

No. 18-801

---

---

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

---

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

*v.*

NANTKWEST, INC.

---

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

---

**REPLY BRIEF FOR THE PETITIONER**

---

NOEL J. FRANCISCO  
*Solicitor General  
Counsel of Record  
Department of Justice  
Washington, D.C. 20530-0001  
SupremeCtBriefs@usdoj.gov  
(202) 514-2217*

---

---

**TABLE OF CONTENTS**

	Page
A. The Federal Circuit’s decision is wrong .....	2
B. The question presented warrants review .....	8

**TABLE OF AUTHORITIES**

Cases:

<i>Baker Botts L.L.P. v. ASARCO LLC</i> , 135 S. Ct. 2158 (2015).....	1, 4, 5, 6
<i>F. D. Rich Co. v. United States ex rel. Industrial Lumber Co.</i> , 417 U.S. 116 (1974).....	6
<i>Gandy v. Marble</i> , 122 U.S. 432 (1887) .....	3
<i>Hardt v. Reliance Standard Life Ins. Co.</i> , 560 U.S. 242 (2010).....	6
<i>Kappos v. Hyatt</i> , 566 U.S. 431 (2012).....	3
<i>Key Tronic Corp. v. United States</i> , 511 U.S. 809 (1994).....	6, 8
<i>Ruckelshaus v. Sierra Club</i> , 463 U.S. 680 (1983).....	6
<i>Sebelius v. Cloer</i> , 569 U.S. 369 (2013).....	7
<i>Shammas v. Focarino</i> , 784 F.3d 219 (4th Cir. 2015), cert. denied, 136 S. Ct. 1376 (2016) .....	1, 4, 9
<i>Summit Valley Indus., Inc. v. Local 112, United Bhd. of Carpenters &amp; Joiners of Am.</i> , 456 U.S. 717 (1982).....	6
<i>Taniguchi v. Kan Pac. Saipan, Ltd.</i> , 566 U.S. 560 (2012).....	2

Statutes:

Act of July 4, 1836, ch. 357, § 9, 5 Stat. 121.....	2
Lanham Act, 15 U.S.C. 1071(b).....	1, 9
National Childhood Vaccine Injury Act of 1986, 42 U.S.C. 300aa-1 <i>et seq.</i> .....	7

II

Statutes—Continued:	Page
42 U.S.C. 300aa-15(e) .....	7
11 U.S.C. 330(a)(1)(A) .....	5, 6
28 U.S.C. 1295(a)(4)(C) .....	8
29 U.S.C. 187(b) .....	6
29 U.S.C. 1132(g)(1).....	6
35 U.S.C. 141(a) .....	3
35 U.S.C. 145.....	<i>passim</i>
40 U.S.C. 270b(a) (1970).....	7
42 U.S.C. 9607(a)(4)(B) .....	6
Miscellaneous:	
<i>Black's Law Dictionary</i> (10th ed. 2014) .....	2

# In the Supreme Court of the United States

---

No. 18-801

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

*v.*

NANTKWEST, INC.

---

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

---

## REPLY BRIEF FOR THE PETITIONER

---

In the 7-4 decision below, the en banc Federal Circuit adopted a construction of the phrase “[a]ll the expenses of the proceedings,” 35 U.S.C. 145, that is inconsistent with the plain meaning of “expenses,” and with the structure and purpose of Section 145. That error warrants this Court’s review.

Respondent contends (Br. in Opp. 9-11, 17-19) that this Court’s decision in *Baker Botts L.L.P. v. ASARCO LLC*, 135 S. Ct. 2158 (2015), compelled the result below and effectively disapproved the Fourth Circuit’s then-recent decision in *Shammas v. Focarino*, 784 F.3d 219 (2015), cert. denied, 136 S. Ct. 1376 (2016), construing a parallel expense-reimbursement provision of the Lanham Act, 15 U.S.C. 1071(b). But the Court in *Baker Botts* did not address an expense-reimbursement provision comparable to Section 145. And while the Federal

Circuit in this case concluded that *Shammas* was wrongly decided, it did not view this Court’s intervening decision in *Baker Botts* as vitiating the circuit conflict. See Pet. App. 12a-13a; see also *id.* at 36a (Prost, C.J., dissenting) (noting that the majority’s decision “creates an unfortunate and unnecessary conflict between the circuits”).

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

1. Under Section 145, an applicant who opts to bring a civil action under that provision is liable for “[a]ll the expenses of the proceedings.” 35 U.S.C. 145. That language unambiguously encompasses the personnel expenses that the United States Patent and Trademark Office (USPTO) incurs when its attorneys defend the agency in Section 145 litigation. The ordinary meaning of the term “expenses” includes the “money” and “time” spent “to accomplish a result,” Pet. 13 (quoting *Black’s Law Dictionary* 698 (10th ed. 2014)), and thus includes the money the USPTO spends when its employees must dedicate their time to defending the agency. The word “expenses” had a similar common usage in 1839, when Congress enacted the first statutory antecedent to Section 145. See Pet. 13-14. Congress had used the term “expenses” three years earlier to encompass “the payment of [employee] salaries” by what was then the Patent Office. Act of July 4, 1836 (1836 Act), ch. 357, § 9, 5 Stat. 121; see Pet. 13-14. And the term “expenses” as used in the particular context of civil litigation includes payments made to attorneys. Pet. 14; see, e.g., *Taniguchi v. Kan Pac. Saipan, Ltd.*, 566 U.S. 560, 573 (2012) (referring to the cost of “attorneys” as an “expense[] borne by litigants”).

The structure and purpose of the statute confirm that interpretation. When the USPTO rejects a patent

application, the disappointed applicant may challenge that decision either by taking a direct appeal to the Federal Circuit, 35 U.S.C. 141(a), or by filing a civil action in district court under Section 145. See Pet. 3-4. In a Section 145 proceeding, unlike in an appeal, the applicant may introduce evidence that the USPTO had no opportunity to consider, and the reviewing court may make *de novo* factual findings. See *Kappos v. Hyatt*, 566 U.S. 431, 444-446 (2012). But when a disappointed patent applicant invokes that option, the Patent Act requires the applicant rather than the USPTO to shoulder the additional expenses those proceedings impose on the agency, just as applicants must pay the cost of initial patent examinations. Cf. *Gandy v. Marble*, 122 U.S. 432, 439 (1887) (describing a proceeding under Section 145's statutory antecedent as "a part of the application" process). The statute thus protects the USPTO from the additional cost of district-court litigation and discourages abusive filings. Pet. 16. The decision below frustrates those purposes and will force other users of the USPTO's services to subsidize indirectly the costs of Section 145 litigation. Pet. 16-17, 24-25.

2. Respondent does not deny that, in the context of litigation, the plain meaning of the word "expenses" includes the cost of paying attorneys. Respondent also does not address Congress's use of the term "expenses" in the 1836 Act, or the other evidence that in 1839 the common meaning of that term encompassed payments made to lawyers.<sup>1</sup> Nor does respondent dispute that the

---

<sup>1</sup> Respondent observes (Br. in Opp. 1-2, 4 & n.6) that the USPTO did not seek to recover its personnel expenses under Section 145 until recently. As the petition explains (Pet. 6-7, 18), however, the agency reasonably determined that it should no longer forgo seeking reimbursement of its personnel expenses in light of two

Federal Circuit’s interpretation, under which the USPTO cannot recover what is often its single largest expense in Section 145 proceedings, will hinder the achievement of the statute’s purposes. See Pet. 24-25.

Respondent argues that the “American Rule” applies to Section 145. Br. in Opp. 9-16. Respondent further contends that, under the American Rule’s presumption against fee-shifting, the phrase “[a]ll the expenses of the proceedings” is not sufficiently “specific and explicit” to encompass the USPTO’s personnel expenses. *Id.* at 16-17 (quoting Pet. App. 16a). Those arguments are incorrect.

a. As the petition explains (Pet. 19-21), the USPTO’s request for reimbursement of its expenses under Section 145 does not implicate the American Rule—*i.e.*, the default principle that “[e]ach litigant pays his own attorney’s fees, win or lose, unless a statute or contract provides otherwise.” *Baker Botts*, 135 S. Ct. at 2164 (citation omitted). To overcome that presumption, this Court has required “explicit statutory authority.” *Ibid.* (citations omitted). But that clear-statement rule generally applies “only where the award of attorneys fees turns on whether a party seeking fees has prevailed to at least some degree.” *Shammas*, 784 F.3d at 223. Section 145 is not such a statute. Like the fees an applicant must pay for a patent examination, Section 145 requires the plaintiff to pay “[a]ll the expenses of the proceeding” regardless of the outcome. 35 U.S.C. 145. Before the Federal Circuit’s decision in this case, no court of appeals had applied the American Rule to a statute, like

---

developments—the increasing expensiveness of Section 145 proceedings and Congress’s mandate that the agency charge user fees sufficient to cover the agency’s operational costs.

Section 145, that required one party to pay its opponent's litigation expenses regardless of which side prevailed. Pet. 20.

Respondent contends (Br. in Opp. 10) that this Court in *Baker Botts* applied the American Rule to such a statute. But the law at issue in *Baker Botts* did not require one litigant to reimburse his adversary for litigation expenses. The relevant statute authorized a court to “award \* \* \* reasonable compensation” from a bankruptcy estate to the attorneys retained by the administrator of the estate, as compensation “for actual, necessary services rendered.” 11 U.S.C. 330(a)(1)(A). Attorneys retained by the administrator of a bankruptcy estate sought fees they had incurred in defending their own fee application against an objection by the administrator—so-called fees on fees. See *Baker Botts*, 135 S. Ct. at 2162-2163. This Court determined that defending a fee application to which the administrator objected was not a “service[]” rendered *to the administrator* and therefore was not covered by Section 330(a)(1)(A). *Id.* at 2165-2166.

That statute is not comparable to Section 145. The gravamen of the Court's holding in *Baker Botts* was that, in authorizing payments of compensation from the bankruptcy estate for services rendered *to the estate*, Section 330(a)(1)(A) did not contemplate “shift[ing] the costs of adversarial litigation from one side to the other.” *Baker Botts*, 135 S. Ct. at 2165. It was on that basis that the Court found reimbursement to be unavailable for costs incurred in preparing a fee application that the administrator opposed. Section 145's expense-reimbursement mandate, by contrast, applies *exclusively* to adversarial proceedings between patent applicants and the USPTO. In seeking to analogize Section

330(a)(1)(A) to Section 145, respondent observes (Br. in Opp. 10, 12) that, under the construction of Section 330(a)(1)(A) that the attorneys in *Baker Botts* advocated, a court might have awarded fees incurred in defending even an unsuccessful fee application. But the Court rejected that interpretation of the statute. See *Baker Botts*, 135 S. Ct. at 2166. The Court in *Baker Botts* therefore had no occasion to consider the applicability of the American Rule to a statute that requires one party to pay its opponent's litigation expenses regardless of the outcome.

The other decisions on which respondent relies (Br. in Opp. 12-14) are similarly inapt. Each of those decisions applied the American Rule to a statute that, unlike Section 145, either made some degree of success in litigation a prerequisite to fee-shifting or did not authorize any form of expense-shifting at all. See *Hardt v. Reliance Standard Life Ins. Co.*, 560 U.S. 242, 245 (2010) (statute authorizing a fee award only “as long as the fee claimant has achieved ‘some degree of success on the merits’”) (quoting *Ruckelshaus v. Sierra Club*, 463 U.S. 680, 694 (1983)) (construing 29 U.S.C. 1132(g)(1)); *Key Tronic Corp. v. United States*, 511 U.S. 809, 815-819 (1994) (statute authorizing a party that incurs certain environmental cleanup costs to bring an action for contribution against other potentially responsible parties for the “necessary costs of response”) (construing 42 U.S.C. 9607(a)(4)(B)); *Summit Valley Indus., Inc. v. Local 112, United Bhd. of Carpenters & Joiners of Am.*, 456 U.S. 717, 722-723 (1982) (statute authorizing an employee to sue for “damages” for an unfair labor practice) (quoting 29 U.S.C. 187(b)); *F. D. Rich Co. v. United States ex rel. Industrial Lumber Co.*, 417 U.S. 116, 128 (1974) (statute authorizing a federal contractor to sue

for “sums justly due” on an unpaid construction bond) (quoting 40 U.S.C. 270b(a) (1970)). A better analogue is 42 U.S.C. 300aa-15(e), which requires the payment of attorney’s fees even to unsuccessful claimants under the National Childhood Vaccine Injury Act of 1986, 42 U.S.C. 300aa-1 *et seq.*, and which this Court construed in *Sebelius v. Cloer*, 569 U.S. 369 (2013), without reference to the American Rule. Pet. 20.<sup>2</sup>

b. Even if Section 145 implicated the American Rule, the phrase “[a]ll the expenses of the proceedings,” 35 U.S.C. 145, is sufficiently specific and explicit to overcome the presumption against fee-shifting and authorize reimbursement of the USPTO’s personnel expenses. Pet. 21-22. Although the en banc Federal Circuit majority repeatedly acknowledged that the term “expenses” can encompass payments made to attorneys (see Pet. 18), it held that Congress must speak with greater specificity to authorize the USPTO to recoup such expenses. The majority based that conclusion primarily on the observation that some other statutes refer to an award of “both ‘expenses’ and ‘attorneys’ fees’” or “define expenses to include attorneys’ fees.” Pet. App. 18a, 20a. But those statutes demonstrate that attorney’s fees are a kind of expense, or that the terms denote overlapping categories. Pet. 22. A rule that treats

---

<sup>2</sup> Respondent maintains that this Court applied the American Rule in *Cloer* because the Court “[c]ite[d] the page of the government’s brief discussing the American Rule.” Br. in Opp. 16 (quoting Pet. App. 15a). On the relevant page of its brief in *Cloer*, the government in fact urged the Court to apply the canon of construction against reading statutes to depart from the common law. See U.S. Br. at 32, *Cloer, supra* (No. 12-236). The Court declined to apply that presumption on the ground that it did not “come into play,” *Cloer*, 569 U.S. at 381, not because the language of the statute was sufficiently specific to overcome it.

the omnibus term “expenses” as insufficient contravenes this Court’s admonition that “[t]he absence of specific reference to attorney’s fees is not dispositive.” *Key Tronic*, 511 U.S. at 815.

Although respondent does not defend the en banc majority’s reliance on those other statutes, it contends that the term “expenses” is “ambiguous” and does not “specifically and explicitly” encompass the USPTO’s personnel expenses. Br. in Opp. 17 (citation omitted). But Congress was not required to use the magic word “fees.” Congress required a patent applicant, like respondent, who elects to proceed in district court under Section 145 to pay “[a]ll the expenses” of that proceeding—a term that is properly understood to encompass the personnel expenses that the USPTO incurs in defending against the lawsuit.

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

1. Respondent does not gainsay the importance of the question presented. The Federal Circuit recognized the significance of the question in acting *sua sponte* to rehear this case en banc. Pet. App. 156a-158a; see Pet. 22-23. And because the Federal Circuit has exclusive jurisdiction over appeals in Section 145 cases, see 28 U.S.C. 1295(a)(4)(C), the decision below will prevent the USPTO from obtaining reimbursement for its personnel expenses in any future Section 145 proceeding unless this Court intervenes. Under the Federal Circuit’s approach, applicants who invoke Section 145 will systematically pay less than “[a]ll the expenses of the proceedings,” 35 U.S.C. 145, requiring other fee-paying users of the USPTO’s services to subsidize indirectly significant agency expenses associated with Section 145 litigation. Pet. 16, 25.

2. The decision below is also inconsistent with the Fourth Circuit's interpretation of materially identical Lanham Act language in *Shammas*, *supra*. See 15 U.S.C. 1071(b); Pet. 23-25. Respondent acknowledges that the two decisions are inconsistent, Br. in Opp. 17, but contends that the Court's post-*Shammas* decision in *Baker Botts* "resolved this conflict," *ibid*. That argument is unpersuasive.

The Court in *Baker Botts* did not address the term "expenses," and its analysis does not suggest that the American Rule applies to Section 145. See pp. 5-6, *supra*. Although the en banc majority below viewed *Shammas* as wrongly decided, the Federal Circuit did not suggest that the intervening decision in *Baker Botts* vitiated the circuit conflict. See Pet. App. 12a-13a. And this Court in *Shammas* declined a request to grant, vacate, and remand in light of *Baker Botts*. See Pet. at 11 n.1, *Shammas v. Hirshfeld*, 136 S. Ct. 1376 (2016) (No. 15-563).

Respondent also observes (Br. in Opp. 5 n.8, 19) that the Fourth Circuit declined to apply the American Rule to 15 U.S.C. 1071(b), see *Shammas*, 784 F.3d at 223, while the dissenting Federal Circuit judges here would have construed Section 145 as authorizing the USPTO to obtain reimbursement for its personnel expenses even assuming that the American Rule applies, see Pet. App. 49a-50a. But the existence of two possible rationales for ordering reimbursement of personnel expenses in this context is a reason to grant the petition, not to deny it. Whether or not the American Rule applies, Section 145 requires a patent applicant who invokes that statute to pay "[a]ll the expenses of the proceedings," not just some of them.

\* \* \* \* \*

For the foregoing reasons and those stated in the petition for a writ of certiorari, the petition should be granted.

Respectfully submitted.

NOEL J. FRANCISCO  
*Solicitor General*

FEBRUARY 2019