

**SCOTUS: *B&B Hardware, Inc. v. Hargis Industries, Inc.*:
Supreme Court Holds That Preclusive Effect Should Be Given to
Trademark Trial and Appeal Board Decisions if the Elements of Issue Preclusion Are Met**

On March 24, 2015, the Supreme Court of the United States held that preclusive effect should be given to Trademark Trial and Appeals Board decisions if the ordinary elements of issue preclusion are met.¹

I. Background and Procedural History

The Lanham Act creates two adjudicative mechanisms to help protect trademarks. First, a trademark owner may register its mark with the Patent and Trademark Office (“PTO”). If the PTO believes that registration is warranted, the mark is published in the PTO’s Official Gazette. Any person who believes that he or she may be damaged by the registration may then file opposition proceedings, which occur in front of the Trademark Trial and Appeals Board (“TTAB”). Second, a trademark owner may bring suit for infringement in federal court.

Petitioner B&B Hardware, Inc. (“B&B”) registered mark SEALTIGHT for metal fasteners for use in the aerospace industry in 1993. Several years later respondent Hargis Industries, Inc. (“Hargis”) attempted to register mark SEALTITE for metal screws used in the construction of buildings. B&B opposed the registration, leading to many years of litigation and confusion about which mark, if any, should be registered. In 2002 Hargis obtained publication of the SEALTITE mark in the Official Gazette, prompting opposition proceedings by B&B in which B&B argued that SEALTITE should not be registered because it is confusingly similar to SEALTIGHT. After considering several of the *DuPont* factors,² the TTAB decided that the most critical factors were similarities of the marks and similarity of the goods and determined that SEALTITE as used for metal screws could not be registered because it “so resembles” SEALTIGHT when used for fasteners. Hargis did not seek judicial review of this determination in the Federal Circuit or District Court.

While B&B was opposing Hargis’s mark in front of the TTAB, B&B had also sued Hargis for infringement in federal court. After the TTAB decided that SEALTITE could not be registered, B&B argued to the District Court that Hargis could not contest likelihood of confusion because of the preclusive effect of the TTAB decision. The District Court disagreed on the basis that the TTAB is not an Article III court and found no likelihood of confusion. On appeal, the Eighth Circuit accepted that an agency decision could ground issue preclusion. However, on these facts the court held that issue preclusion did not apply because the factors used by the TTAB to analyze likelihood of confusion differed from the factors used by the Eighth Circuit, the TTAB placed too much emphasis on the appearance and sound of the marks, and Hargis bore the burden of persuasion before the TTAB while B&B bore the burden in front of the District Court.

II. The Court’s Decision

First, the Supreme Court considered whether an agency decision could ever ground issue preclusion and ultimately held that it could. The general rule is that when an issue of fact or law that is essential to the judgment is actually litigated and determined by a valid and final judgment, the determination is conclusive in a subsequent action between the parties. Relying in part on its prior decision in *Astoria Federal Savings & Loan Association v.*

¹ *B&B Hardware, Inc. v. Hargis Industries, Inc. d/b/a Sealite Building Fasteners et al.*, No. 13-352, slip op. (March 24, 2015) available at http://www.supremecourt.gov/opinions/14pdf/13-352_c0n2.pdf.

² The 13 DuPont factors originate from the *In re E.I. DuPont DeNermours & Co* decision; some or all of these factors are evaluated by the TTAB in making registration decisions. 476 F.2d 1357 (CCPA 1973).

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Solimino, the Court pointed out that this is not limited to situations in which the same issue is before two courts, but can apply when 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.”³ However, there exists a notable exception where “statutory purpose to the contrary is evident.”

Next, the Court questioned whether there was an “evident’ reason” why Congress would not want TTAB decisions to have preclusive effect where the elements of issue preclusion are met. In rejecting the argument that the ability to seek *de novo* judicial review of TTAB registration decisions in district court infers that Congress did not want TTAB decisions to ground issue preclusion, the Court emphasized that registration is not a prerequisite to an infringement action, but a separate proceeding to decide separate rights. Further, the streamlining of proceedings was not a priority in the creation of the registration process, as evidenced by the option of *de novo* district court review.

Finally, the Court looked to whether there was any categorical reason why registration decisions can never meet the ordinary elements of issue preclusion. Addressing the argument that the TTAB considers different factors than the federal courts to assess the likelihood of confusion, the Court found that the factors are “not fundamentally different”, and if the standard for registration and infringement is the same, parties cannot escape preclusion by litigation in a new tribunal that applies the standard differently, as this would “encourage the very evils that issue preclusion helps to protect.”⁴

The Court then turned to the question of whether the likelihood of confusion standard is the same in both registration and infringement, concluding that it is for three reasons. First, the operative language in the registration and infringement standards is “essentially the same,” as both standards contain the “likely” and “to cause confusion” wording.⁵ Second, the likelihood of confusion language in the Lanham Act provisions has been “central” to trademark registration for over 100 years.⁶ Third, the Court found it persuasive that district courts can cancel registrations during infringement litigation, as well as adjudicate infringement in suits regarding registration decisions. When deciding both simultaneously, a district judge would apply the same standard of likelihood of confusion.

Hargis argued that the text is not the same because the registration standard asks whether the marks “resemble” one another, while the infringement provision looks to the marks’ “use in commerce.”⁷ While the Court accepted that this argument has merit, given that the TTAB analyzes marks only as set forth in the application without consideration to whether the actual usages of the marks differs, it found that this was not a reason to categorically ban the application of issue preclusion to TTAB decisions because it did not indicate the use of a different standard from district courts. Instead, the focus should be on materiality. If a mark owner uses its mark in ways that are “materially unlike the usages in the application,” then the TTAB is not deciding the same issue and the decision should not have preclusive effect.⁸ However, in the cases where the actual usage of a mark is materially the same as the usages included in the registration application, the TTAB is deciding the same issue and such a decision should be eligible for issue preclusion if the other elements are met.

³ *Id.* at 9-10 (citing 501 U.S. 104 (1991)).

⁴ *Id.* at 16.

⁵ *Id.*

⁶ *Id.*

⁷ *Id.* at 17.

⁸ *Id.* at 18.

The Court also rejected Hargis’s argument that registration is incompatible with issue preclusion because the TTAB and district courts use different procedures. As a general matter, procedural differences alone do not defeat issue preclusion. The TTAB’s procedures are largely the same as those of federal courts. Where the TTAB procedures are not proper for a particular issue in a case, because they bar live testimony or introduction of material evidence, the law of issue preclusion offers a solution – a court will not apply issue preclusion where it finds a “compelling showing of unfairness.”⁹ Further, the Eighth Circuit erred in holding that Hargis bore the burden of persuasion before the TTAB. In fact, B&B bore the burden in both opposing registration and proving infringement. Finally, the Court rejected the notion that the stakes for registration are so much lower than for infringement that issue preclusion should never apply. Pointing to the substantial and important benefits of registration, such as prima facie evidence of the mark’s validity and precondition for incontestability, as well as the option of *de novo* review of TTAB registration decisions, the Court found that these decisions are weighty enough to ground issue preclusion.

Justice Ginsburg wrote a brief concurrence joining in the Court’s opinion on the understanding that preclusion of the likelihood of confusion issue will not apply where a registration is decided upon a comparison of the marks in the abstract apart from their marketplace usage. Justice Thomas, joined by Justice Scalia, dissented on the basis that the common law does not support a general presumption in favor of administrative preclusion and the Lanham Act provides no support for preclusion. The dissent also discussed constitutional concerns of administrative preclusion, particularly that this could in effect transfer an attribute of the judicial power to an executive agency.

III. Significance of the Decision

With this decision, the Court has clarified that an administrative agency decision can have preclusive effect in district court if the ordinary elements of issue preclusion are satisfied. Specifically, where the usages adjudicated by the TTAB are materially the same as those before the district court, issue preclusion should apply. By setting aside the procedural differences in proceedings before the TTAB and district court, the Court has placed the burden on the challenger to make a showing of compelling unfairness. *B&B Hardware* may open the door to giving other agencies’ administrative decisions preclusive effect and heighten the stakes for determinations made by administrative entities where there are parallel governmental or private proceedings.

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If you have any questions about the issues addressed in this memorandum or if you would like a copy of any of the materials mentioned, please do not hesitate to call or email Charles A. Gilman at 212.701.3403 or cgilman@cahill.com; Jon Mark at 212.701.3100 or jmark@cahill.com; John Schuster at 212.701.3323 or jschuster@cahill.com; or Cynthia O. Smuzynska at 212.701.3832 or csmuzynska@cahill.com.

⁹ *Id.* at 20.