March 25, 2015

The Supreme Court Holds That the Trademark Trial and Appeal Board’s “Likelihood of Confusion” Decisions Are Eligible for Issue Preclusion in Federal Court

On March 24, 2015, the Supreme Court of the United States issued an important decision in B&B Hardware, Inc. v. Hargis Industries, Inc., No. 13-352 (Mar. 24, 2015), holding that a “likelihood of confusion” decision by the Trademark Trial and Appeal Board (“TTAB” or “Board”) is binding in a subsequent trademark infringement lawsuit if the ordinary elements of issue preclusion are met and the usages of the mark adjudicated by the TTAB are materially the same as those before the federal court. Although the Court was careful to limit its ruling and noted that issue preclusion would not apply to “a great many [TTAB] registration decisions,” the opinion has potentially significant implications for a subset of trademark infringement actions, and it is likely to increase the importance of both TTAB proceedings and judicial review of TTAB decisions.

Yesterday’s decision was the latest ruling in a nearly two-decade legal battle between B&B Hardware, Inc. (“B&B”) and Hargis Industries, Inc. (“Hargis”). Both B&B and Hargis manufacture metal fasteners: B&B’s fasteners are for use in the aerospace industry, while Hargis’s fasteners are used in the construction trade. B&B registered the mark SEALTIGHT in 1993, and Hargis sought to register SEALTITE in 1996. B&B opposed SEALTITE’s registration, arguing that Hargis’s mark was confusingly similar to SEALTIGHT. In proceedings before the TTAB, the Board sided with B&B and determined that SEALTITE “so resembles” SEALTIGHT that it could be “likely to cause confusion.” Hargis did not seek judicial review of the TTAB’s decision by appealing to the United States Court of Appeals for the Federal Circuit or by filing a new action in a district court, as it had the right to do under the Lanham Act.

Meanwhile, B&B also sued Hargis for trademark infringement in the United States District Court for the Eastern District of Arkansas. The TTAB issued its decision in the registration proceeding before the district court ruled on likelihood of confusion in the infringement action. Thus, B&B argued that Hargis could not contest likelihood of confusion in the district court because of the preclusive effect of the Board’s decision. The district court disagreed on the ground that the TTAB is not an Article III court. The jury ruled in favor of Hargis and found no likelihood of confusion. On appeal, the United States Court of Appeals for the Eighth Circuit, “though accepting . . . that agency decisions can ground issue preclusion,” affirmed the district court’s ruling on three grounds: (1) “the TTAB uses different factors than the Eighth Circuit to evaluate likelihood of confusion,” (2) the “TTAB placed too much emphasis on the appearance and sound of the two marks,” and (3) different parties bear the burden of persuasion before the TTAB and before the district court. The Eighth Circuit’s decision stood alone in announcing a categorical rejection of
TTAB preclusion, while other circuits had either allowed application of preclusion in certain circumstances or accorded deference to TTAB rulings.

The Supreme Court reversed and remanded the case for further proceedings. In a decision written by Justice Samuel Alito and joined by six of the Court’s members, the Court held that: under existing Supreme Court precedent, an agency’s decision can ground issue preclusion; nothing in the Lanham Act bars the preclusive effect of TTAB decisions where the ordinary elements of issue preclusion are met because the Board proceeding “is a separate proceeding to decide separate rights,” rather than a prerequisite to, or an exhaustion requirement for, an infringement action in federal court; and there is no categorical reason why TTAB registration decisions can never meet the ordinary elements of issue preclusion, namely that “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 Court rested its decision on three principal reasons. First, the Court disagreed with the Eighth Circuit’s ruling that issue preclusion could not apply because the TTAB and courts in the Eighth Circuit apply different factors when assessing the likelihood of confusion. The Court held that federal law provides a single standard for registration and infringement—likelihood of confusion—and it does not matter if different tribunals “apply that one standard differently.” In any event, the Court concluded that the factors applied by the TTAB and the courts are “not fundamentally different.” Thus, as long as the usages in a TTAB proceeding are materially the same as the marketplace usages considered in an infringement litigation, the Board and the district court are deciding the same likelihood of confusion issue. Second, the Court determined that issue preclusion is not categorically improper because the TTAB uses different procedures than those used by district courts. Rather, when evaluating whether issue preclusion applies, “the correct inquiry is whether the procedures used in the first proceeding were fundamentally poor, cursory or unfair.” Here, the Court ruled that “there is no categorical ‘reason to doubt the quality, extensiveness, or fairness,’ of the agency’s procedures” and that they are “[i]n large part . . . exactly the same as in federal court.” For example, “the TTAB has adopted almost the whole of Federal Rule of Civil Procedure 26,” although the TTAB bars live testimony in its proceedings. Third, the Court rejected the argument that because “the stakes for registration are so much lower than for infringement . . . issue preclusion should never apply to TTAB decisions.” Emphasizing the “substantial” benefits of TTAB registration, which “is a precondition for” a mark’s “[i]ncontestability,” the Court ruled that “[w]hen registration is opposed, there is good reason to think that both sides will take the matter seriously,” and that “registration decisions can be weighty enough to ground issue preclusion.”

In his dissenting opinion joined by Justice Antonin Scalia, Justice Clarence Thomas expressed doubt that “Congress intended administrative preclusion to apply to TTAB findings of fact in a subsequent trademark infringement suit,” based on the history of administrative preclusion and both the express language and “several features” of the Lanham Act, including that the Act confers limited authority on the TTAB and provides for judicial review of the Board’s decisions. Justice Thomas also concluded that “the majority’s
application of administrative preclusion raises serious constitutional concerns,” because allowing an agency decision to have preclusive effect in a later proceeding before a federal court may violate Article III. The majority had declined to address this constitutional question since the issue was not before the Court.

As Justice Alito acknowledged in his opinion, and Justice Ruth Bader Ginsburg echoed in concurrence, at the end of the day, the Court’s decision may have an impact on only a relatively small subset of trademark actions. Most TTAB decisions fail “the other ordinary elements of issue preclusion,” because the trademark “usages adjudicated by the TTAB” in registration proceedings often are not “materially the same” as the actual marketplace uses at issue before the district court. Nonetheless, by raising the possibility that a TTAB decision may preclude a district court from litigating a likelihood of confusion issue, the Court’s opinion increases the importance of TTAB actions and requires litigants to re-evaluate their strategies in such proceedings. Indeed, parties to a TTAB registration action should assess whether, given the uses to be adjudicated by the Board, there is a potential for issue preclusion in a later litigation. Perhaps most significantly, the Court’s ruling reminds litigants of the importance of seeking judicial review of TTAB decisions. Trademark litigants faced with an unfavorable TTAB registration decision have always had the option to seek de novo review of the Board’s decision in either the U.S. Court of Appeals for the Federal Circuit or a district court. The Court’s decision underscores the importance of exercising that right.

* * *

This memorandum is not intended to provide legal advice, and no legal or business decision should be based on its content. Questions concerning issues addressed in this memorandum should be directed to:

Lynn B. Bayard 212-373-3054 lbayard@paulweiss.com
Lewis R. Clayton 212-373-3251 lclayton@paulweiss.com
Jay Cohen 212-373-3163 jaycohen@paulweiss.com

Leslie Gordon Fagen 212-373-3231 lfagen@paulweiss.com
Andrew G. Gordon 212-373-3543 agordon@paulweiss.com
Catherine Nyarady 212-373-3532 cnyarady@paulweiss.com

Associates Elana Beale and Hallie Goldblatt contributed to this client alert.