

CLIENT MEMORANDUM

Supreme Court's Decision in *B&B Hardware v. Hargis* Finds That TTAB Rulings Can Have a Preclusive Effect on Later Federal Court Trademark Infringement Proceedings

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AUTHORS

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On March 24, 2015, the U.S. Supreme Court issued its decision in *B&B Hardware, Inc. v. Hargis Industries, Inc.*, No. 13-353, slip op., 575 U.S. ___ (2015), which addressed the issue of whether issue preclusion, or collateral estoppel, is properly applied to Trademark Trial and Appeal Board (the "TTAB") decisions.

The Court, in a reversal of a ruling by the Eighth Circuit Court of Appeals, found that decisions by the TTAB can have a preclusive effect on subsequent federal trademark infringement suits, "[s]o long as the other ordinary elements of issue preclusion are met" and "the usages adjudicated by the TTAB are materially the same as those before a district court." The TTAB is charged with determining if a trademark should be refused federal registration due to a likelihood of confusion with a senior mark, and often considers a more limited set of factors than do federal courts in the course of trademark infringement litigation.

B&B opposed Hargis' application to register the mark SEALTITE in connection with metal fasteners for use in the construction trade on the basis of B&B's existing registration for the mark SEALTIGHT relating to metal fasteners in the aerospace industry. B&B simultaneously sued Hargis in federal court for trademark infringement. The TTAB issued its decision prior to the resolution of the federal court proceeding, finding that Hargis was not entitled to a federal registration of the SEALTITE mark due to a likelihood of confusion with B&B's mark. B&B then argued to the district court that the TTAB decision was preclusive, therefore barring Hargis from contesting the likelihood of confusion of the marks at the

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district court level. The district court rejected B&B's argument on the basis that the TTAB is not an Article III court under the U.S. Constitution, and permitted the case to proceed. The Eighth Circuit Court upheld the district court's ruling on slightly different grounds, including the belief that the TTAB necessarily applies different factors to its trademark infringement analysis than a federal court would, and that the TTAB had not evaluated the actual use of the trademarks in the marketplace.

The Court reversed the rulings and remanded the case to the district court to apply the ordinary elements of issue preclusion. The Court found that absent clear evidence that Congress did not intend to bestow preclusive power to an agency, federal agency decisions can preclude federal court decisions even though they are not Article III courts. Here the Court distinguished B&B from its prior decision in *Astoria Fed. Sav. & Loan Assn. v. Solimino*, 501 U.S. 104 (1991) and noted that, while in *Astoria* the exhaustion of the administrative process was a prerequisite to a federal court proceeding, trademark infringement suits may be instituted in federal court without ever obtaining a trademark registration. While the Court acknowledged that many questions of trademark registrability adjudicated by the TTAB will not satisfy the standards for issue preclusion, the Court declined to conclude that preclusion is therefore always inappropriate. The Court rejected the contention that the TTAB never considers how the marks in question are actually used merely because the registration provision of the Lanham Act requires the TTAB to determine whether the marks "resemble" each other, whereas the infringement provision is directed toward "use in commerce." Moreover, the Court found that while the TTAB analysis differs slightly from that of federal courts, the analyses are not materially different. Therefore, so long as the marks in question in federal court are used in a substantially similar manner as the marks at issue in a prior TTAB decision, and the TTAB applies an infringement test substantially in line with the federal court test, issue preclusion can apply. Finally, the Court rejected the argument that issue preclusion should not apply because "the stakes for registration are always too low for issue preclusion." The Court noted the many benefits of federal registration and that parties to a TTAB proceeding accordingly treat the matter with adequate gravity.

Justice Thomas, joined by Justice Scalia, dissented from the majority opinion, finding no evidence "to conclude that Congress implicitly authorized the decisions of the [TTAB] to have preclusive effect in a subsequent trademark infringement suit."

The *B&B Hardware* decision marks a change in existing circuit law, and has the potential to change trademark enforcement strategies by making TTAB actions more important in the eyes of mark owners and businesses, which could cause TTAB proceedings to become more expensive and less streamlined. The losing party in a TTAB proceeding may also feel compelled to seek a *de novo* review of that decision in federal court, so as to avoid the preclusive effect of the ruling.

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