Client Alert

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Litigants Pursuing District Court Review of Trademark Decisions Must Cover USPTO Attorneys' Fees Under "All Expenses" Provision of 15 U.S.C. § 1071(b)

On April 23, 2015, the Court of Appeals for the Fourth Circuit affirmed a decision from the Eastern District of Virginia holding that the term "all expenses" under 15 U.S.C. § 1071(b)(3) included the allocated salaries of the attorneys and paralegals of the United States Patent and Trademark Office ("PTO"). Judge Niemeyer, writing for the 2-1 majority, rejected the plaintiff-appellant's contention that the provision in question amounted to an improper fee-shifting provision that violates the "American Rule" under which each party should bear its own expenses in litigation. *Shammas v. Focarino*, No. 14-1191 (4th Cir. Apr. 23, 2015) ("Slip Opinion").

In that case of first impression, the district court plaintiff, Milo Shammas, attempted to register the mark PROBIOTIC for fertilizers. The Trademark Trial and Appeal Board ("TTAB") upheld the denial of Shammas's application, concluding that the mark was generic with respect to fertilizers or, alternatively, that the term was descriptive, but lacked secondary meaning. Shammas elected not to appeal to the Court of Appeals for the Federal Circuit, but instead filed an action before the district court for *de novo* review pursuant to 15 U.S.C. § 1071(b)(3). The district court ultimately granted summary judgment in favor of the PTO, concluding that the term PROBIOTIC was generic and that Shammas's new evidence did not alter that conclusion. *Shammas v. Focarino*, 990 F. Supp. 2d 587 (2014).

When the PTO subsequently moved for an award of "all expenses," including attorney fees, under 15 U.S.C. § 1071(b)(3), Judge Ellis granted the award, finding:

> The question whether "all expenses of the proceeding" includes attorney's fees appears to be one of first impression, as the parties have cited no published decision addressing this issue, nor has any been found. In any event, the question is not difficult to resolve; it is a straightforward case of statutory interpretation with the analysis beginning and ending with the plain language of the statute … This, the plain meaning of the term "expenses," by itself, would clearly seem to include attorney's fees. But if any doubt remains about the inclusion, it is removed by Congress's addition of the word "all" to clarify the breadth of the term "expenses." When the word "expenses" is prefaced with the word "all," it is pellucidly clear Congress intended that the plaintiff in such an action pay for all the resources expended by the PTO during the litigation, including attorney's fees.

Id. at 591.

On appeal to the Fourth Circuit, Shammas argued that Judge Ellis did not have the power to award such fees because the statute did not expressly authorize an award of attorneys' fees, so that Judge Ellis's award was effectively an impermissible fee shifting. The majority opinion rejected that contention and the position of dissenting Judge King, concluding that:

> … 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 but rather an unconditional compensatory charge imposed on a dissatisfied

> applicant who elects to engage the PTO in a district court proceeding. And we conclude that this compensatory charge encompasses the PTO's salary expenses for the attorneys and paralegals who represent the director.

Slip Opinion at 4 (emphasis in original).

The majority affirmed Judge Ellis's reasoning that "expenses" under the statute can and do encompass attorneys' fees, and further emphasized the different nature of a *de novo* review in the district court, as opposed to the nature of the more common appeal to the Federal Circuit, where expenses on the PTO may be greatly increased through discovery and development of new or additional evidence that might not have been raised in the TTAB proceedings. As Judge Niemeyer noted, "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." *Slip Opinion* at 14.

As a practical matter, this ruling reinforces the notion that trademark applicants should do their best to make a sufficient record in the PTO and TTAB proceedings. By making an appropriate record, including all potential evidence and arguments rather than only the "best" or "strongest" positions, an applicant whose application is rejected should be in a better position to follow the typical appellate path to the Federal Circuit where there is no requirement to pay "all expenses" of the PTO. If there is no need to develop further evidence, the applicant can avoid the route through the district court where that "unconditional compensatory charge" applies.

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