

Trademark Alert

Supreme Court Ruling on Potential Preclusive Effect of TTAB Decisions Raises Numerous Legal and Practical Questions

In a decision that could have a profound impact on practice before the Trademark Trial and Appeal Board (TTAB), the Supreme Court held yesterday that the TTAB's determination as to the likelihood of confusion between two marks is entitled to issue preclusion in a subsequent trademark infringement action in federal court if there are no material differences in the marks and usages at issue in the two proceedings.

Background

In 1990, B&B began using the mark SEALTIGHT to sell fasteners used primarily in the aerospace industry. Two years later, Hargis began using the mark SEALTITE to sell a line of fasteners used primarily in the construction of metal buildings.

B&B applied for and obtained a registration for its mark. When Hargis thereafter attempted to register its mark, B&B filed an opposition proceeding before the TTAB. In 2007, the Board sustained B&B's opposition, holding that there was a likelihood of confusion between the two marks. As a result, Hargis was unable to register its SEALTITE mark. Although Hargis had the option to appeal to the Federal Circuit or seek *de novo* review in a federal district court, Hargis chose not to do so.

While the TTAB proceeding was pending, B&B sued Hargis in federal court for trademark infringement, seeking damages and an injunction preventing Hargis from using its SEALTITE mark. B&B claimed that the TTAB's determination that there was a likelihood of confusion between the two marks should be entitled to issue preclusion. The trial court disagreed, holding

that the TTAB's decision was not entitled to preclusive effect because the TTAB is not an Article III court. The district court also held that the decision was inadmissible at trial because the slight probative value of the TTAB's ultimate conclusion was outweighed by the risk of jury confusion. The jury returned a verdict in favor of Hargis, finding that there was no likelihood of confusion between the parties' marks as used in commerce.

The Eighth Circuit's Decision

A divided three-judge panel of the Eighth Circuit affirmed the district court's ruling. The majority held that the TTAB opinion was not binding on the district court because (1) the TTAB and the Eighth Circuit apply different multifactor likelihood-of-confusion tests; (2) the TTAB places more emphasis on the sound and appearance of the marks and less emphasis on marketplace context; and (3) the burden of persuasion was different in the two proceedings. The Eighth Circuit also agreed that the TTAB's ultimate conclusion was properly excluded from evidence because its probative value was outweighed by the risk of juror confusion. The dissenting judge would have given preclusive effect to the TTAB's determination of likelihood of confusion, at least in cases where the TTAB had considered the marks in a marketplace context. The different analytical approach taken by the TTAB was not enough, according to the dissent, to justify relitigation of the issue.

The Supreme Court's Decision

In a 7–2 decision, the Supreme Court vacated the Eighth Circuit's decision and held that issue preclusion could apply to rulings by the TTAB, as long as the normal requirements for issue preclusion are met.

First, the Court, in an opinion by Justice Alito, while strongly indicating that applying preclusion to the rulings of an administrative agency such as the TTAB would not contravene Article III, stated that Hargis had not properly raised a constitutional challenge. The Court further stated that it presumes that when Congress establishes an administrative tribunal in which the parties have the opportunity to actually litigate issues of fact, Congress intended for the tribunal's decisions to have issue-preclusive effect, absent some indication to the contrary. While Hargis argued that such a rule would raise Seventh Amendment concerns—given the possibility of a nonjury ruling being binding in a subsequent case in which a party has the right to a jury—the Court declined to consider the issue, ruling that Hargis had waived the issue by not raising it below.

Next, the Court held that nothing in the Lanham Act's text or structure prevents the application of issue preclusion to TTAB rulings in appropriate circumstances. The Court rejected Hargis' argument that allowing for issue preclusion would bog down what are meant to be "streamlined" proceedings before the TTAB, stating that the availability of *de novo* district court review undermined the argument that Congress intended TTAB registration proceedings to be

streamlined. It also noted that the ordinary prerequisites for issue preclusion would not apply to “a great many registration decisions” issued by the TTAB and, significantly, that “if the TTAB does not consider the marketplace usage of the parties’ marks, the TTAB’s decision should have no later preclusive effect in a suit where actual usage in the marketplace is the paramount issue.”

Turning to the likelihood-of-confusion test itself, the Court held that issue preclusion could apply on a case-by-case basis. The same statutory test applies to both registration and infringement—whether two marks are “likely” to “cause confusion, or to cause mistake, or to deceive.” 15 U.S.C. §§ 1114(1) and 1052(d). That different courts apply different multifactor tests to determine likelihood of confusion does not change the fact that a single standard—likelihood of confusion—is at issue for purposes of issue preclusion. The Court further noted that the varied likelihood-of-confusion factors the TTAB and the Eighth Circuit applied were not “fundamentally different.”

The Court did recognize, however, that the TTAB and a federal court in an infringement action might apply this same likelihood-of-confusion standard to different facts. For example, where a party’s use of its mark is “materially unlike” the use listed in the registration or application—or where the “variations” in use are not “trivial”—then issue preclusion does not apply.

The Court also noted that the Eighth Circuit’s reasoning as to the burden of persuasion was incorrect; B&B, as the opposer in the TTAB and the plaintiff in the infringement action, had the burden of persuasion in both actions.

The Court reversed and remanded to the Eighth Circuit for further proceedings, directing that issue preclusion should apply if “the usages adjudicated by the TTAB are materially the same as those before the district court” and “other ordinary elements of issue preclusion are met.”

Justice Ginsburg wrote a brief concurrence emphasizing her agreement with the Court opinion that “for a great many registration decisions issue preclusion obviously will not apply.” In doing so, she underscored the crucial fact—which the Court did not—that the TTAB focuses on the marks “in the abstract and apart from their marketplace usage.” Justice Thomas, joined by Justice Scalia, dissented on the ground that Congress did not intend for TTAB decisions to have issue-preclusive effect.

The Court’s Decision Raises Numerous Difficult Practical Issues for Practitioners

As indicated by Justice Ginsburg’s concurrence, the TTAB generally does not consider marketplace realities that contradict what is disclosed in trademark applications and registrations. E.g., *Octocom Sys., Inc. v. Houston Computer Servs., Inc.*, 918 F.2d 937, 942 (Fed. Cir. 1990) (“The authority is legion that the question of registrability . . . must be determined on the basis of the identification of goods set forth in the application *regardless of what the record may reveal* as to . . . the particular channels of trade or the class of purchasers to which sales of the goods are directed.”) (emphasis added); *In re New York Football Giants, Inc.*, 2014 WL

3427342, *8 (TTAB July 3, 2014) (“[N]o consideration may be given to allegedly distinguishing features which are not part of the mark sought to be registered.”).

Given this difference in the scope of issues in registration and infringement actions, the key questions facing practitioners are, first, whether differences in channels of trade, types of customers or packaging will be considered by the infringement court to be “material” or “trivial” and, second, what is the best TTAB litigation strategy to take account of that potentiality. Compounding the problem is that the parties may not know during the TTAB proceeding what the differences are or will be—nor will they necessarily know which judge will be hearing the subsequent infringement action.

Until the law is clarified, parties may attempt to guard against the possibility of issue preclusion when litigating cases before the TTAB. Proceedings that were previously considered relatively low-stakes, given that they could affect only registration rights and not the right to use a mark in the marketplace, could be litigated by both parties more aggressively (and at greater cost). One possible strategy is to expand the record before the TTAB to bring as much information as possible as to the mark(s) in the marketplace. If, consistent with current law, the TTAB chose not to consider the evidence, that would strengthen the argument of the loser that the TTAB’s ruling should not be given preclusive effect. The possibility of issue preclusion will also affect how parties respond to unfavorable TTAB decisions. Parties may be more likely to seek review before a district court, where they would get the opportunity to obtain additional discovery, present live witnesses, and present evidence of marketplace usage not presented to or considered by the TTAB, rather than simply appealing a TTAB decision to the Federal Circuit.

The Court’s ruling also raises other questions that will likely arise in the application of issue preclusion. For example, will issue preclusion apply only to the overall confusion finding, or will it also apply to each individual confusion factor? Thus, if the TTAB finds that the marks are the same, the registrant’s mark is distinctive or the opposer acted in good faith, will a subsequent court in an infringement action be bound by those findings even if, due to differences in users or packaging, the overall TTAB likelihood-of-confusion finding is held not preclusive? By the same token, in an opposition based on dilution, if the TTAB makes a finding on one dilution-by-blurring factor (e.g., intent to create an association, or degree of distinctiveness of the famous mark), will that individual finding be given preclusive weight? Future cases will also need to address differences in the evidence that may defeat issue preclusion. For example, if the TTAB assumes that a party’s goods will travel in all ordinary channels of trade, will new evidence in an infringement action regarding actual channels of trade be enough to defeat issue preclusion?

We expect that lower courts will grapple with these issues for many years to come.

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The case is *B&B Hardware, Inc. v. Hargis Industries, Inc.*, 575 U.S. _____, 2015 WL 1291915, 2015 U.S. LEXIS 2119 (Mar. 24, 2015) (No. 13-352), *rev'g*, 716 F.3d 1020 (8th Cir. 2013), *aff'g*, 736 F. Supp. 2d 1212 (E.D. Ark. 2010).

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