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# **B & B Hardware, Inc. v. Hargis Indus., Inc.**

## **135 S. Ct. 1293 (2015)**

WYATT ROBERTS\*

### BACKGROUND

Petitioner, B & B Hardware, Inc. (B & B), is a California corporation that manufactures and sells a fastener product in the aerospace industry. B & B has been selling its product under the “Sealtight” trademark since 1990. Respondent, Hargis Industries, Inc. (Hargis), is a Texas corporation and uses the trademark “Sealtite” for self-drilling screws. Hargis has been using its trademark since 1992.

In 1993, the United States Patent and Trademark Office (USPTO) granted B & B registration of the “Sealtight” trademark. Hargis, on the other hand, sought and was denied registration of the “Sealtite” mark in 1996 due to the likelihood of confusion with B & B’s prior existing trademark.<sup>1</sup> Hargis did not seek review of the Trademark Trial and Appeal Board’s (TTAB) decision.

Following the success at the TTAB, B & B brought a lawsuit against Hargis alleging trademark infringement, unfair competition, and false designation of origin. Hargis counterclaimed for copyright infringement, false advertising, false designation of origin, and unfair competition. B & B argued that Hargis could not contest the TTAB’s finding of likelihood of confusion because the issue had already been decided. However, the district court disagreed, holding that issue preclusion did not apply because the TTAB used a different test than the court in applying a likelihood of confusion analysis. The U.S. Court of Appeals for the Eighth Circuit affirmed judgment for Hargis but remanded the case to recalculate attorney fees.

### PROCEDURAL HISTORY

In 1997, Hargis sought to cancel B & B’s trademark registration before the TTAB. In retaliation, B & B brought a claim in district court for common law trademark infringement, breach of contract, law fraud, deceptive trade practices, and trademark infringement under the Lanham Act. The TTAB initially granted the request but later reinstated B & B’s registration and stayed further proceedings

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1. B & B Hardware, Inc. v. Hargis Indus., Inc., 569 F.3d 383, 385 (8th Cir. 2009).

pending B & B's federal trademark infringement action filed against Hargis. In May 2000, the jury returned a verdict in favor of Hargis. After the favorable outcome, Hargis requested that the TTAB resume trademark cancellation proceedings. In August 2004, the TTAB said that Hargis was barred from cancelling B & B's registration on the basis that the mark was merely descriptive because B & B's mark had been registered for more than five years. B & B subsequently filed for incontestability status with the TTAB stating that the mark had been registered for five years without challenge.

In August 2006, B & B filed an action alleging trademark infringement, unfair competition, trademark dilution, and false designation of origin. The district court dismissed B & B's claim because the 2000 jury verdict in favor of Hargis had a preclusive effect. B & B appealed, and the court of appeals reversed dismissal and remanded to the district court, where Hargis prevailed on the claims of false advertising and false designation of origin. The United States District Court for the Eastern District Court of Arkansas denied B & B a new trial and granted Hargis's motion for attorney's fees. B & B then appealed to the United States Court Appeals for the Eighth Circuit, where the court affirmed in part and remanded in part. Certiorari was granted.

#### ISSUE

Can a prior TTAB decision have a preclusive effect in district court where both tribunals are analyzing the issue of likelihood of confusion?

#### DECISION

The Supreme Court reversed Eighth Circuit's decision and remanded the case for the district court to apply issue preclusion in cases where the likelihood of confusion test applied by the TTAB is materially the same as the likelihood of confusion test applied by the district court.<sup>2</sup>

#### REASONING

The court of appeals found that issue preclusion would be improper because the likelihood of confusion issues raised during the TTAB proceeding were arguably different than the issues raised at district court.

When determining the likelihood of confusion for registerability of Hargis's trademark, the TTAB applied six of the thirteen factors identified in *In re E.I. DuPont DeNemours & Co.*: (1) the fame of the

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2. B & B Hardware, Inc. v. Hargis Indus., Inc., 135 S. Ct. 1293, 1310 (2015).

mark; (2) similarity of the marks in their entirety; (3) similarity of the nature of the goods; (4) similarity of trade channels; (5) consumer care in purchasing; and (6) whether actual confusion existed.<sup>3</sup>

The Eighth Circuit applied a different six-factor test to determine likelihood of confusion in the trademark infringement action: (1) strength of the owner's mark; (2) similarity of the marks; (3) degree to which products compete; (4) alleged infringer's intent to "pass off" its goods; (5) existence of actual confusion; and (6) the products costs and purchase conditions.<sup>4</sup> The court found these differing tests to be evidence that the TTAB, in determining likelihood of confusion, analyzed different issues than the district court. Thus, issue preclusion in court would be inappropriate.

In reversing the lower courts' decision, the Supreme Court began by stating that issue preclusion is important to the court system because it minimizes costs and increases consistency. The Court acknowledged the difficulty in applying issue preclusion but laid out the general rule when preclusion could apply: "[w]hen an issue of fact or law is actually litigated and determined by a valid and final judgment, and the determination is essential to the judgment, the determination is conclusive in a subsequent action between the parties, whether on the same or a different claim."<sup>5</sup>

Next, the Court observed the congressional intent for having the rule of issue preclusion and found that Congress has not adopted any statutes that restrict preclusion solely to courts. Absent statutory limitations, a presumption exists that a final judgment from an administrative agency should bind later courts.

Additionally, even though the Seventh Amendment of the U.S. Constitution<sup>6</sup> grants citizens the right to a jury trial for a trademark infringement lawsuit, it does not deny the TTAB, which does not provide a jury trial, the power to decide issues that have a preclusive effect. A party can seek a *de novo* review of a TTAB decision in district court if they disagree with the ruling. However, if a party waives this right, as Hargis did, the TTAB decision should be subject to issue preclusion.

Hargis argued, and the lower courts agreed, that applying two different tests for a likelihood of confusion analysis was evidence of two separate issues being decided. The Court recognized that different factors are applied before the TTAB than in the district court, but the legal standards are essentially the same. The Court found that standards were the same because the language functions similarly, language from the Lanham Act has been used in

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3. *In re E.I. DuPont DeNemours & Co.*, 476 F.2d 1357, 1361 (C.C.P.A. 1973).

4. *SquirtCo v. Seven-Up Co.*, 628 F.2d 1086, 1091 (8th Cir. 1980).

5. *B & B Hardware, Inc.*, 135 S. Ct. at 1303 (quoting Restatement (Second) of Judgments § 27 (1980)).

6. U.S. CONST. amend. XII.

registration proceedings since the late 1800s, and courts can cancel trademark registrations during infringement actions.<sup>7</sup>

Hargis's last attempt at persuading the Court to reject issue preclusion was based on fairness. Hargis stated that preclusion would be unfair because the TTAB has different procedures than the court. The TTAB excludes live testimony and the stakes in a trademark registration are much lower than in a trademark infringement action. The Court rejected these arguments because both the courts and the TTAB follow the Federal Rules of Civil Procedure, issue preclusion is denied upon a "compelling showing of unfairness,"<sup>8</sup> Congress provides parties an opportunity to review TTAB decisions *de novo* in district court, and trademark registration is a serious matter as it grants significant rights to the owner of the mark.

Thus, the court of appeals' decision was reversed and issue preclusion should be applied in cases where the elements of issue preclusion laid out in the Restatement (Second) Judgments have been met, and the issue before the district court is materially the same as the issue that was decided at the TTAB.<sup>9</sup>

#### CONCURRENCE

Justice Ginsburg concurred with the majority in recognizing that issue preclusion will not apply in a majority of trademark registration decisions where the proceeding is that of character.<sup>10</sup> Where contested registrations are compared in the abstract rather than taking into consideration the use in the marketplace, issue preclusion will not apply to the TTAB's decision.

#### DISSENT

Justice Thomas and Justice Scalia strongly dissented from majority's the presumption that administrative agencies should have a preclusive effect in court. The dissenting Justices believed that the law is far from settled, and the TTAB is only granted limited rights in determining trademark registration.<sup>11</sup>

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7. *B & B Hardware, Inc.*, 135 S. Ct. at 1307.

8. *Id.* at 1309 (internal quotation marks omitted).

9. *Id.* at 1310.

10. *Id.*

11. *Id.* at 1310-11.