

## Trademark Litigation – When Two Paths Collide

Perhaps the most unusual aspect of trademark law is the “dual” legal system that exists to adjudicate disputes. Lawyers who practice in this area generally accept it as just another one of those quirky aspects of trademark law that make it so different from many other areas of law. When I explain this to fellow attorneys who do not practice in this area of law, the reaction is often one of great surprise, sometimes along the lines of “this has to be fixed”. In order to explain this, one must start from the basics.

In the U.S., trademark rights arise from use, unlike in some countries where mere registration can establish rights and, in some cases, even trump a prior user of the same trademark. Although in the U.S., “use” establishes trademark rights, registration of a trademark with the USPTO provides many valuable benefits and most serious trademark owners pursue registration of their important trademarks. The dual system arises from such a regime whereby trademark rights are ultimately dependent upon actual use of the trademark in commerce, but also wherein the USPTO exists in part to determine whether a trademark may be registered and also (through its administrative court, the Trademark Trial and Appeal Board, or TTAB) to adjudicate disputes initiated by a party who objects to such registration despite initial approval by the USPTO (referred to as “oppositions”). In other words, there are separate legal regimes for determining rights to registration (the TTAB) and for ruling on disputes over rights to use trademarks (federal courts).

This dual system potentially creates several practical problems that can be difficult to explain to a client in a trademark matter. A complete dissection of the law governing trademark registration and the rights it confers is beyond the scope of this article but the important thing to note is that a trademark registration does not necessarily grant its owner exclusive rights to the trademark, and thus may not be a determining factor in a legal battle between two parties involving the rights to a trademark. The first, and perhaps simplest, problem to understand involves situations where someone may be able to register a trademark even though actual use of the same trademark is out of the question. This arises when there is a prior user of a confusingly similar trademark who has not registered its trademark. Because the USPTO, in its examination of trademark applications, only

takes into account prior trademarks that are either registered or pending registration, the rights of so called “common law” users are ignored.

The converse can also occur, that is when a party is unable to register a trademark due to a prior registered trademark that the USPTO deems to be confusingly similar, but which a court of law would find not likely to cause confusion (and thus, both marks can co-exist in the marketplace, as there is no infringement). This difference of opinions, which can often occur as a result of the ways that the respective tribunals treat and/or determine the facts of the case, lies at the heart of perhaps the biggest problem often encountered in trademark infringement litigation that plays out at both the TTAB and in federal court, either simultaneously or sequentially. It involves the issue of collateral estoppel (or “issue preclusion”) - specifically, the deference that should be given to a prior TTAB holding involving the same parties and trademarks, on the issue of “likelihood of confusion” (the ultimate test for determining whether one trademark may be registered in light of another). There currently exists a circuit split on this issue, making it ripe for Supreme Court adjudication.

This problem of issue preclusion can be a disastrous one for a company that wins its case at the TTAB and then goes on to litigate the same issue in federal court, only to have the court refuse to give any consideration whatsoever to the prior TTAB holding. This type of outcome is disappointing to say the least, especially because many companies use the TTAB as a cheaper alternative to the courts to resolve trademark disputes. Although it is true that a losing party at the TTAB will often not choose to either initiate or continue with litigation in court, this is not always the case. A recent divided panel from the Eight Circuit Court of Appeals illustrates the tension caused by this issue of collateral estoppel as it relates to the deference given to TTAB decisions on the issue of likelihood of confusion by federal courts.

In *B&B Hardware, Inc. v. Hargis Industries, Inc.*, Appeal No. 11-1247 (8th Cir. May 1, 2013), the majority of the Court chose to take the position that no deference is due a TTAB decision even where collateral estoppel would otherwise apply because the TTAB is not an Article III court. This case is the latest ruling (including two prior ones from the Eight Circuit itself) in a 15 year legal battle between B&B, the prior user of the trademark “Sealtight” (for fasteners used in the aerospace industry) and Hargis Industries, who applied in 1996 to register the trademark “Sealtite” (for a line of self-drilling screws used in the building construction industry). The TTAB ultimately

ruled in 2003 that Hargis could not register its trademark due to a likelihood of confusion with B&B's Sealtight trademark. In giving no deference to this ruling and upholding a jury verdict against B&B on its claim of trademark infringement (the Court would not even allow the TTAB decision into evidence due to its possible prejudicial effect on the jury), the Eight Circuit established its position on this issue, which other Circuits including the Third, have taken the opposite approach to by giving TTAB decisions preclusive effect on the issue of likelihood of confusion involving the same parties and the same trademarks as those involved in the subsequent litigation.

This tension and resultant circuit split arises because in many if not most cases it is often unclear whether the TTAB has actually decided the issue of likelihood of confusion under the same legal test as that used by courts. The TTAB is limited in its review of the likelihood of confusion issue because it is generally unable to accept into evidence any "real world" factors that a court is able to when the court analyzes the issue. Although the TTAB is guided by a factor-based test for determining likelihood of confusion, just as the various federal circuits have their own individual factor-based tests, as a practical matter the TTAB can only consider the marks as presented, and the goods or services listed, in the applications or registrations at issue. Any other factors come into play only if they naturally flow from the nature of the goods or services themselves or if stated as a limitation in the descriptions thereof. For example, the TTAB can conclude that the purchasers of the parties' goods are "sophisticated" and therefore less likely to be confused if the goods are extremely expensive and involve a long and involved selling process (e.g., a private jet). Thus, the determinations of Trademark Examining Attorneys and the TTAB can be often criticized as "not based on reality". This is the nature of the dual system. The TTAB only decides rights to register. Many trademarks are refused registration because of a prior trademark registration, but due to real world factors that are not apparent when looking only at the trademark registration and the refused application, a court might easily come to a different conclusion.

This is one basis on which to refuse to apply collateral estoppel. The Eight Circuit took it further by categorically dismissing the precedential value of all TTAB decisions regardless of whether they looked at the same factors as the court would. The Second Circuit approach, which makes much more sense to this author, is such that before preclusive effect is given to a TTAB decision, the decision must be carefully examined to determine exactly what

was decided and on what evidentiary basis. This recognizes the fact that there are times when in fact a TTAB decision will consider all of the factors that a court would, either because it went slightly beyond the “four corners” of the involved registrations and/or applications, or perhaps because a court would find that it need not consider factors beyond the marks and the goods/services, or that these other factors are neutral in the case at hand.

In the B&B case, its back to the district court for a recalculation of the attorneys fees that the jury awarded to Hargis. Based on this saga one must wonder if it's worth spending money on a TTAB battle. And yet, this still is generally recognized as a quicker and cheaper way to decide an infringement case.