Commissioner of Patents and Trademarks
Patent and Trademark Office (P.T.O.)

PAOLO'S ASSOCIATES LIMITED PARTNERSHIP
v.
PAOLO BODO
90-102
September 24, 1990
***1** Filed: May 17, 1990

Cancellation No. 18,242 on petition to the Commissioner filed May 17, 1990

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DECISION

Paolo's Associates Limited Partnership (hereinafter "petitioner") has petitioned the Commissioner for review of an interlocutory order of the Trademark Trial and Appeal Board, issued in the above referenced cancellation proceeding. The order denied petitioner's motion for judgment by default and granted the motion by cancellation respondent Paolo Bodo (hereinafter "registrant") that its late-filed answer to the cancellation petition be accepted. The instant petition and the Board's action will be reviewed pursuant to Rule 2.146(e)(2), 37 C.F.R. § 2.146(e)(2).

Facts

Registration No. 1,344,564 for the mark "PAOLO'S and design" issued June 25, 1985 to registrant Paolo Bodo. The registration covers certain clothing items in class25 and restaurant services in class 42. On January 19, 1988, petitioner filed an application seeking registration of "PAOLO'S RISTORANTE and design" for restaurant services. The mark was refused registration under Section 2(d) of the Trademark Act, 15 U.S.C. § 1052(d), based on the prior registration of registrant's mark "PAOLO'S and design." The refusal was made final in an action issued February 23, 1989. [FN1] On June 21, 1989, petitioner filed a petition with the Trademark Trial and Appeal Board seeking cancellation of the registration.

On November 8, 1989, the Board notified registrant of the filing of the cancellation petition and noted that a responsive pleading was due no later than forty days thereafter. On December 18, 1989, with the consent of petitioner, registrant requested a one month extension of time to file its answer to the cancellation petition. The request was approved by an Attorney- Examiner for the Board on January 10, 1990, thus extending the due date for registrant's answer through January 18, 1990. Petitioner has acknowledged receipt of a copy of the approved request "on or about January 11, 1990."

Registrant filed its answer on February 7, 1990, 20 days after the extended due date, with a motion requesting that the late-filed pleading be accepted. Petitioner, on February 15, 1990, filed a motion requesting the Board to enter judgment by default. Each of the two parties subsequently filed arguments opposing the respective motions. A three-member panel of the Board issued a decision on April 17, 1990 granting registrant's motion to accept the late- filed answer and denying petitioner's motion for entry of judgment by default. Petitioner thereafter filed the instant petition seeking review of the Board's order.

Decision

***2** Under Rule 2.113, 37 C.F.R. § 2.113, when a petition for cancellation is filed, the Board "shall designate a time ... within which an answer must be filed." If the cancellation respondent fails to file an answer within the time set by the Board, "the petition may be decided as in case of default." Rule 2.114, 37 C.F.R. § 2.114.

In practice, the cancellation respondent that fails to file a timely answer is "in default" once the due date for the answer has passed. Notice of the default may be provided through the issuance by the Board of an order to show cause why a default judgment should not be entered. However, in a case where the cancellation petitioner files a motion for entry of judgment by default, service of the motion substitutes for the Board's notice. In either scenario, the respondent must then prove there is "good cause" not to enter judgment by default.

In the instant case, registrant had not, at the time its late answer was filed, received "notice" that it was "in default." However, registrant anticipated that it would have to establish "good cause" for avoiding entry of judgment by default. Thus, counsel for registrant explained in the motion seeking acceptance of the late answer that the failure to file an answer in timely fashion was inadvertent and the result of docketing errors. It was asserted that the facts set forth in the motion were sufficient to establish good cause not to enter judgment by default. The Board agreed and accepted the late filed answer, notwithstanding petitioner's arguments in support of entry of judgment by default. Petitioner's motion for judgment by default was consequently denied and discovery and trial dates were set.

Petitioner seeks review of the Board's order by the Commissioner on two grounds. First, petitioner asserts that the Board committed clear error when it applied the "good cause" standard of Rule 55(c) of the Federal Rulesof Civil Procedure. Petitioner asserts that registrant

instead should have been required to prove that its failure to file a timely answer was the result of "excusable neglect," as would be required if registrant's motion to accept the late answer was taken as a request to enlarge the time for filing the pleading pursuant to Rule 6(b) of the Federal Rules of Civil Procedure. Second, petitioner asserts that even under the more lenient standard of Rule 55(c), the Board abused its discretion by finding that registrant had not acted willfully in failing to file its answer in timely fashion and that petitioner had not been prejudiced by the late filing.

The Commissioner will exercise supervisory authority under Trademark Rule 2.146(a)(3), 37 C.F.R. § 2.146(a)(3), to vacate an action of the Trademark Trial and Appeal Board only where the Board has committed a clear error or abuse of discretion. Riko Enterprises, Inc. v. Lindsley, 198 USPQ 480 (Comm'r Pats.1977). For the reasons set forth below, petitioner's request that the Board's ruling be overturned must be rejected.

1. The Board Acted Properly in Applying Rule 55(c)

***3** In inter partes cases before the Board, the Federal Rules of Civil Procedure apply "wherever applicable and appropriate," unless the Rules of Practice in Trademark Cases provide otherwise. Rule 2.116, 37 C.F.R. § 2.116. The Trademark Rules do not establish a standard for determining the circumstances under which an answer to a cancellation petition may be filed late. Similarly, the Trademark Rules do not establish a standard for determining when a default or a default judgment may be set aside. Accordingly, Federal Rules 6(b), 55(c) and 60(b) all apply.

Registrant's motion requesting acceptance of its late filed answer invited the Board to consider the motion as either a "nunc pro tunc request for extension of time" to file the answer, or an anticipatory showing of good cause why judgment by default should not be entered. The motion may just as readily be viewed as a request under Federal Rule 6(b)(2) to enlarge the time for registrant to file its answer to petitioner's complaint. If viewed as a motion under Rule 6(b)(2), registrant's motion would have had to be denied by the Board, since the Board found that the docketing problems of registrant's counsel did not constitute "excusable neglect." However, the Board chose to apply Rule 55(c) rather than Rule 6(b)(2) and exercised sound judgment in doing so.

The courts and the Board are reluctant to grant judgments by default and tend to resolve doubt in favor of setting aside a default, since the law favors deciding cases on their merits. Morris v. Charnin, 85 F.R.D. 689 (S.D.N.Y.1980); Alopari v. O'Leary, 154 F.Supp. 78 (E.D.Penn.1957); Thrifty Corporation v. Bomax Enterprises, 228 USPQ 62 (TTAB 1985); Regent Baby Products Corp. v. Dundee Mills, Inc., 199 USPQ 571 (TTAB 1978).

A motion to set aside a default is addressed to the sound discretion of the court, may be granted for good cause, and "is usually granted when no substantial prejudice will result to the plaintiff and [when] the defendant, not being guilty of gross neglect, claims the existence

of a meritorious defense." Kulakowich v. A/S Borgestad, 36 F.R.D. 185, 186 (E.D.Penn.1964); See also, Seanor v. Bair Transport Company of Delaware, Inc., 54 F.R.D. 35 (E.D.Penn.1971). Further, one court has held that it is abuse of a court's discretion not to set aside a default when circumstances are such that a plaintiff would not be prejudiced, the defendant has established a meritorious defense and defendant did not engage in willful or bad faith conduct leading to default. Heleasco Seventeen, Inc. v. Drake, 102 F.R.D. 909, 917 (D.Del.1984). Finally, where it is the attorney rather than the party itself that is responsible for the failure to properly defend an action, as is true of the instant case, courts are likely to vacate a default. Trust Company Bank v. Tingen-Millford Drapery Company, Inc., 119 F.R.D. 21, 22 (E.D.N.C. Raleigh Div.1987).

***4** It has been noted "that the case law with respect to default judgments appears to be inconsistent with Rule 6(b)(2)'s provision for extending the time to file an answer ... only in cases of excusable neglect." Kleckner v. Glover Trucking Corporation, 103 F.R.D. 553, 556 (M.D.Penn.1984). Thus, even in a case when excusable neglect could not be shown and Rule 6(b)(2) would therefore have required denial of a motion for leave to file an answer out of time, thus prompting entry of a default judgment, it was held that the clear import of the case law interpreting Rules 55(c) and 60(b) would nonetheless require the judgment to be set aside on a showing of good cause as outlined above. Kleckner, 103 F.R.D. at 556.

The Kleckner court was "sympathetic to [plaintiff's] frustration with the dilatory conduct of [defendant's] counsel" and noted that if it "had the discretion to do so" it would have relied on the "egregious facts" of the case to deny defendant's motion for leave to file its answer out of time. Kleckner, 103 F.R.D. at 556. The court also specifically noted its concern that decisions interpreting Rules 55(c) and 60(b) act to severely limit the courts' "ability to 'secure the just, speedy, and inexpensive determination of every action' " because the decisions preclude application of any "substantial sanction against a defendant who fails to file an answer" within the specified time, in the absence of prejudice to the plaintiff. Kleckner, 103 F.R.D. at 556. Nonetheless, the court concluded that case law did not allow it to deny the motion for leave to file a late answer. Kleckner, 103 F.R.D. at 556.

In the instant case, direct application by the Board of the "good cause" standard of Rule 55(c) was proper and expedient and avoided what would have been a pointless application ofthe "excusable neglect" standard of Rule 6(b)(2). In fact, given the case law on the subject, it might have been clear error for the Board not to accept registrant's late answer and deny petitioner's motion for entry of judgment by default.

2. Evidence of Bad Faith and Prejudice is Lacking

Distinct from its argument urging an artificial application of Rule 6(b)(2), petitioner also argues that the Board ought to have entered a default judgment because registrant willfully refused to file an answer in timely fashion, causing prejudice to petitioner. [FN2] Specifically,

petitioner argues that registrant received actual notice that its answer was due on January 18, 1990 approximately a week before that date and its failure to file the answer must be viewed as willful and prejudicial to petitioner, which bore the expense of preparing and filing its motion for entry of judgment by default. Petitioner concludes that the Board's failure to adopt such a view constitutes an abuse of discretion.

(A) The Board Could Reasonably Have Found the Delay Was Not Proved to be Willful

***5** If the Board receives and approves a request for an extension of time to file an answer in a cancellation proceeding, then the request is stamped as "approved" and copies are mailed to the parties to the proceeding. In the instant case, the Board approved registrant's request for an extension of time on January 10, 1990. Petitioner has acknowledged that it received a copy of the approved extension request on or about January 11, 1990, and it reasons that registrant must also have received a copy on or about that date. Accordingly, petitioner argues that registrant received "actual notice" that its answer was due on January 18, 1990 approximately one week before the due date and its failure to file the answer must therefore be viewed as willful.

The Board did not abuse its discretion or commit clear error in failing to accept petitioner's contention on this point. First, registrant's receipt of a copy of the approved extension request has not been proved. Second, even if receipt is assumed, it does not necessarily follow that such receipt would actually serve as a reminder to registrant of the due date for its answer. Rather, it is entirely possible that the approved request would simply be associated with the file for the cancellation proceeding by a clerk in the office of registrant's counsel, without it ever having been reviewed by counsel, who may have relied on his docketing system to provide him with notice of the due date for his client's answer. Thus, while it may be reasonable to presume, for the sake of argument, that the Board followed its usual practice and mailed to registrant's counsel a copy of the approved extension request, and counsel's office may also be presumed to have received the copy, these presumptions do not necessarily establish actual notice to counsel of the due date for the answer.

The Board was presented with no evidence that registrant's counsel acted willfully in failing to file a timely answer and petitioner's argument on this point cannot be considered conclusive. The Board was entitled to rely on the representation of registrant's counsel that his docketing system failed him in this case. Therefore, the Board cannot be found to have acted improperly in failing to find that registrant's counsel acted willfully when he filed out of time the answer to the cancellation petition.

(B) The Board Could Reasonably Have Found Substantial Prejudice Was Not Proved

In denying petitioner's motion for entry of a default judgment, the Board stated "we believe that petitioner has incurred no substantial prejudice." Petitioner, however, argues that this finding was wrong and that it "has suffered prejudice" because of the costs it incurred in preparing and filing its motion for entry of a default judgment. [FN3]

In one case, in which defendant's motion to set aside a default was alleged by the plaintiff to have caused prejudice through delayed satisfaction of plaintiff's claim and because of the costs incurred in responding to the motion, the court held "plaintiff has suffered no substantial, let alone prejudicial, injury." General Tire & Rubber Company v. Olympic Gardens, Inc., 85 F.R.D. 66, 70 (E.D.Penn.1979). In another decision, it was noted that litigation can reasonably be expected to be expensive and, in the absence of an allegation that the defendant's delay would result in "substantially greater" litigation expenses, the fees and expenses incident to a variety of motions that resulted from defendant's delay were held insufficient to support a claim of prejudice. Kleckner, 103 F.R.D. at 556. Thus, petitioner's allegation that the costs associated with one motion are, in this case, sufficient to support a finding of prejudice could properly have been rejected by the Board.

Conclusion

***6** The Board properly applied the Trademark Rules, the Federal Rules and relevant case law in issuing the interlocutory order that is the subject of this petition. Petitioner has failed to establish any error or abuse of discretion by the Board. The petition seeking reversal of the Board's order is, therefore, denied. The cancellation file will be returned to the Board for resumption of the cancellation proceeding.

FN1. Office records now list the application as abandoned, as of September 30, 1989, for failure to respond to the final refusal. It must be noted that petitioner's filing of a cancellation petition with the Board did not serve as a response to the final Office action and did not toll the six month response period following issuance of the action.

FN2. As noted, "good cause" for avoiding entry of a default judgment can be established when (1) the defendant's delay has not resulted from an act that is willful, in bad faith, or in gross neglect, (2) the defendant's delay has not resulted in substantial prejudice to the plaintiff, and (3) the defendant has a meritorious defense. In this case, petitioner contends registrant's delay was a willful act and did result in prejudice. Petitioner has not contended that registrant has failed to assert a meritorious defense. While the cancellation petition asserts improper issuance of the registration under Section 2(f) of the Trademark Act because the mark had not been in use, the registration, in fact, did not issue under Section 2(f); use dates were asserted in the original application, and registrant denies the allegations of nonuse and improper issuance. Further, while petitioner argues in the alternative that registrant has abandoned use of its mark, registrant

has denied the allegation.

FN3. Petitioner requested the Board to require registrant to pay the relevant attorneys' fees for this motion. In the order that is the subject of this petition, the Board clearly pointed out that Rule 2.127(f), 37 C.F.R. § 2.127(f), denies the Board authority to award either attorneys' fees or costs to any party. Nonetheless, petitioner has complained in the petition that the Board should have awarded fees. The Board acted properly in denying the request for an award of fees and petitioner's resurrection of the argument in the context of this petition was superfluous and might have been avoided had petitioner noted the Rule and case law cited by the Board on this point.

21 U.S.P.Q.2d 1899

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