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TRADEMARKS

The authors compare the costs and benefits of going to the TTAB or going to trial in light of the Supreme Court's March 24 decision in *B&B v. Hargis*.

Unpacking *Hargis*: The Supreme Court Has Announced That Issues Necessarily Decided by the TTAB in Contested Trademark Proceedings May Have Preclusive Effect in Subsequent Litigation. What Does That Mean For Trademark Holders?



BY HOWARD S. HOGAN AND ADAM L. YARIAN

B &B Hardware v. Hargis Industries¹ represents a landmark development in federal trademark law. In *Hargis*, the U.S. Supreme Court clarified that issues that are necessarily decided by the Trademark Trial and Appeals Board (TTAB) in the course of granting or denying a contested trademark application should be given preclusive effect by courts in later pro-

¹ *B&B Hardware, Inc. v. Hargis Indus., Inc.*, No. 13-352, 2015 BL 80363, 113 U.S.P.Q.2d 2045 (U.S. March 24, 2015).

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ceedings between the same parties. As a result, it will be critically important for trademark holders to make strategic decisions in deciding when to litigate potential trademark disputes through TTAB registration oppositions, and when it is preferable to litigate such disputes in the context of trademark infringement lawsuits in court.

TTAB Registration Oppositions vs. Trademark Infringement Lawsuits.

One of the grounds of the Supreme Court's holding in *Hargis* is that the TTAB functions in a quasi-judicial capacity when deciding an opposed trademark application, in proceedings that mirror many of the key aspects of traditional trademark infringement litigation in civil court. For example, a party initiates an opposition by filing a Notice of Opposition stating the bases on which it objects to the federal registration of the trademark, much like a complaint in federal court. The TTAB responds by setting a deadline by which the party seeking to register the mark must file an Answer and establishing other discovery and trial deadlines, much like a court's scheduling order. And the parties are obligated to meet and confer before reporting back to the TTAB on various scheduling and discovery issues, much like an initial case management conference.

On paper, even the discovery process in a TTAB opposition echoes the discovery process in an infringement suit, and the Federal Rules of Civil Procedure have actually governed discovery in TTAB oppositions since 2008. Pursuant to Rule 26(a)(1)(A), initial disclosures must be made within 30 days of the opening of the discovery period. All of the principal discovery mechanisms available in civil proceedings are also available in furtherance of a TTAB opposition—parties may propound document requests, interrogatories, requests for

admission and requests for deposition. Expert testimony can be introduced pursuant to Rule 26(a)(2), and as in a civil court, a party's failure to comply with reasonable discovery requests can be met with a motion to compel, and invasive discovery requests can be answered with a motion for a protective order.

There are, however, a number of important differences, and some of these may assume greater strategic significance post-*Hargis*. The stakes of a TTAB proceeding are typically not as high as a court proceeding, because as a matter of law, the TTAB's jurisdiction is strictly limited to resolving the question whether the trademark before it is federally registrable or not. Accordingly, the administrative discovery process is limited to evidence that bears on this narrow inquiry.

There are also a number of practical implications. To begin with, prior to *Hargis*, courts generally declined to grant preclusive effect to TTAB decisions. As a result, opposition parties have traditionally had little incentive to seek broad administrative discovery, because a favorable decision would likely prove to be a fleeting victory.² Furthermore, the TTAB has recognized that aggressive discovery tactics may not always be reasonable at the administrative level. For example, in *Frito-Lay v. Princeton Vanguard*,³ the TTAB denied a party's motion to compel responses to broad e-discovery requests after observing that "the burden and expense of e-discovery . . . weigh[s] heavily against requiring production in most [TTAB] cases," on the ground that parties expect discovery in opposition proceedings to be less "extensive" than discovery in federal court.⁴

And even when parties do seek broad discovery and the TTAB does compel responses, administrative orders may carry little weight: The TTAB only has the power to issue limited procedural sanctions in an effort to curb bad faith behavior (i.e., by limiting offensive discovery mechanisms available to an offending party, or by precluding an offending party from introducing evidence at trial), and it is without authority to levy monetary sanctions or hold a party in contempt for even the most blatant administrative discovery abuses.

Perhaps the single biggest difference between a TTAB opposition and an infringement suit is that, unlike the infringement suit, the TTAB opposition will not culminate in a live trial. Instead, parties to a TTAB opposition are granted alternating "testimony periods" during which they are permitted to submit direct and/or rebuttal evidence for consideration. Once all relevant evidence has been submitted, the parties are permitted to submit a round of briefing on the merits. Then it falls on the TTAB to consider the totality of this (often limited) written record and render its decision.

The scope of this administrative decision is, of course, also cabined by the TTAB's narrow jurisdiction: The TTAB can only grant or deny federal registration for a contested mark, and it is without authority to award money damages (including attorneys' fees or costs) or order injunctive relief. And as with any agency ruling, a TTAB decision is never the final word—it is always subject to further judicial review, either by the

U.S. Court of Appeals for the Federal Circuit or by a federal district court with personal jurisdiction over the parties.

By contrast, pursuing a trademark infringement lawsuit straight out of the gate gives a trademark holder access to the full panoply of enforcement and restitutionary mechanisms that are available in any Article III proceeding. Parties to an infringement suit may ask the court to simultaneously resolve a multitude of different legal issues that extend far beyond the scope of trademark law, and they have a right to seek and obtain extensive discovery (including broad e-discovery) subject to judicial enforcement through sanctions and contempt orders. If settlement is not possible, then an infringement suit will proceed to trial—typically before a jury. And a prevailing party, whether the initial plaintiff or a defendant who pursues counterclaims, can obtain broad restitution ranging from monetary damages (including punitive damages, attorneys' fees and costs) to permanent injunctive relief.

But all of these comparative benefits come at a hefty price. Historically, the time and money burdens associated with pursuing an infringement suit in court have been significantly higher than the costs of opposing a mark before the TTAB in a pared-down administrative proceeding. In short, both the potential rewards and the potential risks are greater for a trademark plaintiff in court.

TTAB or Trial? Weighing the Costs and Benefits of Each Approach, Post-*Hargis*.

In the wake of *Hargis*, trademark owners will need to revisit their approach to TTAB opposition proceedings. Parties facing the prospect of a preclusive agency decision will certainly have greater incentives to pursue wide-ranging discovery and aggressively litigate their case before the TTAB, and this may narrow the effective cost cap that has historically made pursuing TTAB oppositions a (relative) bargain compared with litigating an infringement suit in court.

Factors favoring opposition. Nevertheless, there are still circumstances under which a TTAB opposition proceeding may be preferable:

- If a mark before the TTAB is not currently being used in the marketplace, and therefore poses no imminent threat to a trademark owner's business affairs (i.e., does not create any likelihood of imminent consumer confusion), it may make sense to simply oppose the mark at the administrative level. In particular, applications to register trademarks based on an "Intent to Use" the mark, rather than on historic use, may remain comparatively strong candidates for opposition before the TTAB.
- It is important to keep in mind that the strict limitations on the TTAB's jurisdiction and restitutionary capabilities flow both ways. Whereas traditional court cases pose the risk of counterclaims for damages or injunctive relief, the only counterclaim that can be raised in a TTAB proceeding is a challenge to the registerability of the opposing party's mark. Accordingly, if there is reason to believe that initiating an infringement lawsuit might expose you to counterclaims, it might be wise to limit the scope of the dispute by pursuing a TTAB opposition.

² See, e.g., *American Heritage Life Ins. Co. v. Heritage Life Ins. Co.*, 494 F.2d 3, 9, 182 U.S.P.Q. 77 (5th Cir. 1974) (declining to extend preclusive effect to a TTAB decision).

³ *Frito-Lay North America, Inc. v. Princeton Vanguard, LLC*, 100 U.S.P.Q.2d 1904, 17-18 (T.T.A.B. 2011)

⁴ *Id.* at 14-15.

- If you cannot afford to devote substantial time and resources to challenging a mark in court, opposing it at the administrative level may still allow for relative cost savings, even in a post-*Hargis* world. For example, because in-person appearances before the TTAB are rare (since almost all interviews are conducted telephonically), travel expenses normally associated with making court appearances can be allocated elsewhere. Likewise, the expenses associated with submitting evidence and briefing in a TTAB opposition proceeding are likely to constitute a mere fraction of the price tag associated with taking an infringement claim to trial in front of a full jury.
- Even in circumstances where litigation might otherwise be preferable, jurisdictional difficulties might necessitate a TTAB opposition. If it would be difficult or impossible to obtain jurisdiction over the opposing party in a forum that would allow you to litigate in a convenient and cost-effective manner, opposing a federal application may be the most practical way to challenge the mark.

Note: One additional factor to bear in mind is that the judges and attorneys at the TTAB may have more experience in resolving trademark disputes than a typical court of general jurisdiction, because the TTAB is a specialized administrative agency that focuses exclusively on trademark law. Whether this fact weighs in favor of a TTAB opposition in any given case will depend heavily on the strength of the opposing party's legal arguments. In a post-*Hargis* world, trademark owners will want to carefully consider whether their arguments are likely to be better received by an administrative specialist or by a generalist court.

Factors favoring lawsuit. There are also a host of factors that may militate foregoing a TTAB opposition in favor of an infringement suit:

- Where a mark is already being widely used in the marketplace and *does* pose a substantial risk of irreparable harm, filing an infringement suit unquestionably provides the most direct avenue to money damages and injunctive relief.

- Similarly, if a trademark owner believes it has additional legal claims to bring against the party pursuing federal registration, it will typically be more efficient and more economically sensible to consolidate these claims into one omnibus complaint and pursue all available remedies simultaneously, in a single forum.
- Because the TTAB has limited power to compel discovery responses, if you anticipate that the opposing party will be uncooperative in the discovery process then it may be wise to go ahead and file suit in a court that is capable of effectively enforcing reasonable requests. Likewise, if you anticipate seeking substantial discovery from third parties, the ability to invoke judicial subpoena power in moving to compel discovery may prove beneficial.
- Finally, in a post-*Hargis* world, a trademark holder should always stop and try to identify the various legal issues that the TTAB is likely to “necessarily address” in the course of deciding an opposed application. Could the necessary resolution of ancillary (but highly important) legal issues—such as descriptiveness, acquired distinctiveness, abandonment, genericness, priority or dilution—expose you to subtle preclusive effects with broader ramifications outside the scope of the immediate dispute? If so, it is worth considering whether an administrative hearing where discovery may be subject to practical limitations is really the best vehicle for seeking a final resolution of these issues.

One thing is certain: *Hargis* has significantly raised the stakes involved in pursuing a TTAB opposition. Going forward, every trademark holder should give careful strategic consideration to the benefits and risks associated with challenging marks at the administrative level, and any party that loses in a TTAB proceeding will need to give additional consideration to the question whether or not to appeal the decision, either in a local federal district court or directly to the Federal Circuit.