



Clearing Up the Confusion as to Preclusion: Supreme Court's Trademark Ruling Gives Deference to the Trademark Trial and Appeal Board (TTAB)

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B&B Hardware, Inc. v. Hargis Industries, Inc., 575 U.S. ____ (2015).

The U.S. Supreme Court on Tuesday ruled that federal court decisions on “likelihood of confusion” can be precluded by earlier findings on the same issue from the Trademark Trial and Appeal Board (“TTAB”). Following an 18-year fight between B&B Hardware Inc. and Hargis Industries Inc., the Supreme Court in a 7-2 decision held TTAB preclusion could apply on the same likelihood of confusion issue “so long as the other ordinary elements of issue preclusion are met.”

Background & Decision

Generally, issue preclusion or collateral estoppel holds that “[w]hen 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.” Restatement (Second) of Judgments §27. B&B failed to convince either the district court or the Court of Appeals for the Eighth Circuit that a prior TTAB decision finding a likelihood of confusion between B&B’s SEALTIGHT mark and Hargis’ SEALTITE mark should be given preclusive effect or even admitted into evidence. The district court refused to consider that the TTAB decision had preclusive effect since the TTAB was not an Article III court. Moreover, the district court did not admit into evidence the TTAB decision because the thirteen DuPont factors considered by the TTAB differed from the six factors considered under Eighth Circuit law in determining likelihood of confusion. The Court of Appeals for the Eighth Circuit, with one judge dissenting, affirmed. 716 F.3d 1020, 1025 (8th Cir. 2013).

Prior to the B&B decision, the circuits were generally split on whether and how to treat previous TTAB rulings with courts such as the Third and Seventh circuits giving TTAB rulings preclusive effect when the facts and legal analyses were consistent in both proceedings, and the Second Circuit giving preclusive

effect where the TTAB considered evidence about confusion “in the entire marketplace context” like a trial court. In the middle of the spectrum were other circuits that refused preclusion, but gave TTAB rulings varying amounts of deference. The Fourth Circuit, for example, considered the TTAB findings to be “powerful evidence,” and the Eleventh Circuit held that TTAB findings are entitled to “great weight,” while in the Fifth Circuit, TTAB findings were “controlling unless the contrary is established.” The Supreme Court’s decision ultimately rebuffed the Eighth Circuit’s strict approach.

While narrowing the circuit court split, the ruling still leaves the preclusion decision to the district court, rejecting only those arguments and Courts that found issue preclusion should never apply. Justice Alito specifically noted that for “a great many [TTAB] decisions issue preclusion obviously will not apply,” because the “ordinary elements” of preclusion will not have been met. The Court’s decision also limited the ruling by suggesting that the likelihood of confusion decision and preclusive effect of that decision will rise or fall on the consistency (or inconsistency) of a mark owner’s stated use of its goods and services with its actual use and, thus, whether the TTAB considered the “marketplace” usage of the parties’ marks. Writing for the Majority, Justice Alito stated 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.”

Practical Implications for Trademark Matters in the TTAB and Federal Courts

Practically, the B&B decision will have significant effects on trademark matters before both the TTAB and federal district courts. The holding could dramatically narrow the issues presented in trademark cases filed in federal district courts, where early motion practice will likely focus on the preclusive effect of the earlier TTAB ruling and the “material” consistency or inconsistency of a mark owner’s use with its application.

The ruling may both increase and decrease the types of cases brought in district court. Presumably, a trademark owner who receives an unfavorable ruling in the TTAB is much less likely to bring claims in federal court, but a prevailing party in the TTAB is more likely to bring infringement claims (or non-infringement declaratory judgment actions) if damages or an injunction are available, proceeding with greater confidence of a win on the merits of the case. In the TTAB, the decision may mean a greater emphasis on such proceedings, including an increase in the amount of discovery and evidence as parties attempt to ensure the desired outcome.

Traditionally, the TTAB has been viewed as a lower cost venue to challenge trademark registrations and applications, with the average cost through discovery measured at \$62,000 and the average cost through an entire proceeding measured at \$112,000, according to the 2013 AIPLA Economic Survey. With the B&B ruling, the stakes have been raised. Parties engaged in opposition and cancellation proceedings at the TTAB will likely be prepared to invest more in an effort to influence the chances that any ultimate decision will or will not have preclusive effect. Parties will also be more prepared to appeal TTAB decisions to the district courts, where new evidence can be brought to bear, which will increase associated costs. Other parties may avoid the TTAB and proceed directly to more expensive federal court actions, potentially removing some TTAB actions that might otherwise have been resolved at the historically lower TTAB costs. Ultimately, average costs of TTAB proceedings will undoubtedly increase.

Implications for Appeals from the TTAB

Following the B&B ruling, parties to a TTAB proceeding will now have more to consider on appeal from the TTAB. Section 107 of the Lanham Act permits a litigant either to appeal a TTAB ruling directly to the Federal Circuit, 15 U.S.C. § 1071(a)(1), or, in the alternative, to file a civil action challenging the board's ruling in a federal district court, 15 U.S.C. § 1071(b)(1). When appealing a TTAB decision of an opposition or cancellation proceeding, the appellant traditionally weighed each decision based on the differences in the two paths and the following factors: (1) the evidence, (2) the law, and (3) the issues decided. With a direct appeal to the U.S. Court of Appeals for the Federal Circuit, the review is purely appellate in nature - no new evidence may be submitted. With a civil action filed in federal district court, the review is "*de novo*" - the parties may submit additional evidence into the record in addition to the TTAB trial record. As a result, a district court can make new factual findings based on the old and new evidence considered together.

Now district courts hearing cases from the TTAB will likely give deference to the TTAB's findings, at least on a likelihood of confusion (and possibly other issues like descriptiveness). The question remains, whether a civil action challenging the board's ruling in a federal district court under 15 U.S.C. § 1071(b) will in fact be "*de novo*." From the B&B decision, that answer may be "not necessarily." The end result may be that parties will more likely seek review before a district court from a TTAB ruling where they would get the opportunity to obtain additional discovery, present live witnesses, and present evidence of marketplace usage not presented at the TTAB, rather than simply appealing a TTAB decision to the Federal Circuit.

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