

U.S. SUPREME COURT OVERTURNS EIGHTH CIRCUIT DECISION REGARDING ISSUE PRECLUSION IN TRADEMARK CASE

By David Lisch and Carol Wilhelm,
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By Definition

Issue Preclusion or **Collateral Estoppel** (CE) prevents a person from relitigating an issue.

“Allowing the same issue to be decided more than once wastes litigants’ resources and adjudicators’ time, and it encourages parties who lose before one tribunal to shop around for another. The doctrine of collateral estoppel or issue preclusion is designed to prevent this from occurring.”

– JUSTICE ALITO

On March 24, 2015, the U.S. Supreme Court issued an opinion that a court give preclusive effect to Trademark Trial and Appeal Board (TTAB) decisions if the ordinary elements of issue preclusion are met.

In This Case

Petitioner B&B Hardware, Inc. (B&B) owns the registered mark SEALTIGHT.

Respondent Hargis Industries, Inc. (Hargis) attempted to register the mark SEALTITE.

Background

Under the Lanham Act, an applicant can seek to register a trademark through an administrative process within the United States Patent and Trademark Office (USPTO).

If, however, another party believes that the USPTO should not register a mark because it is too similar to its own, that party can oppose registration before the TTAB.

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When Hargis tried to register the mark SEALTITE, B&B brought an opposition action before the TTAB.

The USPTO generally cannot register a mark which “so resembles” another mark “as to be likely, when used on or in connection with the goods of the application, to cause confusion, or to cause mistake, or to deceive.” 15 U.S.C. §1052(d).

The **TTAB evaluates the likelihood of confusion** by applying some or all of the 13 factors set out in *In re E. I. DuPont DeNemours & Co.*, 476 F.2d 1357 (CCPA 1973).

In this case, **the TTAB agreed with B&B that Hargis’ SEALTITE should not be registered** with the USPTO.

However:

The Lanham Act, in addition to permitting a party to object to the registration of a mark, **allows a mark owner to sue for trademark infringement.**

Thus, while the TTAB was considering whether SEALTITE should be registered, **B&B and Hargis were litigating the SEALTIGHT versus SEALTITE trademark infringement dispute in federal court.**

In this unusual situation, identical parties were seeking resolution of the trademark issue in two different tribunals. In both the **registration proceedings** and the **infringement litigation**, the central question was essentially the same:

Does a likelihood of confusion exist between the mark sought to be protected (B&B SEALTIGHT) and the other mark (Hargis SEALTITE)?

In the course of events, the district court did not apply issue preclusion and continued forward with infringement litigation. The case was tried **and a jury returned a verdict for Hargis, finding no likelihood of confusion.**

Why did the district court not apply issue preclusion? Its reasoning was that the TTAB is not a court established under Article III of the Constitution, and therefore, issue preclusion did not apply.

B&B appealed.



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The Eighth Circuit Court of Appeals **rejected issue preclusions and upheld the district court's decision, ruling for Hargis SEALTITE**, based on the following:

1. The TTAB used different factors than the Eighth Circuit used to evaluate likelihood of confusion;
2. The TTAB placed too much emphasis on the appearance and sound of the two marks;
3. Hargis (applicant for SEALTITE) bore the burden of persuasion before the TTAB, while B&B bore it before the District Court. [Note: the Court later states this is an incorrect conclusion, and that B&B, the party opposing registration, bore the burden, just as it does in the infringement action.]

On appeal to the U.S. Supreme Court, the question ultimately became:

Should the district court have applied issue preclusion to the TTAB's decision that Hargis SEALTITE is confusingly similar to B&B SEALTIGHT?

According to the decision delivered by Supreme Court Justice Alito wrote:

"... the Eighth Circuit rejected issue preclusion for reasons that would make it difficult for the doctrine ever to apply in trademark disputes."

"We disagree with that narrow understanding of issue preclusion. Instead, consistent with principles of law that apply in innumerable contexts, we hold that **a court should give preclusive effect to TTAB decisions if the ordinary elements of issue preclusion are met.**"

"We therefore reverse the judgment of the Eighth Circuit and remand for further proceedings."

Holding

While the Court answers a number of questions, the bottom line and summary holding is that a court should give preclusive effect to TTAB decisions "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."

In explaining when issue preclusion applies at all, the Court relies on Restatement (Second) of Judgments §27, which states that the general rule is "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."

In reasoning why issue preclusion may apply to a decision by the TTAB, the Court cites various ways in which TTAB proceedings are "similar to a civil action in a federal district court," including use of the Federal Rules of Civil Procedure and Evidence and the fact that the party opposing the registration (similar to the plaintiff in an infringement action) bears the burden of proof.

Additionally, the Court cites various reasons and case law as to why Congress intended that issue preclusion apply to an agency (e.g., the TTAB) determination or ruling.

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(It is of interest to note that Justice Thomas and Justice Scalia **strongly dissent** against the presumption by the Court majority that Congress intended for administrative agencies to have a preclusive effect in Article III courts.)

In its ruling, the Court concludes by 7-2 majority that “likelihood of confusion for purposes of **registration** is the same standard as likelihood of confusion for purposes of **infringement**” for three reasons:

1. The operative language is essentially the same;
2. The likelihood-of-confusion language that Congress used in the Lanham Act provisions has been central to trademark registration since at least 1881 (using a “likely to cause confusion” standard for registration);
3. The district court can cancel registration during infringement litigation, just as they can adjudicate infringement; therefore there is no reason to think that two separate standards of likelihood of confusion should be applied.

Notably, the Court employs these reasons to overcome arguments against issue preclusion:

“...the TTAB applying DuPont factors versus the Eighth Circuit applying similar but non-identical factors in *SquirtCo v. Seven-Up Co.*, 628 F.2d 1086, 1091 (CA8 1980), stating ‘the factors are not fundamentally different, and ‘[m]inor variations in the application of what is in essence the same legal standard do not defeat preclusion.’”

Interestingly, the Court seems to reiterate that Hargis (applicant for SEALTITE) did not employ its opportunity for further review from the TTAB with an appeal to the federal circuit, or a new action in the district court (in which a *de novo* review would be employed).

While the Eighth Circuit held that issue preclusion did not apply because the TTAB relied too heavily on “appearance and sound,” the Court said this was error because an aggrieved party still has the option to seek judicial review if too much weight has been given to certain factors by the TTAB. “The fact that the TTAB may have erred, however, does not prevent preclusion.”

In concurrence with the majority Court, Justice Ruth Bader Ginsburg gives one example when issue preclusion regarding likelihood of confusion **will not apply: when a contested registration is decided upon “a comparison of the marks in the abstract and apart from their marketplace usages.”**

On remand, the Eighth Circuit on August 25, 2015 applied the Supreme Court’s holding, remanding the case to the District Court with instructions to give preclusive effect to the TTAB’s likelihood of confusion decision and determine appropriate relief for B&B.

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Our Takeaway

The Court seems to have taken a broad approach, going further than simply stating that issue preclusion *may* apply; rather, stating that issue preclusion *will* apply “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.”

On its face, this decision appears to have the capacity to transform TTAB practice. Inter partes proceedings before the TTAB have traditionally been seen as a less aggressive and/or less expensive way to address potential trademark conflicts. (For example, the TTAB has no authority to issue injunctions or to award damages.)

The TTAB has also been utilized to address “purely” registration issues, e.g., keeping the register clear of similar marks even though use in the marketplace is acceptable under agreed circumstances.

In the short term, *B&B* raises the specter of a TTAB decision, previously affecting only matters of the trademark register, being parlayed into an injunction and damage award in district court.

The degree to which *B&B* affects TTAB practice lies squarely in the interpretation of:

“...when the usages adjudicated by the TTAB are materially the same as those before the district court.”

On this issue, the Court did not give significant guidance.

The issue is not straightforward, because the **TTAB does not require an applicant to file for a mark in the exact format in which it is presented in the marketplace or to specify the channels of trade or types of consumers to whom the product or service bearing the mark are sold.**

Specifically, an applicant may file for a mark in “standard characters,” which is not limited to any particular depiction of the mark, and the resulting registration is deemed to encompass all depictions of the mark regardless of the font style, size, or color.

Similarly, if the application does not contain any limitation on trade channels or customer categories, the goods/services would be deemed to flow through all channels to all consumers. As such, when analyzing and comparing marks, **the TTAB could make assumptions that the marks *could* be presented in similar manner and sold in the same channels to the same consumers and are, therefore, likely to cause confusion. Hopefully, Justice Ginsburg’s reference (in her concurrence)**



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to the comparison of marks “in the abstract” alludes to this kind of analysis and signals that issue preclusion would not apply in such circumstance.

Another unclear consequence of *B&B* is whether refusals of applications that are appealed to the TTAB ex parte (by one party only), could be used in district court against an unsuccessful applicant.

A trademark examiner will refuse a trademark application if he believes it is confusingly similar to an already-registered mark. This is referred to as a “Section 2(d)” refusal. The applicant may appeal the Section 2(d) refusal to the TTAB, in which case the applicant and examiner submit evidence and fully brief the issue. Arguments may be presented if the applicant requests, and the TTAB issues its final judgment.

If the applicant loses, i.e., the TTAB finds that the applicant’s mark is confusingly similar to the prior registrant’s mark, the issue of likely confusion arguably would have been actually litigated, albeit, with the examiner espousing the position of the registrant, and there would be a final judgment.

Under *B&B*, could the registrant then use the ex parte TTAB decision as a basis for issue preclusion in a trademark infringement action against the applicant in district court?

These unanswered questions indicate that trademark owners must evaluate more carefully the risks now associated with opposing another party’s application or seeking to cancel another party’s registration, and even with filing a trademark application in the first place.

At this stage, it appears that the most certain way to ensure that issue preclusion does not inadvertently derail your trademark strategy is to consider the following:

- a) Apply for marks only in standard characters.
- b) Pursue inter partes (both parties included) proceedings only, if at least one of the marks is in standard characters; otherwise, start in district court.
- c) If you receive a Section 2(d) refusal, do not appeal to the TTAB unless your mark is in standard characters, and if it is not, only if you are willing to further appeal the TTAB decision if you lose.



If you have questions about Intellectual property matters, please call your attorney or the Intellectual Property Section of Gray Reed & McGraw, P.C. at 713.986.7213. It is always our pleasure to be of service to you.

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