

Southern District of New York: Preclusive Effect Given to TTAB Decision on Likelihood of Confusion in Trademark Infringement Litigation

Ceasri S.R.L. v. Peju Province Winery, L.P., 2017 WL 6509004 (S.D.N.Y. December 11, 2017)

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In 2015, the U.S. Supreme Court held in *B&B Hardware, Inc. v. Hargis Industries, Inc.*, 135 S.Ct 1293 (2015), that a decision of the Trademark Trial and Appeal Board of the U.S. Patent and Trademark Office (“TTAB”) on the issue of likelihood of confusion “may” preclude a federal court from reaching a contrary conclusion on the issue in a subsequent infringement action. The Supreme Court’s ruling is summarized in the following sentence from that opinion: “So long as the other ordinary elements of issue preclusion are met, when the usages adjudicated by the TTAB are materially the same as those before the district court, issue preclusion should apply.”

Because the TTAB typically does not look to real-world usages of the marks made by the parties when assessing likelihood of confusion, including uses of logos or housemarks, while such real-world usages are critical to the likelihood of confusion analysis of federal courts in infringement actions, the Supreme Court readily acknowledged that “for a great many registration decisions issue preclusion obviously will not apply because the ordinary elements will not be met.” Justice Ginsburg noted the same point in her short concurring opinion, explaining that “for a great many registration decisions issue preclusion

obviously will not apply . . . because contested registrations are often decided upon a comparison of the marks in the abstract and apart from their marketplace usage.”

Given these statements by the Court about the limited factual nature of a TTAB decision on likelihood of confusion, many practitioners wondered whether a TTAB decision on likelihood of confusion would ever be given preclusive effect in a subsequent federal court infringement litigation. We now know the answer is “yes,” as a federal court in New York, relying on *B&B Hardware*, recently gave preclusive effect to a TTAB decision on likelihood of confusion, thereby precluding the defendant from contesting plaintiff’s likelihood of confusion claim. *Cesari S.R.L. v. Peju Province Winery, L.P.*, 2017 WL 6509004 (S.D.N.Y. December 11, 2017)

The Facts of the Cesari Case

Plaintiff Cesari S.R.L. (“Cesari”) is an Italy-based winery that has sold red wine in the United States under the trademark LIANO since 2001. In August 2001, Cesari obtained a federal trademark registration for LIANO in International Class 33 for “wines.” Defendant Peju Province Winery (“Peju”) is a Northern California-based winery, which began selling white dessert wine under the trademark LIANA in 2002. In 2003, Peju applied to register LIANA for “wine” in International Class 33, but Cesari opposed the application in the TTAB, asserting likelihood of confusion with Cesari’s LIANO mark.

In July 2004, the TTAB granted Cesari’s motion for judgment on the pleadings, finding that there was a likelihood of confusion. The TTAB refused to consider Peju’s evidence that the parties’ products (i) were different kinds of wine (red vs. white), (ii) originated from different areas (Italy vs. Napa Valley), (iii) were sold to sophisticated consumers at high prices, and (iv) were sold in differing channels of trade. In doing so, the TTAB cited well-established TTAB precedent holding that in assessing likelihood of confusion, the TTAB looks only at the goods as set forth in the application, “regardless of what the record may reveal as to the particular nature of applicant’s goods, the particular channels of trade, or the class of consumers to which sales are directed.” In other words, the TTAB’s likelihood of confusion analysis presumes that the goods listed in an application move through all “reasonable trade channels” for such goods to all “usual classes of consumers” for such goods, regardless of what actually happens in the marketplace. Accordingly, the TTAB refused to register Peju’s LIANA trademark.

Peju did not appeal the TTAB’s decision to the U.S. Court of Appeals for the Federal Circuit. Instead, since a TTAB decision does not have any impact on an applicant’s ability to use its mark, Peju simply

continued to use the LIANA mark for its white dessert wine and, in fact, started expanding its operations in 2013 to add other kinds of white wine, as well as opening a new winery called “Liana Estates.” This expansion was apparently too much for Cesari, which filed a trademark infringement lawsuit against Peju in Spring 2017—*i.e.*, 15 years after Peju had started using the LIANA trademark and 13 years after the TTAB’s original decision refusing to register the LIANA mark.

Cesari filed an early motion for partial summary judgment in the lawsuit, arguing that, under *B&B Hardware*, Peju was precluded from litigating the issue of likelihood of confusion because the TTAB’s 2004 decision had already decided that issue. The Court agreed and granted the motion.

The District Court’s Opinion

The court first identified the four elements required to establish issue preclusion: (1) the issue in both proceedings are identical, (2) the issue in the prior proceeding was actually litigated and actually decided, (3) there was a full and fair opportunity for litigation in the prior proceeding, and (4) the issues previously litigated were necessary to support a valid and final judgment on the merits. The only hotly-contested element was the first element, namely, whether the TTAB had already resolved in 2004 the same issue that was currently before the district court.

Turning to this element, the court acknowledged the different kinds of facts considered in federal court versus the TTAB in determining a likelihood of confusion, explaining that a federal court is “focused on what is happening in the marketplace rather than in an application or registration,” while the TTAB on the other hand “analyzes the marks, goods, and channels of trade only as set forth in the application and in the opposer’s registration, regardless of whether the actual usage of the marks by either party differs.” In light of this crucial distinction, Peju argued that the issue resolved by the TTAB in 2004 was *not* identical to the issue before the federal court, particularly given the real-world differences between the parties’ marks and products that were not considered by the TTAB, namely different kinds of wine, different labels, sophisticated consumers, different channels of trade, and different geographic regions. But the Court rejected this argument, saying it was a “distinction without a difference.”

Specifically, the Court stated that, despite these analytical differences, the Supreme Court in *B&B Hardware* held that the TTAB’s likelihood of confusion determination is entitled to issue preclusion “[i]f a mark owner uses its mark in ways that are materially the same as the usages included in its registration application.” According to the Court, Cesari and Peju “each use their mark in ways that are

materially the same as the usages adjudicated by the TTAB,” namely, both parties use their respective marks for “wines.” The Court rejected Peju’s argument that it actually used its LIANA mark in a manner materially different than that considered by the TTAB, *e.g.*, in different trade channels to a specific and sophisticated consumer base, because each of these “narrower usages,” the Court reasoned, was “entirely encompass[ed]” by the TTAB’s 2004 analysis, which “presume[d] that the goods move through all reasonable trade channels for such goods to all usual classes of consumers for such goods.”

The Court’s holding on this point appears to misunderstand the difference between a TTAB’s determination of likelihood of confusion and that of a federal court in adjudicating an infringement claim. In short, the District Court held that the TTAB, by admittedly *not* considering the narrower usages shown by Peju, somehow *did* consider those usages because the TTAB’s broad analysis of all “reasonable trade channels” and all “usual classes of consumers” necessarily encompassed the narrower, actual marketplace usages proffered by Peju. But trademark practitioners familiar with TTAB practice know that this is not an accurate statement about how the TTAB’s likelihood of confusion analysis works. By reasoning that the parties’ actual marketplace usages are “entirely encompass[ed]” within the broader circumstances of use presumed by the TTAB, the court blurred (if not erased) the fundamental factual difference between a likelihood of confusion determination by a federal court and the TTAB—a difference the Supreme Court went out of its way to note in the *B&B Hardware* decision.

Based on this (mis)application of *B&B Hardware*, Peju was barred from defending a claim of likelihood of confusion on the basis of how it and Cesari actually use their marks in the marketplace. This result is particularly severe for Peju, since it also prevented Peju from making the compelling argument that confusion is highly unlikely given that the parties have coexisted in the marketplace for 15 years without any instances of actual confusion—an argument that was not available to Peju in the TTAB in 2004.

Lessons From the Case

The *Cesar* case serves as a stark lesson that parties in the TTAB and their counsel must take TTAB proceedings very seriously and carefully consider and determine what types of evidence to solicit and introduce in TTAB proceedings. Moreover, litigants who are unhappy with the TTAB’s decisions should

now be more inclined to appeal the decisions to the U.S. Court of Appeals for the Federal Circuit or to a federal district court. Why forego review of a TTAB decision by one federal court and take the risk down the road that a later federal court will hold that the TTAB decision has preclusive effect?

Finally, in order to avoid being precluded forever from introducing and relying on actual marketplace usages, defendants in TTAB proceedings may now be more inclined to file declaratory judgment actions of non-infringement in federal court in response to the filing of a TTAB proceeding, and ask the TTAB to suspend the proceeding while the federal court case proceeds, which is a routine course of action for the TTAB.

Primary Contacts

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