

# SUPREME COURT DECISION IN *B&B HARDWARE V. HARGIS INDUSTRIES*: Potential Impact on Trademark Prosecution and Enforcement Strategies for Trademark Owners



By Michelle Gallagher, Of Counsel, Wilson Elser

In March 2015, the United States Supreme Court delivered an important decision in trademark law. In *B&B Hardware, Inc. v. Hargis Industries, Inc.*, No. 13-352, slip op., 575 U.S. \_\_\_\_ ; 135 S.Ct. 1293 (2015) (“*B&B Hardware*”), the Court held that issue preclusion applies to decisions rendered by the Trademark Trial and Appeal Board (TTAB) so long as the ordinary elements of issue preclusion are met, and the usages adjudicated by the TTAB are materially the same as those before a district court. This case could have far-reaching impact not only on trademark enforcement strategies, but also on clearance of trademarks and prosecution strategies before the United States Patent and Trademark Office (USPTO).

## ISSUE PRECLUSION AND ITS APPLICATION

Issue preclusion is a well-recognized doctrine that applies when two tribunals are asked to decide the same issue. To discourage a losing litigant from shopping for another court to hear the same question (with the hope of receiving a different answer), and to avoid wasting the time and resources of the involved parties and tribunals, the general rule of issue preclusion is that once an issue has been finally resolved in one proceeding, the door is closed for the parties to re-litigate the same issue in a subsequent proceeding. As stated in *B&B Hardware*, “a losing litigant deserves no rematch after a defeat fairly suffered. *Astoria Fed. Sav. & Loan Assn. v. Solimino*, 501 U. S. 104, 107 (1991).” *B&B Hardware*, 135 S. Ct. at 1303.

While issue preclusion is a relatively straightforward concept, its application can be vexing. The circuits were divided on whether decisions rendered by the TTAB, an agency tribunal that resolves trademark registration matters at the USPTO, would have preclusive effect in later federal court proceedings between the same parties. The Supreme Court in *B&B Hardware* determined there was nothing in the Trademark Act of 1946 (Trademark Act or Lanham Act) barring the application of issue preclusion to TTAB decisions.

## SUPREME COURT CASE SUMMARY

This Supreme Court decision caps an 18-year battle between B&B Hardware, Inc. (B&B) and Hargis Industries, Inc. (Hargis) over the use and registration of their respective marks, SEALTIGHT and SEALTITE. B&B first registered its mark SEALTIGHT in the USPTO in 1993 for fasteners, metal screws and related goods used in the aerospace industry. In 1996, Hargis applied to register SEALTITE for similar goods used in the manufacture of buildings. The Hargis application for SEALTITE was allowed during the course of *ex parte* examination in the USPTO, and B&B opposed it in the TTAB. The parties simultaneously were engaged in federal court litigation on the trademark infringement issue involving the same marks. The TTAB denied registration of the Hargis application for SEALTITE based on a “likelihood of confusion” with B&B’s SEALTIGHT mark *before* the District Court decided the “likelihood of confusion” issue in the pending litigation. Hargis had the right to seek *de novo* review of the TTAB decision in a new action in federal court, or appeal the TTAB decision to the United States Court of Appeals for the Federal Circuit; Hargis did neither. Instead, Hargis continued its position adverse to B&B in the pending infringement litigation.

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In the serpentine journey of this case to the Supreme Court, B&B argued in the pending litigation that the preclusive effect of the TTAB decision barred Hargis from disputing “likelihood of confusion.” The District Court disagreed, reasoning that the TTAB is an agency tribunal, not an “Article III Court” (a tribunal established under Article III of the United States Constitution). The case went to a jury, which returned a verdict directly opposite to the TTAB decision, finding no “likelihood of confusion” between SEALTIGHT and SEALTITE.

B&B appealed to the Eighth Circuit. While the Eighth Circuit conceded that decisions rendered by administrative agencies (not Article III Courts alone) can ground issue preclusion, it still affirmed the District Court verdict in favor of Hargis because (1) the TTAB used different “likelihood of confusion” factors than the Eighth Circuit, (2) the TTAB weighed the factors of similar sound and appearance too heavily, and (3) Hargis bore the burden of persuasion before the TTAB, whereas B&B bore the burden before the District Court (a point the Supreme Court discredited).

The Supreme Court granted *certiorari*, reversed the Eighth Circuit and remanded. In an opinion by Justice Alito, the Court rejected the contention that different “likelihood of confusion” factors were a reason to avoid issue preclusion, because the factors used by the TTAB and the Eighth Circuit are “not fundamentally different,” and minor variations in the application of the same legal standard will not defeat issue preclusion. *Id.* at 1307. The Court noted that issue preclusion is not a “one-way street.” Rather, “[w]hen a district court, as part of its judgment, decides an issue that overlaps with part of the TTAB’s analysis, the TTAB gives preclusive effect to the court’s judgment.” *Id.* at 1305-1306. The Court also emphasized the shared power over trademark registrations that district courts and the TTAB wield, noting, “district courts can cancel registrations during infringement litigation, just as they can adjudicate infringement in suits seeking judicial review of registration decisions.” *Id.* at 1307.



However, central to the Court’s holding in this case is the concept of materiality in both the marks in question and the goods and services the marks identify. The USPTO assesses trademark use for the purpose of registration based solely on the identification of goods and services named in the application; the USPTO will not consider any marketplace use not specifically recited. In contrast, a district court can review all marketplace uses of the trademarks in question to analyze likelihood of confusion or any other issue affecting the potential scope of trademark rights of the parties.

Recognizing the limited review conducted by the USPTO, the Court emphasized that trivial variations between the uses set forth in the application, or cited registration, and actual uses in the marketplace will not create different issues, and therefore will not avoid preclusive effect. This determination makes sense because an applicant’s claimed use of its mark before the USPTO must be supported by a sample of actual marketplace use (*i.e.*, a “specimen of use” per class of goods or services named in the application) to achieve\* and maintain federal registration. However, when a trademark owner files an application for

\* With the exception of applications filed under §66(a) or §44 of the Trademark Act; see, e.g., Trademark Manual of Examining Procedure (TMPE) §§1009, 1904.01(d).



registration in the USPTO, there is no requirement for the applicant to claim *all* goods or services in use (or intended to be used) in connection with its mark. If an applicant claims only *some* goods or services identified by the relevant mark in an application and not all marketplace uses, then issue preclusion stemming from a TTAB proceeding would not apply as to the nondisclosed goods or services. The Court notes that “unlike in infringement litigation, ‘[t]he Board’s determination that a likelihood of confusion does or does not exist will not resolve the confusion issue with respect to non-disclosed usages.’ Brief for United States as *Amicus Curiae* 23.” *B&B Hardware*, 135 S. Ct. at 1308.

Clarifying an important limitation on the scope of issue preclusion in TTAB cases, the Court explains:

Just because the TTAB does not always consider the *same usages* as a district court does, it does not follow that the Board applies a *different standard* to the usages it does consider. 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 the 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 certain marketplace usages 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.’ 6 McCarthy §32:101, at 32–246. *Id.*

The net result of the *B&B Hardware* holding: Issue preclusion indeed applies to TTAB decisions, but there will be many instances when it will not apply based on the specific facts of the case.

## POTENTIAL IMPLICATIONS OF *B&B HARDWARE*

Time will tell how *B&B Hardware* will be treated by the TTAB and federal courts, but reverberations potentially may be felt throughout trademark enforcement strategies and in trademark clearance and prosecution considerations going forward.

### ***First, opposition or cancellation proceedings before the TTAB may evolve into high-stakes battlefields similar to infringement litigation in federal court.***

It was not uncommon prior to *B&B Hardware* for trademark owners to reserve their primary resources and best tactics for federal court actions and not matters before the TTAB. This strategy could change if it is clear that the issue being decided by the TTAB meets “the other ordinary elements of issue preclusion” as set forth in the Restatement (Second) of Judgments, and will indeed be decided finally by the TTAB with respect to subsequent court proceedings between the parties. A related result will be that the losing party in the TTAB proceeding has a greater incentive to request *de novo* review of the TTAB decision in district court, or appeal the decision to the Federal Circuit, rather than let it go and continue asserting the same argument in a parallel federal court proceeding.



***Second, B&B Hardware may catalyze a trademark owner’s analysis of whether “likelihood of confusion” or another issue relevant to a party’s trademark rights will be treated more favorably in the TTAB or in federal court, before any proceeding is filed in either tribunal.***

If prior case precedent indicates an inclination toward more favorable treatment of a trademark owner’s position on a particular issue in federal court, the trademark owner may choose to avoid the TTAB altogether and just file in federal court. An alternate consideration may be to file an opposition or cancellation proceeding in the TTAB, then immediately file in federal court and stay the proceedings in the TTAB pending disposition of the federal court action. A limitation in strategy involves “intent-to-use” applications filed under §1(b) of the Trademark Act. Since infringement actions in federal court require actual marketplace use, suspension of a TTAB proceeding to resolve the “likelihood of confusion” issue in federal court would not be a viable strategy until there is actual use of the mark in commerce in connection with the goods and services recited in the “intent-to-use” application. Similarly, a trademark owner’s forum to challenge a confusingly similar mark in an application filed by a foreign entity in the USPTO under §66(a) (Madrid Protocol) or §44 (foreign application or registration with reciprocal treatment in the United States) would be limited to the TTAB because only a *bona fide* intent to use the mark in commerce is required for §66(a) and §44 applications to obtain registration (not actual use in commerce). See, e.g., [Trademark Manual of Examining Procedure](#) (TMEP) §§1009, 1904.01(d). Use in commerce is mandatory for the maintenance of both §44 registrations and international registrations obtained under §66(a) of the Trademark Act, but declarations of use are not required until the period between the fifth and sixth year of registration. See, e.g. TMEP §§1604.01, 1613.04.

Trademark use is still the primary foundation of rights in the United States. However a priority battle in the USPTO (and a potential corollary battle for priority in the United States marketplace) highlight the importance of TTAB proceedings specifically and U.S. registration generally.

***Third, B&B Hardware may spawn a subset of arguments that contest the applicability of issue preclusion because (1) “the other ordinary elements of issue preclusion” have not been met, or (2) the procedures followed by the TTAB, which differ from those of federal courts, were “fundamentally poor, cursory, or unfair.”***

The TTAB, for example, does not allow live testimony, which a losing party may argue prejudiced its ability to properly present its case. Or, if the marks or marketplace uses in dispute in a federal court proceeding differ greatly from the marks and marketplace uses set forth in the applications or registrations considered in the earlier TTAB proceeding, then issue preclusion would *not apply*. Indeed, the concurrence by Justice Ginsburg acknowledges how narrow the Court’s holding may be in the real world: “the Court rightly recognizes that ‘for a great many registration decisions issue preclusion obviously will not apply.’ *Ante*, at 14–15. That is so because contested registrations are often decided upon ‘a comparison of the marks in the abstract and apart from their marketplace usage.’ 6 J. McCarthy, *Trademarks and Unfair Competition* §32:101, p. 32–247 (4th ed. 2014). ... On that understanding, I join the Court’s opinion.” *Id.* at 1310 (Ginsburg, J., concurring).

A losing party in a TTAB proceeding would be well served to find the elements that distinguish its case from the general rule of issue preclusion.



***Fourth, B&B Hardware may impact trademark prosecution strategies while an application is still in ex parte examination in the USPTO.***

If the assigned USPTO Examining Attorney issues a refusal of an application under §2(d) of the Trademark Act based on a “likelihood of confusion” with a prior registered mark, the applicant likely will weigh heavily whether it will dedicate substantial resources to argue against the refusal or simply amend or delete the goods or services that form the basis for the §2(d) rejection and allow the mark to register for an altered scope of goods or services. Since the applicant helps to build the record that could be reviewed by the TTAB if the application is contested either in an *ex parte* or *inter partes* proceeding, an applicant will need to think carefully about the scope of its claimed goods and services and related materials proffered during the course of prosecution to support registration.

***Fifth, B&B Hardware arguably will reach further back in the registration process to impact trademark clearance and application filing strategies.***

When conducting a clearance search for a newly created mark, trademark owners should consider intended goods and services for immediate use and for the long term, so that the full scope of current and future marketplace uses can be searched and cleared prior to filing in the USPTO. A mark may be clear in one intended field of use but blocked in another, and a brand owner could alter its strategy accordingly. While *B&B Hardware* warns against trivial variations in proposed marks and claimed goods and services, it will be important to consider broader scopes of use as well as specific classification and identification language to avoid “likelihood of confusion” refusals altogether. Registration always has been relevant in the protection and enforcement of trademarks in the United States, but *B&B Hardware* has “upped the ante” with respect to how matters decided by the USPTO will impact subsequent proceedings involving trademark rights.

***Sixth, it will be important to watch how federal courts apply the issue-preclusion rule in B&B Hardware to other issues affecting registration and trademark rights.***

While the specific facts of *B&B Hardware* dealt with “likelihood of confusion,” the holding can apply to other issues affecting trademark rights. Indeed, in the small stretch of time since the Supreme Court issued its ruling, one federal court has applied the *B&B Hardware* issue preclusion rule to a case involving priority of trademark use, a material hurdle in an infringement proceeding, but not squarely a “likelihood of confusion” analysis.



In *Ashe v. PNC Financial Services Group, Inc.*, the United States District Court for the District of Maryland granted the defendant, PNC’s motion to dismiss the plaintiff’s claim of trademark infringement because it gave preclusive effect to the prior TTAB decision on the issue of priority of use. In the *PNC Trademark Opposition*, the TTAB held that PNC proved it had priority of use in the mark SPENDODOLOGY before Ashe (1) filed its federal application, or (2) established use analogous to trademark use, for the same mark in connection with highly similar goods. *Ashe v. PNC Financial Services Group, Inc.*, No. PWG-15-144, 2015 WL 7252190 (D.Md. Nov. 17, 2015). In *Ashe*, the District Court was careful to note that “[l]ikelihood of confusion was not disputed by the parties in the *PNC Trademark Opposition*. 2013 WL 5820850, at \*2. Rather, the issue before the Trademark Board was whether Ashe or PNC had priority of use of the SPENDODOLOGY trademark.” *Ashe* at 10. In its rationale for giving preclusive effect to the related TTAB decision, the District Court emphasized that the TTAB’s determination of priority of trademark use for registration



purposes is the same as the determination of priority of trademark use for infringement claims. *Id.* at 8. The Court then concluded, “[t]he Trademark Board’s decision is final. PNC states, and Ashe does not contest, that Ashe did not appeal the Trademark Board’s decision....As a result, PNC has demonstrated the finality of the decision in *PNC Trademark Opposition*.” *Id.* at 11.

Priority of trademark use is one of multiple issues the TTAB can decide that can have a “game-changing” impact on trademark rights in an infringement proceeding. Another is “functionality,” the determination that a claimed mark comprises matter that, as a whole, is functional under §2(e)(5) of the Trademark Act, and it is not entitled to trademark protection. *See, e.g.*, 15 U.S.C. §1052(e)(5); *see also* TMEP §1202.02(a)(iii)(A).

For example, for nontraditional marks such as color marks or product configuration marks, functionality (utilitarian and/or aesthetic functionality) is a determination that can act as an absolute bar to trademark rights and may be raised in *ex parte* examination in the USPTO, or as a counterclaim in an infringement action or TTAB proceeding. Functionality determinations are highly fact-driven and the lethal blow to trademark rights can be triggered by the cumulation of small and subtle details in the scope of the mark and context of use.

Compare, for example:

- *In re Florists’ Transworld Delivery, Inc.*, 106 USPQ2d 1784 (TTAB 2013) (Color “black” held functional in the context of boxes for floral arrangements and denied registration in the USPTO);
- *Christian Louboutin S.A. v. Yves St. Laurent America Holding, Inc.*, 696 F. 3d 206 (2nd Cir. 2012) (While functionality was thoroughly discussed, the color “red” on lacquered outsoles of “women’s high fashion designer footwear” was determined to be a valid trademark when used in the context of shoes with a contrasting colored “upper”; the Second Circuit ordered Louboutin’s USPTO registration to be restricted to *contrasting* red outsoles, in accordance with the holding);
- *Sportvision, Inc. v. SportsMEDIA Technology Corporation*, Case No. C 04-03115 JW (N.D. Cal. 2005) (The color “yellow” used to identify virtual first-down lines in football broadcasts held functional in an infringement litigation; the District Court ordered the cancellation of the plaintiff’s trademark registration).

If courts apply the *B&B Hardware* issue preclusion rule to a TTAB determination of functionality for a contested nontraditional mark, then the enforceability of the nontraditional mark in subsequent litigation proceedings invariably would be impacted.

## CONCLUSION

Trademark owners must consider the implications of *B&B Hardware* throughout every stage of trademark protection, from clearance and adoption, to the preparation of applications before the USPTO, to the full scope of marketplace use and enforcement strategies. There is no “one size fits all” approach, as the facts of each case will direct different decisions at each turn. A proactive strategy from the outset, however, may prepare a trademark owner for a smoother journey to successful trademark protection and enforcement in the wake of *B&B Hardware*.

[Michelle Gallagher](#) is Of Counsel in Wilson Elser’s Boston office. She can be reached at 617.422.5312 and [michelle.gallagher@wilsonelser.com](mailto:michelle.gallagher@wilsonelser.com).