '955 application is obvious over the prior art, as found by both the Examiner and the Patent Trial and Appeals Board.

**ORDERED** that Defendant's Motion for Summary Judgment (Doc. 44) is GRANTED; it is further

**ORDERED** Plaintiff CoNKwest, Inc's Motion in Limine to Preclude Defendant from Relying on Evidence not Timely Disclosed Under Rule 26(A)(2) (Doc. 33) is **DENIED as MOOT**; it is further

**ORDERED** Plaintiff's Motion in Limine to Preclude Defendant from Relying on the Inventor's Work Published Within a Year of the Filing Date (Doc. 35) is **DENIED as MOOT**; it is further

**ORDERED** Plaintiff's Motion in Limine to Preclude Defendant from Relying on Post-Filing References as Prior Art or in Support of Obviousness (Doc. 38) is **DENIED as MOOT**; and it is further

**ORDERED** Defendant's Motion in Limine (Doc. 39) is **DENIED as MOOT**.

**IT IS SO ORDERED.**

ENTERED this 2nd day of Sept., 2015.

Alexandria, Virginia

9/2/15

/s/

\_\_\_\_\_  
GERALD BRUCE LEE  
United States District Judge

156a

**APPENDIX F**

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

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2016-1794

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

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Filed: Aug. 31, 2017

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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

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**SUA SPONTE REHEARING EN BANC**

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Before: PROST, *Chief Judge*, NEWMAN, LOURIE,  
DYK, MOORE, O'MALLEY, REYNA, WALLACH, TARANTO,  
HUGHES, and STOLL, *Circuit Judges*.<sup>\*</sup>

PER CURIAM.

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<sup>\*</sup> Circuit Judge Chen did not participate.

**ORDER**

This case was argued before a panel of three judges on February 9, 2017. A sua sponte request for a poll on whether to reconsider this case was made. A poll was conducted and a majority of the judges who are in regular active service voted for sua sponte en banc consideration.

Accordingly,

IT IS ORDERED THAT:

(1) The panel opinion of June 23, 2017 is vacated, and the appeal is reinstated.

(2) This case will be heard en banc sua sponte under 28 U.S.C. § 46 and Federal Rule of Appellate Procedure 35(a). The court en banc shall consist of all circuit judges in regular active service who are not recused or disqualified.

(3) The parties are requested to file new briefs. The briefs should address the following issue:

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?

(4) An original and thirty copies of the new en banc briefs shall be filed, and two copies of each en banc brief shall be served on opposing counsel. Appellant's en banc brief is due 45 days from the date of this order. Appellee's en banc response brief is due within 30 days of service of appellant's en banc brief, and the reply brief within 15 days of service of the response brief. Briefs shall adhere to the type-volume limitations set

forth in Federal Rule of Appellate Procedure 32 and Federal Circuit Rule 32.

(5) Briefing should be strictly limited to the issue set forth above.

(6) In addition, the parties are directed to file with the court thirty paper copies of their original briefs and any appendix within 17 days from the date of this Order.

(7) Briefs of amici curiae will be entertained, and any such amicus briefs may be filed without consent and leave of court but otherwise must comply with Federal Rule of Appellate Procedure 29 and Federal Circuit Rule 29.

(8) This appeal will be heard en banc on the basis of the original briefs, the supplemental briefs ordered herein, and oral argument.

(9) Oral argument will be held at a time and date to be announced later.

FOR THE COURT

Aug. 31, 2017  
Date

/s/

PETER R. MARKSTEINER  
PETER R. MARKSTEINER  
Clerk of Court

## APPENDIX G

1. 15 U.S.C. 1071 provides:

**Appeal to courts**

(a) **Persons entitled to appeal; United States Court of Appeals for the Federal Circuit; waiver of civil action; election of civil action by adverse party; procedure**

(1) An applicant for registration of a mark, party to an interference proceeding, party to an opposition proceeding, party to an application to register as a lawful concurrent user, party to a cancellation proceeding, a registrant who has filed an affidavit as provided in section 1058 of this title or section 1141k of this title, or an applicant for renewal, who is dissatisfied with the decision of the Director or Trademark Trial and Appeal Board, may appeal to the United States Court of Appeals for the Federal Circuit thereby waiving his right to proceed under subsection (b) of this section: *Provided*, That such appeal shall be dismissed if any adverse party to the proceeding, other than the Director, shall, within twenty days after the appellant has filed notice of appeal according to paragraph (2) of this subsection, files notice with the Director that he elects to have all further proceedings conducted as provided in subsection (b) of this section. Thereupon the appellant shall have thirty days thereafter within which to file a civil action under subsection (b) of this section, in default of which the decision appealed from shall govern the further proceedings in the case.

(2) When an appeal is taken to the United States Court of Appeals for the Federal Circuit, the appellant shall file in the United States Patent and Trademark



Office a written notice of appeal directed to the Director, within such time after the date of the decision from which the appeal is taken as the Director prescribes, but in no case less than 60 days after that date.

(3) The Director shall transmit to the United States Court of Appeals for the Federal Circuit a certified list of the documents comprising the record in the United States Patent and Trademark Office. The court may request that the Director forward the original or certified copies of such documents during pendency of the appeal. In an ex parte case, the Director shall submit to that court a brief explaining the grounds for the decision of the United States Patent and Trademark Office, addressing all the issues involved in the appeal. The court shall, before hearing an appeal, give notice of the time and place of the hearing to the Director and the parties in the appeal.

(4) The United States Court of Appeals for the Federal Circuit shall review the decision from which the appeal is taken on the record before the United States Patent and Trademark Office. Upon its determination the court shall issue its mandate and opinion to the Director, which shall be entered of record in the United States Patent and Trademark Office and shall govern the further proceedings in the case. However, no final judgment shall be entered in favor of an applicant under section 1051(b) of this title before the mark is registered, if such applicant cannot prevail without establishing constructive use pursuant to section 1057(c) of this title.

**(b) Civil action; persons entitled to; jurisdiction of court; status of Director; procedure**

(1) Whenever a person authorized by subsection (a) of this section to appeal to the United States Court of Appeals for the Federal Circuit is dissatisfied with the decision of the Director or Trademark Trial and Appeal Board, said person may, unless appeal has been taken to said United States Court of Appeals for the Federal Circuit, have remedy by a civil action if commenced within such time after such decision, not less than sixty days, as the Director appoints or as provided in subsection (a) of this section. The court may adjudge that an applicant is entitled to a registration upon the application involved, that a registration involved should be canceled, or such other matter as the issues in the proceeding require, as the facts in the case may appear. Such adjudication shall authorize the Director to take any necessary action, upon compliance with the requirements of law. However, no final judgment shall be entered in favor of an applicant under section 1051(b) of this title before the mark is registered, if such applicant cannot prevail without establishing constructive use pursuant to section 1057(c) of this title.

(2) The Director shall not be made a party to an inter partes proceeding under this subsection, but he shall be notified of the filing of the complaint by the clerk of the court in which it is filed and shall have the right to intervene in the action.

(3) 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. In suits brought hereunder, the record in the United States Patent and Trademark Office shall be admitted on motion of any party, upon such terms and conditions as to costs, expenses, and the further cross-examination of the witnesses as the court imposes, without prejudice to the right of any party to take further testimony. The testimony and exhibits of the record in the United States Patent and Trademark Office, when admitted, shall have the same effect as if originally taken and produced in the suit.

(4) Where there is an adverse party, such suit may be instituted against the party in interest as shown by the records of the United States Patent and Trademark Office at the time of the decision complained of, but any party in interest may become a party to the action. If there are adverse parties residing in a plurality of districts not embraced within the same State, or an adverse party residing in a foreign country, the United States District Court for the Eastern District of Virginia shall have jurisdiction and may issue summons against the adverse parties directed to the marshal of any district in which any adverse party resides. Summons against adverse parties residing in foreign countries may be served by publication or otherwise as the court directs.

2. 35 U.S.C. 141 provides:

**Appeal to Court of Appeals for the Federal Circuit**

(a) EXAMINATIONS.—An applicant who is dissatisfied with the final decision in an appeal to the Patent Trial and Appeal Board under section 134(a) may appeal the Board's decision to the United States Court of Appeals for the Federal Circuit. By filing such an appeal, the applicant waives his or her right to proceed under section 145.

(b) REEXAMINATIONS.—A patent owner who is dissatisfied with the final decision in an appeal of a reexamination to the Patent Trial and Appeal Board under section 134(b) may appeal the Board's decision only to the United States Court of Appeals for the Federal Circuit.

(c) POST-GRANT AND INTER PARTES REVIEWS.—A party to an inter parties review or a post-grant review who is dissatisfied with the final written decision of the Patent Trial and Appeal Board under section 318(a) or 328(a) (as the case may be) may appeal the Board's decision only to the United States Court of Appeals for the Federal Circuit.

(d) DERIVATION PROCEEDINGS.—A party to a derivation proceeding who is dissatisfied with the final decision of the Patent Trial and Appeal Board in the proceeding may appeal the decision to the United States Court of Appeals for the Federal Circuit, but such appeal shall be dismissed if any adverse party to such derivation proceeding, within 20 days after the appellant has filed notice of appeal in accordance with section 142, files notice with the Director that the party elects to have all further proceedings conducted as

provided in section 146. If the appellant does not, within 30 days after the filing of such notice by the adverse party, file a civil action under section 146, the Board's decision shall govern the further proceedings in the case.

3. 35 U.S.C. 142 provides:

**Notice of appeal**

When an appeal is taken to the United States Court of Appeals for the Federal Circuit, the appellant shall file in the Patent and Trademark Office a written notice of appeal directed to the Director, within such time after the date of the decision from which the appeal is taken as the Director prescribes, but in no case less than 60 days after that date.

4. 35 U.S.C. 143 provides:

**Proceedings on appeal**

With respect to an appeal described in section 142, the Director shall transmit to the United States Court of Appeals for the Federal Circuit a certified list of the documents comprising the record in the Patent and Trademark Office. The court may request that the Director forward the original or certified copies of such documents during pendency of the appeal. In an ex parte case, the Director shall submit to the court in writing the grounds for the decision of the Patent and Trademark Office, addressing all of the issues raised in the appeal. The Director shall have the right to intervene in an appeal from a decision entered by the Patent Trial and Appeal Board in a derivation pro-

ceeding under section 135 or in an inter parties or post-grant review under chapter 31 or 32. The court shall, before hearing an appeal, give notice of the time and place of the hearing to the Director and the parties in the appeal.

5. 35 U.S.C. 144 provides:

**Decision on appeal**

The United States Court of Appeals for the Federal Circuit shall review the decision from which an appeal is taken on the record before the Patent and Trademark Office. Upon its determination the court shall issue to the Director its mandate and opinion, which shall be entered of record in the Patent and Trademark Office and shall govern the further proceedings in the case.

6. 35 U.S.C. 145 provides:

**Civil action to obtain patent**

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

Patent Trial and Appeal Board, as the facts in the case may appear and such adjudication shall authorize the Director to issue such patent on compliance with the requirements of law. All the expenses of the proceedings shall be paid by the applicant.