

Supreme Court rules on TTAB preclusion

The US Supreme Court last month held that TTAB litigants are not entitled to a second bite at the apple in subsequent Federal Court infringement litigation – unless it is a materially different apple. [David Donahue](#) and [Jason Jones](#) explain

1 MINUTE READ

The US Supreme Court held in *B&B Hardware, Inc v Hargis Industries, Inc* that a decision of the TTAB on likelihood of confusion may preclude a federal court from reaching a contrary conclusion in a subsequent infringement action. But the key word here is “may” and the Court added that for many registration decisions, issue preclusion will not apply. The Court’s decision takes the rule applied in some federal appellate courts and gives it effect nationwide. Whether a TTAB decision will have preclusive effect will come down to a district court judge determining whether the TTAB considered marketplace usage of the parties’ marks and, if it did, if those usages are materially the same as the usages at issue in the infringement action. While it will be interesting to see how the federal courts and TTAB apply the ruling, in the short term it is expected to affect strategy in TTAB proceedings.

The US Supreme Court recently held in *B&B Hardware, Inc v Hargis Industries, Inc*, Dkt No 13-352 (March 24 2015), that a decision of the Trademark Trial and Appeal Board of the US 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. But the key word in the previous sentence is *may* – not *must* – and the Supreme Court went out of its way to explain that “for a great many registration decisions” from the TTAB “issue preclusion obviously will not apply”.

While the decision has set the trade mark legal community abuzz, it must be initially noted that, prior to the Supreme Court’s decision, a few US federal appellate courts had recognised that in certain circumstances a decision by the TTAB could have preclusive effect in later federal court litigation (while a few other US federal appellate courts had held that there could be no such preclusive effect). As such, trade mark litigators have for years already considered the possible preclusive effect of TTAB decisions in counselling clients about the costs and benefits of instituting TTAB and federal court proceedings. Viewed in this light, the Supreme Court’s holding changes little other than taking the rule already applied in some US federal appellate courts and making it a nationwide rule.

But it surely will be interesting in the coming months to see how federal courts and the TTAB apply the Supreme Court’s holding. For the time being, the decision will affect the strategic thinking of practitioners and trade mark holders in TTAB proceedings.

Facts and procedural history of the case

The underlying dispute dates back to the mid-1990s, full of procedural twists and turns reminiscent of Charles Dickens's *Bleak House*. But the facts of the case as relevant for our purposes here are relatively straightforward. The plaintiff, B&B Hardware, has since 1993 owned a federal registration for the mark Sealtight for metal fasteners used in the aerospace industry. Meanwhile, the defendant, Hargis Industries, uses the mark Sealtite for metal fasteners in the construction industry and in 2002 applied for federal registration of Sealtite. B&B opposed registration of Sealtite in the TTAB, arguing it was confusingly similar to Sealtight. After the parties engaged in discovery and trial, the TTAB concluded that Sealtite was confusingly similar to Sealtight and could not be registered. Hargis did not exercise its statutory right to appeal the TTAB's decision to the US Court of Appeals for the Federal Circuit or a federal district court.

B&B also sued Hargis for infringement in federal district court, claiming that Hargis' use of Sealtite infringed B&B's rights in Sealtight. In light of the TTAB's finding of a likelihood of confusion, B&B argued to the district court that the TTAB's decision precluded Hargis from arguing in the district court that there was no likelihood of confusion between the marks. The district court, however, refused to give preclusive effect to the TTAB's determination. Ultimately, a jury sided with Hargis, finding no likelihood of confusion between the marks. B&B appealed to the US Court of Appeals for the Eighth Circuit, arguing that the district court should have given preclusive effect to the TTAB's likelihood of confusion decision. But the Eighth Circuit affirmed, holding that because the TTAB looks to different factors than do federal courts in making likelihood of confusion determinations, a federal court should never give preclusive effect to a TTAB decision on the likelihood of confusion issue. The Supreme Court accepted review of the case and reversed the Eighth Circuit.

The Supreme Court's decision

In short, the Supreme Court rejected the Eighth Circuit's *per se* rule that TTAB decisions can never be entitled to preclusive effect in federal court, holding instead that, in some cases, the TTAB's decision may be entitled to preclusive effect. The Supreme Court's ruling can be summarised in the following sentence from the 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."

The Supreme Court rejected the Eighth Circuit per se rule that TTAB decisions can never be entitled to preclusive effect in federal court

The "ordinary elements" of issue preclusion are set forth in the Restatement (Second) of Judgments, which states: "When an issue of fact or law is actually litigated and determined by a valid and final judgment, and the determination is essential to the judgment, the determination is conclusive in a subsequent action between the parties, whether on the same or a different claim."

The Supreme Court rejected the argument that issue preclusion should never apply because the procedures used by the TTAB are different from the procedure used in federal courts (for example, the TTAB does not allow for testimony by live witnesses). The Supreme Court noted that proceedings before the TTAB are governed largely by the Federal Rules of Civil Procedure and the Federal Rules of Evidence and, thus, there is "no categorical reason to doubt the quality, extensiveness or fairness" of the TTAB's procedures. Moreover, the Court explained that, if a losing party in the TTAB can make a "compelling showing" that the procedures in the TTAB were unfair or particularly ill-suited for its particular case, the law of issue preclusion allows for an exception to be made. But the Court noted this would be a "rare case".

Hargis also argued that issue preclusion should never apply to TTAB decisions because "the stakes for registration are so much lower than for infringement". The Court rejected this argument as well, noting that "the benefits of registration are substantial" and that "when registration is opposed, there is good reason to think both sides will take the matter seriously".

Turning to the crux of the case, the Eighth Circuit's primary basis for rejecting issue preclusion for TTAB decisions was its belief that the TTAB's legal analysis of the issue of likelihood of confusion for purposes of deciding registration is different from the analysis in federal court for infringement. Thus, according to the Eighth Circuit, the issue of likelihood of confusion for infringement purposes is *never* "actually litigated and determined" by the TTAB. The Supreme Court rejected this notion.

First, the Supreme Court held that the text of the US Trademark (Lanham) Act provides the same statutory standard to be applied by the TTAB and the federal courts, namely "the likelihood of confusion standard", and that this standard was not "fundamentally different" between the TTAB and the federal courts, notwithstanding the fact that some of the specific nuances of the standard differ between the tribunals.

Second, the Supreme Court analysed whether, in reality, the TTAB actually applies the same likelihood of confusion standard since the TTAB "typically analyzes the marks, goods and channels of trade only as set forth in the application and the opposer's registration, regardless of whether the actual usage of the marks by the parties differs". This was a closely watched facet of the case, as it is well-established that the TTAB does not typically look to the real-world use of the marks made by the parties (particularly the use made by the defendant), while marketplace conditions are *critical* to the likelihood of confusion analysis of district courts in infringement actions. The Supreme Court acknowledged this difference, stating that "unlike in infringement litigation", the TTAB's "determination that a likelihood of confusion does or does not exist will not resolve the confusion issue

with respect to non-disclosed usages” – that is, real word usages not listed in the application and registration. But the Supreme Court held that this difference did not require a *per se* rule that TTAB decisions can *never* be entitled to issue preclusion. Rather, the Court explained that this difference was just “a reason not to apply issue preclusion in some or even many cases”. The Court then went on to announce what many view as the key passage from the opinion and the rule for district courts to apply going forward:

If a mark owner uses its mark in ways that are materially the same as the usages included in its registration application, then the TTAB is deciding the same likelihood-of-confusion issue as a district court in infringement litigation. By contrast, if a mark owner uses its mark in ways that are materially unlike the usages in its application, then the TTAB is not deciding the same issue. Thus, *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* (emphasis added).

Given this rule, as well as the TTAB’s repeated statements in precedential cases that it does not look to real-world usage of the parties’ marks in making registration decisions, the Supreme Court readily explained 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 thing in her short concurring opinion, which states in full:

The Court rightly recognizes that for a great many registration decisions issue preclusion obviously will not apply. That is so because contested registrations are often decided upon a comparison of the marks in the abstract and apart from their marketplace usage. When the registration proceeding is of that character, there will be no preclusion of the likelihood of confusion issue in a later infringement suit. On that understanding, I join the Court’s opinion.

The future of TTAB and Federal Court proceedings

Going forward, the key to whether a TTAB’s decision will have preclusive effect will come down to a district court judge determining whether the TTAB considered marketplace usage of the parties’ marks and, if it did, if those usages are “materially the same” as the usages at issue in the infringement action. The Court provided little guidance as to which usages are “materially” the same and which are not, but it did provide some helpful hints.

The Court explained that “trivial variations” in the parties’ marks between the TTAB and federal court would not be sufficient to avoid preclusion

First, the Court explained that “trivial variations” in the parties’ marks between the TTAB and federal court would not be sufficient to avoid preclusion – specifically, a party cannot add “descriptive or non-distinctive elements” to its mark to avoid preclusive effect of a TTAB’s decision. Second, since the Supreme Court made clear 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”, it appears that most, if not all, decisions by the TTAB concerning intent-to-use applications or applications based on foreign registrations for marks that are not yet in use in the US will not have preclusive effect, since neither of these types of applications involve *any* use by the defendant in the US for the TTAB to examine.

But with the exception of these examples discussed above, the impact of the Supreme Court’s decision on cases where there is real-world usage of the mark by the defendant will not be known until we start to see how federal courts and the TTAB apply the decision.

As to the TTAB, we will have to wait and see if, in light of the Supreme Court’s implicit approval of the TTAB’s procedures and likelihood of confusion analysis, the TTAB will begin to consider marketplace usage of the defendant’s mark as part of its analysis. Moreover, litigants who are unhappy with the TTAB’s decisions likely will be more inclined to appeal the decisions to the US Court of Appeals for the Federal Circuit or a federal district court. Why forego review of a TTAB decision by one federal court and take the risk that a later federal court will hold that the TTAB decision has preclusive effect?

As to the federal courts, an additional legal step will be added in almost every federal court case (both pending cases and newly-filed cases) in which the parties have previously litigated a TTAB proceeding to conclusion. Specifically, the party that prevailed in the TTAB will no doubt want to argue to the district court that issue preclusion should apply because the “usages adjudicated by the TTAB are materially the same” as the ones before the district court. The losing party before the TTAB will obviously argue against such preclusion, arguing that the usages analysed the TTAB are not materially the same as the ones before the district court. It will be interesting to see how district courts begin to grapple with these arguments in the coming months and, specifically, whether courts heed the warning of the Court and Justice Ginsburg that “a great many” of the TTAB’s decisions will not be entitled to preclusive effect. For example, federal district courts will need to consider whether the following “usages” (among others) are materially different such that issue preclusion would not apply to a TTAB decision concerning an application or registration:

- use of the mark together with a house mark;
- use of the mark as part of a logo;
- use of the mark with distinctive trade dress;
- use of the mark in connection with related goods or services not specified in the application or registration or for a broader array or narrower subset of the goods or services specified in the application or registration;
- use of the mark in trade channels different from those specified in the application or registration; or

- targeting goods or services offered under the mark to classes of consumers not specified in the application or registration.

It is possible that parties in TTAB proceedings will start to treat TTAB proceedings more like federal court litigation, including spending additional time and resources on document discovery and depositions in fear of the chance that the TTAB's decision will have preclusive effect.

At a minimum, it would seem that the Court's decision will affect the strategies and actions of parties to TTAB proceedings and their counsel. Specifically, because of the analyses used by the TTAB for likelihood of confusion – for example, not reviewing real-world usages and acceptance of likelihood of confusion surveys that do not employ real-world situations – it is often easier to prove likelihood of confusion in the TTAB than it is in federal courts (as the conflicting results of the TTAB and district court proceedings in *B&B Hardware* demonstrate). As such, at least until the lower federal courts provide clear guidance as to when issue preclusion will not apply, plaintiffs may seek to obtain a favourable decision in the TTAB and then use the threat of preclusive effect in subsequent federal court litigation as leverage for settlement. On the other hand, defendants in TTAB proceedings may wish to try to expand the scope of the proceedings, including by introducing evidence of real-world usages of the parties' marks. Or, as a more drastic measure in higher-stakes proceedings, defendants in TTAB proceedings

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may 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 (something the TTAB routinely does).

Over the next few years it will be interesting to say the least to see how the *B&B Hardware* decision is applied by the TTAB, the federal courts, and trade mark litigants.



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