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Appealing a Trademark Registration Refusal? Win or Lose, You May Have to Pay the USPTO's Legal Fees

June 10, 2015

The federal Trademark Act (the Lanham Act) instructs that if an unsuccessful trademark applicant appeals a refusal to register in federal district court, the applicant must name the Director of the U.S. Patent & Trademark Office (USPTO) as a defendant, and applicant also must pay "all the expenses" of the proceeding that are reasonable, "whether the final decision is in favor of [applicant] or not." *See* 15 U.S.C. § 1071(b)(3). "Expenses" is not defined and there is no express guidance regarding whether USPTO legal fees are included.

The Fourth Circuit recently held in a 2-1 decision that because the trademark applicant must bear the expenses regardless of result, this is not a provision requiring express Congressional intent to shift legal fees, and that such "expenses" do include USPTO legal fees. Accordingly, the applicant was ordered to pay approximately $36,000 to compensate the USPTO for its fees, based on the attorney and paralegal salaries attributable to defending the appeal. *See Shammas v. Focarino*, No. 14-1191, 2015 U.S. App. LEXIS 6732 (4th Cir. Apr. 23, 2015).

The trademark prosecution and procedural context is as follows: The Lanham Act instructs that if the U.S. Trademark Trial and Appeal Board (TTAB) affirms the USPTO's refusal to register, the applicant may appeal the TTAB's decision in either of two different venues (once one venue is selected, the other option is no longer available). First, applicant may appeal to the Federal Circuit Court of Appeals, in which case the record is not reopened and the appellate court will uphold the USPTO's factual findings unless "unsupported by substantial evidence." Second, applicant may commence an action in federal district court, in which case the prior USPTO record remains admissible, but the parties may conduct additional discovery and submit new evidence and testimony. The district court reviews all evidence *de novo* and acts as trier of fact.

The Lanham Act provision instructing that applicant must pay all USPTO "expenses" applies only to the district court *de novo* action and, thus, as the Fourth Circuit pointed out, "if the dissatisfied applicant does not wish to pay the expenses of a *de novo* civil action, he may appeal the adverse decision of the PTO to the Federal Circuit," where additional discovery is not permitted and the USPTO's financial burden likely will be less. *See id.* at *14.

In the instant action, the USPTO refused applicant's applied-for PROBIOTIC mark and concluded that the mark was generic in connection with applicant's fertilizer products. After the TTAB affirmed, applicant commenced a *de novo* action against the USPTO in district court, and the court granted the USPTO's summary judgment motion on genericness grounds. After that decision, the USPTO filed a motion for reimbursement of its expenses and applicant opposed, arguing that "expenses" did not include attorneys' fees. The district court rejected applicant's position and awarded the USPTO its full requested amount – as mentioned above, approximately $36,000. This appeal to the Fourth Circuit followed.

In its decision, the Fourth Circuit acknowledged the "American Rule" that the prevailing party generally may not recover attorneys' fees from the losing party, and that "[t]o be sure, where the American Rule applies, Congress may displace it only by expressing its intent to do so clearly and directly." *See id.* at *7. However, the court held that the Lanham Act's silence regarding legal fees in the "expenses" provision was irrelevant because "[t]he requirement that Congress speak with heightened clarity to overcome the presumption of the American Rule . . . applies only where the award of attorneys fees turns on whether a party seeking fees has prevailed at least to some degree," and that "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." *See id.* at *8-9.

With that in mind, the Fourth Circuit decided the case without regard to the American Rule, based on what it characterized as the "ordinary meaning" of the statutory language "all the expenses." *See id.* at *9. The Fourth Circuit observed that Congress "modified the term 'expenses' with the term 'all,' clearly indicating that the common meaning of the term 'expenses' should not be limited." *See id.* at *7. The court also reasoned that although the USPTO employees were salaried, reimbursement of legal fees was warranted because "the PTO nonetheless 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," and because time spent defending the appeal constituted the majority of the USPTO's costs. *See id.* at *7, *14. Finally, the court examined the legislative history and concluded that this history "indicates that [the provision] was intended as a straightforward funding provision, designed to relieve the PTO of the financial burden that results from an applicant's election to pursue the more expensive district court litigation." *See id.* at *15.

Conversely, the dissent argued that the American Rule applied, and that legal fees were not included because there was not "clear support" for that conclusion. *See id.* at *20. The dissent emphasized that a legal fees award is expressly mentioned in at least five other Lanham Act provisions, and "[b]ecause Congress made multiple explicit authorizations of attorney's fees in [the Lanham Act] – but conspicuously omitted any such authorization from [the provision in question] – we must presume that it acted intentionally and purposely in the disparate exclusion." *See id.* at *21. In the dissent's estimation, the legislative history also failed to support the majority, and the dissent noted that "a party should not be penalized for merely prosecuting a lawsuit. . . . By requiring [applicant] to pay all the expenses of the proceeding, my friends in the majority simply penalize him for seeking vindication of his trademark rights." *See id.* at *26. The dissent concluded as follows: "Absent explicit statutory language authorizing attorney's fees awards, the courts can only speculate on whether the phrase 'all the expenses of the proceeding' includes the PTO's attorney's fees. Against the backdrop of the American Rule, however, the courts are not entitled to make educated guesses." *See id.* at *26-27.

The Fourth Circuit decision can be found here.