

Practice Update

B&B Hardware: Sometimes, Not Always, Not Never

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The Supreme Court issued its second trademark ruling of the term on Tuesday, ruling that federal court decisions on “likelihood of confusion” sometimes can be precluded by earlier rulings about trademark registrability issued from the Trademark Trial and Appeal Board (“TTAB” or “the Board”). Petitioner B&B Hardware, Inc. (“B&B”) and respondent Hargis Industries, Inc. (“Hargis”) both manufacture and sell metal fasteners, although directed towards different industries. This dispute arose when Hargis applied to register its trademark SEALTITE with the United States Patent and Trademark Office (“USPTO”); B&B had a pre-existing mark for SEALTIGHT.

The history of the B&B litigation was somewhat tortured. B&B had filed an infringement action that was dismissed on the ground that its mark SEALTIGHT is merely descriptive and had not then acquired secondary meaning. Because of that determination regarding validity, the district court did not consider the issue of likelihood of confusion. B&B’s registered SEALTIGHT mark remained in force, however, solely because Hargis did not counterclaim for cancellation of that registration. The Eighth Circuit affirmed.

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Hargis subsequently petitioned to cancel B&B's SEALTIGHT registration on grounds of abandonment. That cancellation proceeding was dismissed because the registration by then was more than five years old, incontestable and cancellation was precluded by § 14 of the Lanham Act.

B&B opposed Hargis's application to register SEALTITE for "self-piercing and self-drilling metal screws for use in the manufacture of metal and post-frame buildings" based on B&B's prior registration for SEALTIGHT for "threaded or unthreaded metal fasteners and other related hardwar[e]; namely, self-sealing nuts, bolts, screws, rivets and washers, all having captive o-ring, for use in the aerospace industry." Invoking a number of its well-established likelihood of confusion factors, such as whether the marks resemble each other, how the two parties' products listed in the application and registration are used and whether customers were actually confused, the Board sided with B&B, and sustained the opposition. Despite a right to do so, Hargis did not seek judicial review in either the Federal Circuit or district court of the Board's decision that the marks were likely to cause confusion.

While the Board proceeding was pending, B&B sued Hargis for trademark infringement in district court. Before the district court ruled on likelihood of confusion, the Board announced its decision in the opposition. B&B then argued that Hargis could not contest likelihood of confusion because of the preclusive effect of the Board's decision. The district court disagreed, reasoning that the TTAB's decision could not have preclusive effect on an Article III court. The Eighth Circuit accepted, for the sake of argument, that an agency's decision could bind an Article III court, but refused to give preclusive effect to the TTAB decision because it found that courts and the TTAB evaluate likelihood of trademark confusion differently and address different issues.

Thus, the questions before the Supreme Court were whether an agency decision can ever ground issue preclusion, and specifically whether the district court in this case should have applied issue preclusion, to the TTAB's decision. The Court answered both questions affirmatively.

Citing *Astoria Fed. Sav. & Loan Assn. v. Solimino*, 501 U.S. 104, 108 (1991), the Court first reasoned 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." The Court clarified that issue preclusion applies not only to those situations in which the same issue is before two courts, but also to the findings of administrative agencies. Citing *University of Tenn. v. Elliott*, 478 U.S. 788, 797-798 (1986), the Court found that "[w]hen an administrative agency is acting in a judicial capacity and resolves disputed issues of fact properly before it which the parties have had an adequate opportunity to litigate, the courts have not hesitated to apply res judicata to enforce repose."

Hargis argued against giving the TTAB's decisions preclusive effect on a number of grounds. First, Hargis argued that to do so would implicate the Seventh Amendment and Article III of the Constitution. Relying on the Restatement and the Court's own precedent, the Court first held that issue preclusion is not limited to Article III courts and presumptively applies to administrative agency decisions unless a statutory purpose to the contrary is evident. The Court also noted 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.

The also Court rejected Hargis's statutory argument that the Lanham Act should be read narrowly as not authorizing issue preclusion from agencies, holding that nothing in the text or structure of the Lanham

Act rebuts the presumption in favor of giving preclusive effect to TTAB decisions – or, as the Court wrote, there was no “‘evident’ reason why Congress would not want TTAB decisions to receive preclusive effect.” Recognizing that some courts reasoned that the ability to seek judicial review of TTAB decisions in a *de novo* district court decision implied that Congress did not want unreviewed Board decisions to ground issue preclusion, the Court rejected that interpretation, finding that ordinary preclusion law teaches that if a party does not challenge an adverse decision, that decision can have preclusive effect in other cases, even if it would have been reviewed *de novo*.

The next question addressed by the Court was whether Congress would want TTAB decisions to receive preclusive effect, even in those cases in which the ordinary elements of issue preclusion are met. The Court found nothing in the Lanham Act that would bar the application of issue preclusion. Although the text of the Lanham Act refers to conflicting marks “resembling” each other in a registration context, and refers to conflicting marks “used in commerce” in an infringement context, the Court found that textual distinction to be unimportant.

Hargis also argued that registration is incompatible with issue preclusion because the TTAB uses different procedures than those used by the district courts. The Court, however, reasoned that procedural differences, by themselves, do not defeat issue preclusion. The Court saw no categorical reason to doubt the quality, extensiveness, or fairness of Board decisions. The Federal Rules of Civil Procedure usually apply. Discovery may be more narrow at times, and the lack of live testimony may be seen as an impediment to presenting a case, but “[t]he ordinary law of issue preclusion, however, already accounts for those ‘rare’ cases where a ‘compelling showing of unfairness’ can be made.” Slip. op. at 20.

Finally, and as the Eighth Circuit viewed it, the primary objection to issue preclusion flowing from a TTAB proceeding is that the Board considers somewhat different factors in a registration scenario than courts do in a trademark infringement litigation. The Court agreed that “issues are not identical if the second action involves application of a different legal standard, even though the factual setting of both suits may be the same.” Additionally, the Court acknowledged this important difference between the USPTO and the court’s consideration of the issue of likely confusion. That said, the Court observed that “[a]lthough many registrations will not satisfy those ordinary elements [of issue preclusion], that does not mean that none will.” Slip. op. at 15.

The Court disagreed with the Eighth Circuit that the Board applies a different standard in evaluating the similarity between two marks. Rather, in the Court’s view, the Board does not always consider facts concerning actual market usage of the marks at issue.

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.” Slip op. at 18, quoting 6 McCarthy §32:101, at 32-246.

The Court’s opinion consistently emphasized a party’s recourse to appealing the Board’s decisions to the district court for *de novo* review. It is in this forum and in this manner that a party can introduce arguments and evidence concerning differences in marketplace use.

In her concurrence, Justice Ginsburg recognized that, for a great many registration decisions, issue preclusion will not apply because most contested registrations are decided upon a comparison of the marks in the abstract, rather than in the actual marketplace.

Justice Thomas, joined by Justice Scalia, dissented largely on precedential and historical grounds. First, the dissent noted that the authority upon which the Court relied did not stand unambiguously in favor of administrative preclusion. *In Astoria*, for example, the Court did not actually find in favor of administrative preclusion, though it mentioned in dictum general approval for giving preclusive effect to administrative determinations “where Congress has failed expressly or impliedly to evince any intention on the issue.” The dissent cited a number of cases in which the Court did not recognize administrative tribunals as similar enough to Article III courts to warrant particular deference, citing the “well settled doctrine that res judicata and equitable estoppel do not ordinarily apply to decisions of administrative tribunals.” *Churchill Tabernacle v. FCC*, 160 F.2d 244, 246 (1947).

The dissent also disagreed with the majority’s decision to apply administrative preclusion in the context of the Lanham Act. Indeed, the dissent reasoned that Congress must not have intended to give preclusive effect to Board decisions because the Act authorized the Board only to determine and decide the respective rights of trademark registration. Congress thereby withheld any authority from the TTAB to determine the right to use a trademark or to decide broader questions of infringement or unfair competition. Giving preclusive effect to the Board’s decision on likelihood of confusion was described as an end-run around the statutory limitation on its authority, as all parties agree that likelihood of confusion is the central issue in a subsequent infringement suit. Finally, Congress deviated from the usual practice of affording deference to the fact findings of an initial

tribunal in affording *de novo* review of the TTAB's decision.

The Supreme Court's *B&B* decision clarifies the weight of TTAB decisions on the issue of likelihood of confusion. The potential preclusive effect of Board decisions makes the stakes even higher for both parties in any opposition or cancellation proceeding before the Board. Trademark practitioners should take note of *B&B* and its consequences for their clients' trademark prosecution and enforcement strategies. What is unclear, and left for further TTAB proceedings and federal court litigations, is the practical effect of *B&B* – in light of the usual stay of TTAB proceedings in light of infringement litigation and the unique litigation history in *B&B* – and whether the exceptions to issue preclusion from the TTAB will be broad – as suggested by Justice Ginsburg – or infrequently found.

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