

Insights: Alerts

Understanding B & B Hardware and Strategic Responses to the Opinion

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Introduction

The U.S. Supreme Court's opinion in *B & B Hardware Inc. v. Hargis Indus.*, No. 13–352, 2015 WL 1291915 (U.S. March 24, 2015), is already generating a significant amount of commentary, in large part because of the perception that the decision changes the landscape for trademark law. The consensus appears to be that trademark owners must significantly reevaluate how they handle TTAB matters. In fact, however, the actual holding of the case breaks little new ground except in the Fifth, Eleventh, and District of Columbia Circuits, is consistent with the rules applied by several other regional circuit courts for many years, and, while in the short term may create some apprehension, in the long run will have little impact on litigants who recognize the potential advantages and risks of the opinion and act accordingly.

B & B Hardware: The Litigation

The primary question before the Supreme Court was what preclusive effect should be given to a finding by the TTAB after an inter partes proceeding. Some argued for the now-defunct bright-line rule applied by the Fifth, Eleventh, and D.C. Circuits that issue-preclusion principles should never apply to the Board's decisions. See *Aktieselskabet AF 21. Nov. 2001 v. Fame Jeans Inc.*, 525 F.3d 8, 12-13 (D.C. Cir. 2008); *Freedom Sav. & Loan Ass'n v. Way*, 757 F.2d 1176, 1180-81 (11th Cir. 1985); *Am. Heritage Life Ins. Co. v. Heritage Life Ins. Co.*, 484 F.2d 3, 9-10 (5th Cir. 1974). Nevertheless, this bright-line rule had not been followed by a number of other circuits, which had recognized there are some circumstances under which issue preclusion is appropriate. For example, the Second Circuit held in one pre-*B & B Hardware* opinion that a TTAB determination of likelihood of confusion could have preclusive effect if the Board looked at the same marketplace factors as those taken into account by a district court. See *Levy v. Kosher Overseers Ass'n*, 104 F.3d 38, 42 (2d Cir. 1997). The Third Circuit took a different, but not necessarily inconsistent, approach: Under its pre-*B & B Hardware* case law, issue preclusion was appropriate if the parties had "vigorously litigated" the same issue in a prior proceeding before the TTAB and the requirements for issue preclusion otherwise were met. See *Jean Alexander Cosmetics, Inc. v. L'Oreal USA, Inc.*, 458 F.3d 244, 249 (3d Cir. 2006); cf. *EZ Loader Boat Trailers, Inc. v. Cox Trailers, Inc.*, 746 F.2d 375, 377-78 (7th Cir. 1984) (holding Board determinations entitled to preclusive effect when affirmed by Federal Circuit); *Flavor Corp. of Am. v. Kemin Indus.*, 493 F.2d 275, 281 (8th Cir. 1974) (holding Board

determinations entitled to preclusive effect when affirmed by Court of Customs and Patent Appeals). In light of this preexisting case law at least generally consistent with the Supreme Court's holding, the sharp response to that holding is surprising.

The actual holding of *B & B Hardware* is that TTAB decisions *may* have a preclusive effect in federal trademark litigation "so long as the other ordinary elements of issue preclusion are met." 2015 WL 1291915, at *14. In the Eighth Circuit, those elements include the following:

- (1) the party sought to be precluded in the second suit must have been a party, or in privity with a party, to the original lawsuit;
- (2) the issue sought to be precluded must have been the same as the issue involved in the prior action;
- (3) the issue sought to be precluded must have been actually litigated in the prior action;
- (4) the issue sought to be precluded must have been determined by a valid and final judgment; and
- (5) the determination in the prior action must have been essential to the prior judgment.

(These factors are consistent with (although not necessarily identical to) with those applied in other circuits.) Because the test for issue preclusion will not always be satisfied, the Court's holding is far from a per se ruling finding that TTAB decisions always have preclusive effect, and indeed, the Court's opinion acknowledges that preclusion may not be appropriate under certain circumstances.

The sharp response to the decision flows from the Supreme Court's rejection of the argument that the processes followed by the TTAB necessarily prevents the TTAB's disposition of questions before it from satisfying the standard prerequisites for issue preclusion. It is true that in most instances the TTAB does not consider the realities of the marketplace when evaluating the likelihood of confusion between marks and instead limits its review to the goods and services listed in the application or registration at issue and the normal trade channels and customers for those items. It is unfortunate that the Court's opinion failed to recognize that the TTAB decision at issue in *B & B Hardware* does appear to rest on a full consideration of the marketplace. Indeed, that consideration was so nuanced the TTAB concluded that there was a likelihood of affiliation or sponsorship confusion, even if there was no likelihood of confusion with respect to source. It would have been helpful if Justice Alito's opinion for the Court had acknowledged that the TTAB decision at issue might well merit preclusive effect because of the unusual breadth of its analysis. Instead, the Court's opinion addressed the issue in more general terms: "[I]f 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.'" *B & B Hardware*, 2015 WL 1291915, at *11 (quoting 6 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* § 32:101 (4th ed. 2014)).

There is another reason why the decision has promoted such strong criticism. The Court glossed over another part of the case that undoubtedly was at the heart of the dispute. While the opinion notes that the underlying dispute had been going on for more than 20 years, it picks up the tale only when *B & B Hardware* opposed Hargis's efforts to register its mark. What neither the Court nor the concurring or dissenting opinions bring out is that the parties' dispute began when *B & B Hardware* brought an infringement action against Hargis, which ended in a jury finding that *B & B Hardware*'s mark was invalid because it was descriptive and lacked secondary meaning. The case was dismissed, and that disposition was affirmed by the Eighth Circuit.

Inexplicably, Hargis did not counterclaim for the cancellation of *B & B Hardware*'s registration in that earlier infringement litigation. When Hargis finally did pursue the cancellation of *B & B Hardware*'s registration, the

TTAB held that cancellation was not available because the registration had passed its fifth anniversary. Therefore, when B & B Hardware opposed Hargis's application at the time the application was finally published more than 10 years after its filing, it resulted in a decision in which the TTAB noted this was an unusual case where B & B Hardware might not be able to enjoin Hargis but could block it from receiving an registration. It is therefore understandable why both the district court and the Eighth Circuit were so intent to not give preclusive effect to the TTAB decision at issue, especially after a second jury found there was no likelihood of confusion between the parties' marks. As the Supreme Court ultimately did, the Eighth Circuit held that issue preclusion should apply to TTAB decisions if the usual criteria are satisfied. To avoid an application of issue-preclusion principles in the case before it, however, the Eighth Circuit grounded its decision on the different legal standards applied by the TTAB in deciding likelihood of confusion.

Whatever differences there may be in the multifactored tests for likelihood of confusion applied by the TTAB and the regional circuit courts, it is difficult to argue that those differences necessarily bar issue preclusion if a likelihood-of-confusion determination by the Board is relitigated later in a regional circuit. Indeed, courts routinely have rejected the argument that, merely because the issue of likely confusion has been decided under one circuit's multifactored test, it is not binding in a subsequent case between the same parties merely because the second case is filed in another circuit. The reason for this outcome should be apparent: If the rule was otherwise, a losing plaintiff in an infringement action in the District of Massachusetts under First Circuit law could avail itself of Second Circuit law by refiling its case the following day in the Southern District of New York; if that second case resulted in another finding of noninfringement, the plaintiff could then cross the Hudson River and pursue a third action in the District of New Jersey under Third Circuit law. *See generally Ga.-Pac. Consumer Prods. LP v. Four-U-Packaging, Inc.*, 701 F.3d 1093, 1011 (6th Cir. 2012). These considerations explain why the Supreme Court pointed out repeatedly that issue preclusion cannot be ignored solely because it gives effect to the wrong result. *See B & B Hardware*, 2015 WL 1291915, at *12. A party victimized by a poor result can take advantage of the appellate process, but the doctrine of preclusion should apply even when the underlying result seems wrong.

That some practitioners historically have given the significance of TTAB determinations short shrift is even more surprising in light of the rule followed by several circuits that, even if issue preclusion is not appropriate, a TTAB finding is entitled to at least some degree of deference as a matter of administrative law if that finding is relitigated on appeal. A party dissatisfied with the outcome of a Board proceeding can appeal either to the Federal Circuit or to a federal district court. There is a wide difference of opinion among the lower courts on the nature of the proper standard of review in such an appeal and the deference to be given to the TTAB's conclusions. Some (but not necessarily all) opinions from the Second, Third, Fifth, Sixth, Ninth, Eleventh, and D.C. Circuits have held that a TTAB determination should not be overturned in the absence of evidence to the contrary "carrying thorough conviction." *See Material Supply Intern., Inc. v. Sunmatch Indus.*, 146 F.3d 983, 990 (D.C. Cir. 1998); *Goya Foods, Inc. v. Tropicana Prods., Inc.*, 846 F.2d 848, 852-53 (2d Cir. 1988); *Freedom Sav. & Loan Ass'n v. Way*, 757 F.2d 1176, 1181 (11th Cir. 1985); *Wells Fargo & Co. v. Stagecoach Props., Inc.*, 685 F.2d 302, 306 (9th Cir. 1982); *Am. Heritage Life Ins. Co. v. Heritage Life Ins. Co.*, 484 F.2d 3, 10 (5th Cir. 1974); *Century Distilling Co. v. Cont'l Distilling Co.*, 106 F.2d 486, 489 (3d Cir. 1939); *Nieman v. Plough Chem. Co.*, 22 F.2d 73, 75 n.4 (6th Cir. 1927). (The thorough conviction standard historically has been applied more often in patent, rather than in trademark, cases, but precisely what constitutes evidence of thorough conviction has largely gone unexplained by courts in both contexts.) Moreover, although the Seventh Circuit and the Federal

Circuit have departed from their earlier adherence to this standard, those courts have done so in favor of the rule under the Administrative Procedure Act that agency determinations should be upheld if they are supported by substantial evidence. See *CAE, Inc. v. Clean Air Eng'g, Inc.*, 267 F.3d 660, 674-76 (7th Cir. 2001); *On-Line Careline, Inc. v. Am. Online, Inc.*, 229 F.3d 1080, 1085 (Fed. Cir. 2000). In contrast, the Fourth Circuit has held that no deference is warranted if either party introduces new evidence or testimony. See *Swatch AG v. Beehive Wholesale, LLC*, 739 F.3d 150, 156 (4th Cir. 2014). The second question in the cert. petition in *B & B Hardware* accepted by the Supreme Court addressed this issue, but the Court's opinion on the merits ignored that question. As a consequence, in the context of a direct appeal of a TTAB decision, the lower federal courts are apparently free to continue applying whatever standard they used prior to the Court's opinion.

Strategic Considerations Arising from the Supreme Court's Opinion

Whether they were fully aware of their ability to do so, prevailing parties in many jurisdictions have always been able to take advantage of their victories in later litigation. Nevertheless, in light of the Supreme Court's confirmation of that ability, potential or actual litigants before the Board may wish to consider the following points:

- The Court's holding favors senior users where the likelihood-of-confusion inquiry is concerned. Because of the different methodology followed by the TTAB, which includes the acceptance of survey stimuli in the form of marks typed out on white cards, it is often easier to prove likely confusion before that tribunal than before a federal district court.
- If immediate injunctive relief is not necessary or if the availability of that remedy is in question, a senior user might rationally choose to pursue relief only before the Board and not do anything creating an actionable case and controversy that might support a declaratory judgment action for noninfringement. Assuming the senior user prevails before the Board, its victory might well give it an insurmountable advantage if it later resorts to an infringement action for injunctive and monetary relief.
- If a Board proceeding turning on the issue of likely confusion is going badly for a plaintiff, the plaintiff should consider filing an infringement action and requesting the Board to suspend the action before it. (Of course, it is possible that the Board may be less inclined to grant motions to suspend, particularly later in proceedings, with its decisions now perceived as meriting greater deference from federal courts.
- Particularly if the nature of the goods or services at issue means that a Board determination will appear to turn on a "real world" assessment of likelihood of confusion, potential defendants defending against allegations of likely confusion now have an incentive to get those disputes before federal district courts, which take real-world considerations into account in the liability inquiry and which more closely manage their dockets.
- Defendants may find the additional discovery and the differing survey formats available in federal court to be additional factors weighing in favor of that forum.

In addition to these issues, one strategic consideration stands out: Of the issues that might be resolved by a Board opinion, a determination of the confusing similarity between two marks is the one least likely to be given preclusive effect in later litigation. Instead, the Board's findings on all other issues within its jurisdiction, such as priority of rights, distinctiveness, functionality, and abandonment may be far more difficult to escape. This is because, in contrast to the Board's treatment of the likelihood-of-confusion inquiry and as noted by Justice

Ginsburg's concurring opinion in *B & B Hardware*, the Board applies the same test and reviews the same types of evidence as courts do when addressing these inquiries. Any party engaged in litigation before the Board on issues other than likely confusion should evaluate its chances of success on a running basis and position itself for a possible district court action if those chances appear to be diminishing and if the greater availability of discovery might help produce a different result.

Finally, an actual or potential losing party before the Board should consider the possibility that, even if issue preclusion does not apply, courts otherwise inclined to defer to the Board's resolution of particular questions might do so more frequently after the Supreme Court's failure, deliberate or otherwise, to answer the second question presented in *B & B Hardware*. Courts may also be swayed by the Court's apparent vote of confidence in the Board's abilities to decide these disputes. Astute parties will also recognize that the still-intact split in the circuits provides an ongoing opportunity for forum shopping in addition to the strategic question of when litigation before the Board is advisable.

The Court's decision in *B & B Hardware* may not have broken any new ground in many jurisdictions, but it will certainly prompt potential litigants before the Board to evaluate their strategic options more carefully. While predictions that the cost of all TTAB proceedings will sharply increase as a result of the decision are more likely to be hyperbole than accurate predictions of the future, certain proceedings could become more involved and complex (and therefore more costly), and the opportunities for strategic counseling almost certainly will go up.

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