

Supreme Court Rules That Trademark Opposition Decisions by TTAB
Can Provide Basis For Issue Preclusion in Federal Court
by David R. Todd

On March 24, 2015, the Supreme Court delivered its ruling in *B & B Hardware, Inc. v. Hargis Industries, Inc.* The Court ruled that decisions of the Trademark Trial and Appeal Board (“TTAB”) in trademark opposition proceedings can, but will not necessarily, provide the basis for issue preclusion in a federal court trademark infringement action.

B&B uses the trademark SEALTIGHT. It registered that mark in 1993 for “threaded or unthreaded metal fasteners and other related hardwar[e]; namely, self-sealing nuts, bolts, screws, rivets and washers, all having a captive o-ring, for use in the aerospace industry.”

In 1996, Hargis sought to register the trademark SEALTITE for “self-piercing and self-drilling metal screws for use in the manufacture of metal and post-frame buildings.” B&B filed an opposition to Hargis’s registration on grounds that there was a likelihood of confusion. Specifically, B&B argued that the marks appear and sound similar, that both companies have an online presence, that the largest distributor of fasteners sells both companies’ products, and consumers sometimes call the wrong company to place orders. Hargis argued that the companies sell different products, for different uses, to different types of consumers, through different channels of trade. The TTAB ruled in favor of B&B, and Hargis did not appeal from or otherwise seek judicial review of the TTAB’s decision.

In the meantime, B&B had also sued Hargis in federal court for trademark infringement, alleging that Hargis’s use of its mark was likely to cause confusion. After the TTAB’s decision, B&B argued in the infringement case that Hargis could not contest likelihood of confusion based on the preclusive effect of the TTAB’s decision. The district court disagreed, reasoning that the TTAB is not an Article III court. The jury returned a verdict for Hargis, finding no likelihood of confusion. On appeal, the Eighth Circuit concluded that issue preclusion can arise from non-Article III tribunals, but that the TTAB decision here was not entitled to preclusive effect because (1) the TTAB uses different factors than the Eighth Circuit to evaluate likelihood of confusion, (2) the TTAB in this case placed too much emphasis on the appearance and sound of the two marks, and (3) Hargis bore the burden of persuasion before the TTAB whereas B&B bore it before the district court.

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The Supreme Court first explained that the district court's reasoning was incorrect: "[I]ssue preclusion is not limited to those situations in which the same issue is before two courts." Rather, "where a single issue is before a court and an administrative agency, preclusion also often applies." In fact, the Court's precedents had explained that because such preclusion was "well established" at common law, courts may presume that Congress has legislated with the expectation that issue preclusion will apply "except when a statutory purpose to the contrary is evident."

The Court next rejected Hargis's argument that authorizing issue preclusion here would raise serious constitutional questions arising from the Seventh Amendment or from Article III and that the Court should therefore avoid interpreting the Lanham Act to allow such preclusion. But the Court rejected this constitutional avoidance argument. As to the Seventh Amendment, the Court observed that "the right to a jury trial does not negate the issue-preclusive effect of a judgment, even if that judgment was entered by a juryless tribunal." Moreover, even though agencies did not exist at common law, the Court's Seventh Amendment precedent "does not strip competent tribunals of the power to issue judgments with preclusive effect," and such a result "would not seem to turn on the nature of the competent tribunal." As to both the Seventh Amendment and Article III, the Court observed that its cases have been clear that "absent a contrary indication, Congress presumptively intends that an agency's determination...has preclusive effect." The Court reasoned that because its cases have made it so clear that issue preclusion is available for agency decisions, "there is no ambiguity...to sidestep through constitutional avoidance." The Court expressly declined to address whether the application of issue preclusion was actually unconstitutional, because Hargis had not gone so far as to make that argument.

The Court next analyzed whether there is an "evident" reason expressed in connection with the Lanham Act why Congress would not want TTAB decisions to receive preclusive effect. The Court first determined that the availability of a *de novo* district court action to review a TTAB decision was not such a reason, and concluded that Hargis had not identified any such reason.

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The Court then addressed whether there is a “categorical reason” why registration decisions could never meet the ordinary elements of issue preclusion. The Court explained that “for a great many registration decisions issue preclusion obviously will not apply,” but that this “does not mean that none will.”

The Eighth Circuit had ruled that issue preclusion would never be applicable because the TTAB considers different factors in analyzing likelihood of confusion than the Eighth Circuit does. The Court acknowledged that there is no issue preclusion if two actions involve “application of a different legal standard,” but the Court stated that, here, the same standard applies to both registration and infringement: likelihood of confusion. The fact that different factors are used to evaluate that standard does not change the fact that there is a single standard. The Court acknowledged that there was “some force” to Hargis’s argument that the registration provision asks whether marks “resemble” another mark so as to be likely to cause confusion, whereas the infringement provision asks whether the “use in commerce” of a mark is likely to cause confusion:

“It is true that ‘a party opposing an application to register a mark before the Board often relies only on its federal registration, not on any common-law rights in usages not encompassed by its registration,’ and ‘the Board typically 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....”

The Court concluded that Hargis’s argument fell short, however, because “it mistakes a reason not to apply issue preclusion in some or even many cases as a reason never to apply issue preclusion.” In other words: “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.” And “if the TTAB does not consider the marketplace usage of the parties’ marks, the TTAB’s decision should ‘have no later preclusive

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effect in a suit where actual usage in the marketplace is the paramount issue.”

The Court also rejected the Eighth Circuit’s reasoning that issue preclusion could not apply because the TTAB had relied too heavily on “appearance and sound” in this case. The Court explained that “[t]he fact that the TTAB may have erred...does not prevent preclusion.” This is because “issue preclusion prevent[s] relitigation of wrong decisions just as much as right ones.”

The Court next addressed the fact that the TTAB uses procedures that differ from those used by district courts. It explained that “[p]rocedural differences, by themselves, do not defeat issue preclusion” and that the correct inquiry is “whether the procedures used in the first proceeding were fundamentally poor, cursory, or unfair.” The Court concluded that “[i]t is conceivable...that the TTAB’s procedures may prove ill-suited for a particular issue in a particular case,” but the law of issue preclusion already accounts for those “rare” cases where a showing of unfairness can be made. The different procedures here are not a reason to categorically eliminate issue preclusion.

The Court also rejected the Eighth Circuit’s reasoning that the parties bore different burdens of proof in the two proceedings. In fact, B&B, as the opposer, bore the burden of persuasion in the TTAB proceeding, and it also bore the burden of persuasion in the infringement action.

Finally, the Court rejected Hargis’s argument that “the stakes for registration are so much lower than for infringement that issue preclusion should never apply to TTAB decisions.” The Court acknowledged that issue preclusion may be inapt in some cases if “the amount in controversy in the first action [was] so small in relation to the amount in controversy in the second that preclusion would be plainly unfair.” Again, however, the Court observed that this exception does not categorically apply to every TTAB registration decision. The Court then provided reasons why the benefits of registration are substantial and therefore “there is good reason to think that both sides will take the matter seriously.”

The Court concluded with this statement of its holding: “So long as the other ordinary

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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.” Justice Ginsburg concurred in the Court’s opinion, highlighting the Court’s statement that “for a great many registration decisions issue preclusion obviously will not apply.” She explained that this is so because “contested registrations are often decided upon ‘a comparison of the marks in the abstract and apart from their marketplace usage’” and that in such cases, there will be no issue preclusion. The lower courts will now be asked to decide whether that this particular case is one in which issue preclusion should apply.

Justice Thomas dissented, joined by Justice Scalia. In Justice Thomas’s view, the Court’s previous precedents announcing a presumption in favor of the applicability of issue preclusion to agency decisions were poorly supported. He argued that the relevant history undercuts the statement in those precedents that administrative preclusion was widely accepted at common law, and therefore Justice Thomas would have rejected the presumption that before those precedents Congress had legislated against a backdrop of administrative preclusion. Since the Lanham Act was enacted long before the Court’s precedents announcing such a presumption, Justice Thomas concluded that Congress did not enact the Lanham Act against such a background. Moreover, Justice Thomas saw features in the Lanham Act indicating that Congress did not intend for preclusion to apply to the decisions of the TTAB, including the inability of the TTAB to address questions of infringement and the Lanham Act’s provision for *de novo* judicial review. Justice Thomas also concluded that the majority’s application of administrative preclusion “raises serious constitutional concerns.” Justice Thomas stated: “Because federal administrative agencies are part of the Executive Branch, it is not clear that they have power to adjudicate claims involving core private rights” inasmuch as “some historical evidence suggests that the adjudication of core private rights is a function that can be performed only by Article III courts.” Justice Thomas observed that registration has the characteristics of a quasi-private right, which might be adjudicated by administrative agencies, whereas the right to exclusive use of a trademark implicated in a trademark infringement action appears to be a private property right that must be decided by Article III courts. Thus, Justice Thomas concluded that the Court’s interpretation raises

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two potential constitutional concerns: (1) it may deprive a trademark holder of the opportunity to have a core private rights adjudicated in an Article III court, and (2) it may effect a transfer of a core attribute of the judicial power to an executive agency. As noted above, the Court expressly stated that it was not deciding these constitutional questions, only that they were not sufficient to invoke the constitutional avoidance doctrine and override the clear statement in its previous precedents that issue preclusion was available for the decisions of administrative agencies.

Thus, it not only remains to be seen whether the ordinary elements of issue preclusion are satisfied in this case, but also whether a future litigant will raise the constitutional challenges raised by Justice Thomas and left open by the Court.