

Litigation Alert: U.S. Supreme Court Raises the Stakes in Trademark Proceedings at the TTAB

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This week, the Supreme Court issued an important ruling that will significantly impact the way parties handle trademark disputes in the United States. The opinion in *B&B Hardware, Inv. v. Hargis Industries, Inc.*, 575 U.S. ____; No. 13-352, 2015 WL 1291915 (Mar. 24, 2015), addressed whether decisions of the Trademark Trial and Appeal Board, or “TTAB,” are binding on district courts addressing the same issues in subsequent litigation, under the doctrine of issue preclusion. Although the Court recognized that, “for a great many registration decisions, issue preclusion obviously will not apply,” the Court held that “[s]o 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, issue preclusion should apply.” As a result, parties may find themselves bound by TTAB determinations concerning likelihood of confusion in subsequent trademark infringement actions. This decision has significant ramifications for U.S. trademark litigation and raises the stakes for trademark owners involved in *inter partes* disputes before the TTAB.

Background

In the United States, the Lanham Act (15 U.S.C. § 1051 *et seq.*) provides the statutory framework for registration and protection of trademarks. Under the Lanham Act, an applicant can seek to register a trademark through an administrative process with the United States Patent and Trademark Office, or PTO. If a trademark examiner believes that the registration is warranted, the mark is published in the Official Gazette of the PTO. After publication, any party who believes that “he would be damaged by the registration” may file an opposition with the TTAB. After the TTAB determines whether to register the mark by sustaining or overruling the opposition, a party can seek review of the decision by filing an appeal with the United States Court of Appeals for the Federal Circuit, or by filing a new action in district court. The TTAB’s

decision does not bind the district court judge who will resolve the registration issue *de novo*.

The Lanham Act also creates a federal cause of action for trademark infringement. Traditionally, both TTAB cases and district court infringement claims have turned on the issue of “likelihood of confusion” between marks. Unlike TTAB cases, however, where the sole issue is typically whether a party will get a trademark registration, in infringement cases parties can seek to enjoin use of a mark, seize infringing goods, and collect damages and attorneys’ fees. Historically, many trademark practitioners have perceived TTAB proceedings to be a form of “litigation light,” where costs tend to be significantly lower. The difference in costs reflected the reality that, in the United States, the right to a trademark registration has never been commensurate with the right to use a mark in the marketplace.

While a district court’s determination of likelihood of confusion can bind the TTAB, courts have reached differing conclusions as to whether the reverse is true. In the B&B case, the district court found that an earlier TTAB decision (which found that the marks were too similar), was *not* binding. After a jury found no likelihood of confusion, the Eighth Circuit affirmed the judgment. The Eighth Circuit based this decision in part on the ground that the TTAB applies different standards and procedures than federal courts, including applying different factors when assessing the key issue of likelihood of confusion.

The Supreme Court reversed this decision, and remanded for further proceedings.

Issue Preclusion Applies in Administrative Proceedings

The Court began its reasoning with a refresher course on the doctrine of collateral estoppel, or issue preclusion. As a general rule, the Court noted 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 two parties.” The Court explained that allowing different tribunals to decide the same issue more than once wastes time and money “encourages parties who lose before one tribunal to shop around for another. Collateral estoppel, or “issue preclusion,” serves to prevent this from occurring.

The Court reiterated that these ordinary rules of issue preclusion can apply equally to administrative agencies acting in a judicial capacity when the parties have had an adequate opportunity to litigate. Judicial proceedings before the TTAB are no different. Nothing in the text or structure of the Lanham Act sets TTAB proceedings apart or otherwise bars the application of issue preclusion in trademark cases. The Court rejected an argument that preclusion should not apply to the TTAB because parties may spend more time and energy before the TTAB, thus bogging down the registration process. The Court concluded that, if a streamlined process in all registration matters was particularly dear to Congress, it would not have authorized *de novo* challenges for those “dissatisfied” with TTAB decisions.

A TTAB Decision Must Satisfy the Ordinary Elements of Issue Preclusion

While the Court acknowledged that “for a great many registration decisions issue preclusion obviously will not apply because the ordinary elements will not be met,” it rejected the argument that trademark registration in the TTAB is categorically incompatible with issue preclusion.

First, the Court concluded that the same standard for likelihood of confusion applies for the purposes of both registration and infringement. Although the TTAB and district courts may apply different factors to assess the likelihood of confusion, these factors are not fundamentally different, and the “[m]inor variations in the application of what is in essence the same legal standard do not defeat preclusion.” While the Court conceded that there may be cases where the TTAB fails to balance factors properly, this does not prevent preclusion, because the losing party can seek judicial review of the erroneous decision.

Second, the Court rejected Hargis’s argument that differences in TTAB procedures render registration decisions incompatible with issue preclusion. Because the TTAB procedures are largely the same as in federal court, the Court found no “categorical reason to doubt the quality, extensiveness and fairness of the agency’s procedures” (internal quotations and citations omitted).

Third, the Court rejected the argument that the stakes in TTAB disputes — whether a registration will issue — are so much lower than for infringement cases that issue preclusion should never apply. The Court reasoned that trademark registrations convey important rights, and that the stakes in TTAB disputes are sufficiently high to support issue preclusion.

While the Supreme Court’s opinion will likely create a significant shift in how district courts view prior TTAB rulings, the Court emphasized that there are many situations where TTAB decisions on likelihood of confusion will not give rise to issue preclusion. Notably, the Court acknowledged that issue preclusion is improper where a party uses its mark in ways materially different than those identified in its trademark application. In this situation, the issue preclusion is improper because the “the TTAB does not consider the marketplace usage of the parties’ marks.” Justice Ginsburg’s concurring opinion reinforces this point, explaining that preclusion will often not apply in subsequent infringement suits because “contested registrations [at the TTAB] are often decided upon ‘a comparison of the marks in the abstract and apart from their marketplace usage.’”

Takeaways

This decision unquestionably raises the stakes for TTAB proceedings. While both the majority opinion and concurrence note that many TTAB decisions *may* not bind district courts, this may offer little comfort to trademark litigants deciding on a litigation strategy.

Parties deciding whether and how to proceed at the TTAB must accept the risk that a decision there could be binding on issues that affect injunctive relief and damages in a subsequent lawsuit. This may cause parties to invest more resources on TTAB disputes. Given the increased risk of issue preclusion, parties

may feel pressure to fight more aggressively at the TTAB, likely resulting in more discovery, more motion practice, and more appeals or actions for de novo review.

Faced with increased costs, potential delays, and uncertainty at the TTAB, more parties will likely consider filing cases in federal district court — either for affirmative infringement claims or for declaratory judgment of non-infringement — and seeking to stay TTAB proceedings. District courts not only afford litigants the opportunity to present live testimony and oral argument, but they possess broader authority to compel necessary discovery, including depositions of foreign parties.

For litigants who opt to stay at the TTAB, where the mark at issue is important to the business, it is now more important than ever to get clarity in decisions from the TTAB. Litigants must do their best to build a record that establishes the basis and scope of the TTAB’s likelihood of confusion determination. Parties should attempt to make a record that reflects whether the TTAB determined likelihood of confusion based on a comparison of the marks in the abstract or on actual marketplace usage.

In addressing the stakes of TTAB litigation, the Court in *B&B Hardware* concluded that “[w]hen registration is opposed, there is good reason to think that both sides will take the matter seriously.” This may not have been true before this decision, but it certainly will be in the future.

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