

International Developments

B & B Hardware v. Hargis Industries — U.S. Supreme Court’s Roadmap for Giving Preclusive Effect to ITC Decisions in Patent Cases

By Daniel H. Shulman (Reynolds Group) and Donald W. Rupert (Marshall, Gerstein & Borun LLP)

On March 24, 2015, the U.S. Supreme Court handed down its decision in *B & B Hardware, Inc. v. Hargis Industries, Inc.*¹ The decision was remarkable enough for its specific holding, namely, that administrative decisions by a non-Article III court, the U.S. Patent and Trademark Office Trademark Trial and Appeal Board (“TTAB”), could give rise to issue preclusion in district courts under ordinary principles of issue preclusion. The implications, however, are sweeping in the intellectual property world. Beyond the specific cases that arise in the TTAB, or even for that matter in the newly created Patent Trial and Appeal Board (“PTAB”), patent disputes have become increasingly frequent in another non-Article III court, the International Trade Commission (“ITC”). While the U.S. Court of Appeals for the Federal Circuit has held — going back to at least the mid-1980s — that ITC decisions could not have preclusive effect on district court proceedings, *Hargis* provides a basis for questioning that line of authority. What is more, an analysis of how the Federal Circuit arrived at those holdings reveals a series of interpretation errors and compounded mistakes — many of which are now even more clear after *Hargis*.

Hargis Supreme Court Decision

Hargis presented the issue to the court of whether a determination of likelihood of confusion between two trademarks in an opposition proceeding at the TTAB would preclude re-litigation of the same issue in a district court infringement proceeding involving the same two parties and marks. The court held that if ordinary principles of issue preclusion are met, the answer would be “yes”:

“[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.”²

Using those guideposts, the court began its analysis.

First, the court confirmed its prior holdings that agency decisions (i.e. non-Article III courts) can create issue preclusion for district courts.³ The court reaffirmed its prior statements that “the principle of issue preclusion was so ‘well established’ at common law, in those situa-

tions in which Congress has authorized agencies to resolve disputes, ‘courts may take it as given that Congress has legislated with the expectation that the principle [of issue preclusion] will apply except when a statutory purpose to the contrary is evident.’ This reflects the Court’s longstanding view that ‘[w]hen an administrative agency is acting in a judicial capacity and resolves disputed issues of fact properly before it which the parties have had an adequate opportunity to litigate, the courts have not hesitated to apply *res judicata* to enforce repose’.”⁴

Second, the court found unpersuasive any notion that allowing issue preclusion to flow from an administrative agency would violate the Seventh Amendment right to a jury trial. The court specifically noted that decisions from juryless tribunals can give rise to issue preclusion. The court also specifically found that the policy in favor of issue preclusion compelled that decisions of the TTAB should have preclusive effect, even though the TTAB only has the power to control registration of marks and no authority to award damages for trademark infringement (the focus of the later litigation between the parties in *Hargis*).⁵

Third, the court addressed whether there is an “evident” reason that Congress would not have wanted the TTAB determinations to have preclusive effect. As shown below, it is *this* factor that has guided the Federal Circuit’s holdings on ITC matters. The court’s analysis here, therefore, is highly instructive. It noted that neither (a) the text, nor (b) the structure, of federal trademark law (i.e. the Lanham Act) forbids issue preclusion.⁶ The court stated that even available *de novo* review of TTAB decisions by district courts did not compel that conclusion; issue preclusion arises from a finding not appealed. A party is not precluded from seeking review of a finding in a reviewing court. When a party does not seek review, however, that finding can have preclusive effect in subsequent cases.⁷

The Supreme Court distinguished its earlier case, *Astoria Federal Savings and Loan Assoc. v. Solimino*,⁸ on the grounds that the state agency decision for which preclusive effect was sought in that case was, per the statute’s text and structure, a prerequisite to district court proceedings. There, had issue preclusion applied, the district court proceeding would have been purely *pro forma* because the issues would have already been conclusively litigated in the first required agency action. In contrast, the Lanham Act created parallel, and not prerequisite,

proceedings with opposition and infringement cases. Notably, in both *Astoria* and *Hargis*, the court looked only at the statutes themselves, and made no mention of the legislative history to find the “evident” intent of Congress.

Fourth, the court dismissed the argument that the precise statutes involved, or factual situations, might be different between infringement cases and opposition proceedings. The court noted that cases based on different statutory texts that nevertheless implicate the same legal standard can give rise to issue preclusion.⁹ The court also said that the presence of factual distinctions on the issues (in the case of opposition proceedings, for example, that the analysis is based on confusion of the conflicting marks as used on goods in the proposed registrations, rather than actual use in commerce) might be a reason not to apply issue preclusion in “some or even many cases,” but is not a reason to *never* apply issue preclusion.¹⁰

Fifth and finally, the court noted that the procedures used in both the district court and the TTAB were fair to the parties. Specifically, it held that the TTAB had adopted, by rule, the same Federal Rules of Evidence and Federal Rules of Civil Procedure as used by district courts. The court therefore found the procedures in the TTAB adequate to provide litigants with an opportunity to completely litigate issues. The court also found that the unavailability of live testimony in TTAB decisions did not detract from that fundamental fairness.¹¹

Federal Circuit’s ITC Decisions

Before applying the *Hargis* analysis to the matter of issue preclusion of ITC determinations, it is important to review how the Federal Circuit arrived at its position that ITC determinations should not give rise to issue preclusion. In doing so, it is useful to start from the most definitive pronouncement the Federal Circuit made to justify that result, and work backward from there looking at the authority it cited in support. When one does so, one can see the conclusion rapidly unravels.

The review of these authorities starts with *Texas Instruments Inc. v. Cypress Semiconductor Corp.*,¹² which has become the main cited Federal Circuit decision on the matter of issue preclusion and the ITC. In that case, Texas Instruments asked the district court to apply issue preclusion because the ITC had already determined that the same defendants (i.e. Cypress) had infringed the same valid patents with the same products being litigated in the district court. Thus, issue preclusion was squarely presented to the Federal Circuit.

The Federal Circuit’s analysis cited six different authorities or grounds for denying issue preclusion. Each was either misguided, misapplied, or is now unfounded in light of *Hargis*.

The Federal Circuit began by looking for the “evident” intent of Congress on this issue, citing, as did the Supreme Court in *Hargis*, the Supreme Court’s *Astoria* case. Despite recognizing first the policy in favor of issue pre-

clusion, the statement that provided the launching point for the Federal Circuit was the rather unremarkable one that, “an administrative agency decision, issued pursuant to a statute, cannot have preclusive effect when Congress, either expressly or impliedly, indicated that it intended otherwise.”¹³

Federal Circuit Improperly Relied on and Miscast Legislative History

In its first misstep, rather than analyzing the text and structure of the statutes in play (as the Supreme Court did in *Astoria*), the Federal Circuit turned immediately to the legislative history. In doing so, the Federal Circuit resorted to passages of the Senate Report accompanying the 1974 amendments to the Tariff Act (the Act giving rise to ITC proceedings) allowing the ITC to consider invalidity and unenforceability defenses. Even were legislative history persuasive (which is, at best, questionable), the legislative history *in this case* was miscast by the Federal Circuit. The Federal Circuit relied on the following passage from the relevant Senate Report:

“[I]n patent-based cases, the Commission considers, for its own purposes under section 337, the status of imports with respect to the claims of U.S. patents. The Commission’s findings neither purport to be, nor can they be, regarded as binding interpretations of the U.S. patent laws in particular factual contexts. Therefore, it seems clear that any disposition of a Commission action by a Federal Court should not have res judicata or collateral estoppel effect in cases before such courts.”¹⁴

The context of this passage is important, but ignored by the Federal Circuit in *Cypress*. The amendments being discussed were to add standard patent law defenses, i.e. invalidity and unenforceability, as defenses that could be raised in an ITC action. As the same legislative history pointed out in the passage just prior to that cited by the Federal Circuit, there was a gap in “existing law” that deprived respondents in the ITC of those defenses:

“The Commission has also established the precedent of considering U.S. patents as being valid unless and until a court of competent jurisdiction has held otherwise. However, the public policy recently enunciated by the Supreme Court in the field of patent law (compare with *Lear, Inc. v. Atkins*, 395 U.S. 653 (1969)) and the ultimate issue of the fairness of competition raised by section 337, *necessitate that the Commission review the validity and enforceability of patents, for the purposes of section 337, in accordance with contemporary legal standards when such issues are raised and are adequately supported.* The Committee believes the Commission may (and should when presented) under existing law review the validity and enforceability of patents, but Commission precedent and certain court decisions have led to the need for the language of amended section 337(c). The Commission is not, of course, empowered *under existing law* to set aside a patent as being invalid or to render it unenforceable, and the extent of the Commission’s authority under this bill is to take into consideration such defenses and to make findings thereon for the purposes of determining whether section 337 is being violated” (emphasis added).¹⁵

The passage above continued directly with the passage cited by the Federal Circuit in *Cypress*.

It is important to note *exactly* what the passage cited by the Federal Circuit in *Cypress* said, because the Federal Circuit neglects a key phrase. The passage notes (with the key phrase emphasized) that “any disposition of a Commission action *by a Federal Court* should not have res judicata or collateral estoppel effect in cases before such courts.” The words “by a Federal Court” is critical. The passage immediately subsequent to that passage addressed the availability of judicial review of ITC determinations, and subsequent appeals.¹⁶

It first appears that the phrase “disposition of a Commission action by a Federal Court” is odd. An ITC decision is self-executing. It does not require further district court “disposition”. However, it is reviewable, and, it is reviewable “by a Federal Court”. In that sense, an ITC decision may very well be “disposed of” by a Federal Court. The conclusion that such a disposition — keeping in mind the deferential standard of review for factual matters decided in agency proceedings¹⁷ — is not to be binding in “such courts” seems most clearly to be a reference to reviewing courts, i.e. courts of appeals. Consider that the Federal Circuit was not created until 1982. In 1974, at the time of this amendment, patent issues were decided by regional circuits. Accordingly, this statement appears to stand for no more than a recognition, under normal appellate practice, that a review of a factual matter under a deferential standard would not preclude a different result, in a different reviewing court, also applying a deferential standard of review.

Indeed, even assuming the legislative history should have influenced the analysis when the text and structure of the statutes did not make any such intent “evident,” the Federal Circuit’s citation to that passage would *only* support its conclusion *if the phrase “by a Federal Court” had been removed*. In other words, the Federal Circuit based its holding on a passage it read as “[t]herefore, it seems clear that any disposition of a Commission action should not have res judicata or collateral estoppel effect.” However, that is not what the legislative history says, and likely not what it meant.

Federal Circuit’s Case Citations Similarly Misapplied

The Federal Circuit’s citation to the above legislative history in *Cypress* represents a culmination of errors. In support of its (likely incorrect) reading of that legislative history, the Federal Circuit cites three cases: *Tandon Corp. v. ITC*,¹⁸ *Texas Instruments Inc. v. ITC*,¹⁹ and *Corning Glass Works v. ITC*,²⁰ all inapposite. In fact, just noting the parties in those cases, i.e. the ITC on one side, should immediately indicate that an ITC decision was being reviewed, and so issue preclusion of an ITC determination in a later case could not have arisen directly in those cases. In fact, it did not.

Beginning with *Tandon*, the cited passage dealt with the Federal Circuit’s statement that ITC factual decisions would be reviewed for substantial evidence rather than

clear error.²¹ The Federal Circuit noted that the “substantial evidence” standard was dictated directly by the statute, and in reality, the analysis should have ended there. However, in dicta, the Federal Circuit noted the same legislative history passage it relied upon above concerning disposition by a Federal Court and the res judicata or collateral estoppel effect of ITC decisions.²² The Federal Circuit’s citation plainly related to the standard of review, as did the Federal Circuit’s next sentence, “[t]hus, our appellate treatment of decisions of the Commission does not estop fresh consideration by other tribunals.” That statement, read especially in the context of the standard review of factual findings, is at least arguably (if inartfully), proper. Additionally, it is consistent with the proper reading of the legislative history, which, after all, related to appellate review of ITC decisions. Yet, it says nothing about issue preclusion.

The above statement in *Tandon* cites *Lannom Mfg. Co. v. ITC*,²³ but *Lannom* also had nothing to do with issue preclusion. There, all of the respondents had dropped out of the case, but the ITC found the patents invalid on its own initiative. The Federal Circuit, citing to that same legislative history passage referenced above — properly in this case because the amendments discussed were directly applicable to the availability of invalidity defenses — held that for invalidity to be considered, that issue needed to be raised as a defense by a respondent.²⁴ *Lannom* was limited to this context, and said nothing relevant to issue preclusion.

The next case cited in *Cypress* was *Texas Instruments Inc. v. ITC*.²⁵ That case was at best inapposite, and arguably supports the case for issue preclusion. The case involved an appeal of a decision from the ITC concerning a patent that had expired prior to appellate review. Because the ITC is only empowered to authorize prospective injunctive relief, the Federal Circuit dismissed the appeal as moot.²⁶ However, Texas Instruments had also asked the Federal Circuit to review the ITC’s decision that the patents had been held unenforceable, concerned about the effect that decision would have on other cases and patents in the family. The Federal Circuit noted its prior holding that ITC decisions had no collateral effect (citing *Tandon*, which as explained above, does not support that proposition), but nevertheless instructed the ITC to vacate the decision on remand due to the mootness of the case.²⁷ Because of the mootness issue, the issue preclusion matter was not actually decided. However, it is interesting that if the ITC decision truly had no preclusive effect, remanding to vacate the decision would have been unnecessary.

The last case cited in *Cypress*, *Corning Glass Works v. ITC*,²⁸ provides the most tenuous support of all. *Cypress* cites a footnote in *Corning Glass*, but remarkably, that footnote expressly says that the matter of issue preclusion has not been decided by the Federal Circuit:

“The ITC takes the position that its decisions have no *res judicata* effect in such litigation. *Although this question has not been addressed by this court*, the legislative history of the Trade Reform Act of 1974 supports the Commission’s position” (emphasis added).²⁹

Of course, the reference to the legislative history there is to the same passage the Federal Circuit has repeatedly relied on.

Finally, in *Cypress*, a footnoted reference suggests that issue preclusion by the ITC would raise Seventh Amendment concerns.³⁰ *Hargis* disposed of that argument.

The Federal Circuit's conclusion regarding the lack of issue preclusion arising from ITC proceedings, as it held in *Cypress* and subsequent cases, is not supported by the authorities it relied on. Accordingly, having unraveled the Federal Circuit's reasoning, we now apply the matter of issue preclusion in the ITC to the *Hargis* framework.

Application of *Hargis* Means ITC Decisions Give Rise to Issue Preclusion

The first two considerations by the court in *Hargis* merely confirm the applicability of issue preclusion to non-Article III courts, and that doing so does not implicate Seventh Amendment concerns. Notably, the court's response to the Seventh Amendment argument overcomes the rationale cited by the Federal Circuit in the footnote in *Cypress*.

The third consideration under *Hargis* is the "evident" intent of Congress. Beginning with the text and structure of the Patent Act and the Tariff Act, there is no explicit indication that Congress intended that ITC determinations *not* be given preclusive effect. Indeed, were it so, one would have expected the Federal Circuit to begin there rather than begin and end with questionable legislative history. In fact, what interplay does exist in the Tariff Act and district court litigation actually suggests that issue preclusion was, if not intended, then perhaps contemplated.

28 U.S.C. 1659 provides that a party to a district court proceeding who is also a respondent in an ITC case may take advantage of an automatic stay of the district court litigation pending the resolution of the ITC case. While issue preclusion is not mentioned anywhere, an automatic stay to allow the ITC case to resolve first would have its greatest benefit, from an efficiency standpoint, only if the same matters would not have to be re-litigated in the stayed proceeding. Further, as to the legislative history of the Tariff Act, as described in detail above, it can hardly be said that any Congressional intent concerning issue preclusion is "evident".

The fourth argument in favor of issue preclusion in *Hargis* also applies to ITC cases. The court noted that the minor variations in the Lanham Act wording between infringement cases and opposition proceedings made no difference in terms of the actual law applied. Similarly, ITC cases follow Federal Circuit law arising out of the Patent Act on the issues of infringement, validity and unenforceability, in determining whether importation of an infringing article constitutes "unfair trade practices" under the Tariff Act.

The final criteria — the fairness and adequacy of the forum procedures — also favors issue preclusion arising out of ITC matters. ITC procedures are adversarial and

closely follow the Federal Rules of Evidence and Federal Rules of Civil Procedure (albeit on statutorily mandated shortened schedules). Additionally, and unlike the TTAB, ITC cases do include live testimony. There is no meaningful argument that could be made that the procedures in the ITC are not equivalent to district court proceedings, or at least as close to district court proceedings as TTAB proceedings are.

Conclusion

In light of *Hargis*, and giving critical examination to the evolution of the Federal Circuit's law, it is likely that the matter of issue preclusion concerning ITC matters should be revisited. The relevant authority, both that erroneously relied on, as well as the new Supreme Court authority, strongly suggests that prior Federal Circuit precedent is wrong. The authors acknowledge that the implications of *Hargis* and this analysis significant. Currently, there are 45 cases pending at the ITC involving allegations of patent infringement. Plaintiffs who have attempted to enforce their patents at the ITC have done so with a "nothing to lose" expectation, because they could revisit issues in the district court litigation involving the same patent. In light of *Hargis*, that expectation may well be unsettled and issue preclusion may shut the door to subsequent district court litigation. Indeed, it is difficult to see how *Hargis* does not compel that result.

Daniel H. Shulman is Chief Intellectual Property Counsel for Reynolds Group Holdings Ltd, a global food packaging, consumer goods and food service enterprise. His responsibilities include managing the full global portfolio of over 2,800 patents and 2,200 trademarks, overseeing all IP litigation and IP transactional work, and setting the innovation strategies for all of the Reynolds companies.

Donald W. Rupert is a partner with Marshall, Gerstein & Borun LLP in Chicago. With more than 38 years' experience, he has handled well over 100 IP litigation matters in the chemical, consumer products, heavy equipment, pharmaceutical, and computer industries. He has been lead trial counsel in jury and bench trials, in the U.S. and internationally, and lead appellate counsel in IP appeals.

The views expressed herein are those of the authors and not their respective companies or firm.

Notes

¹ Case No. 13-352, 2015 WL 1291915 (2015).

² 2015 WL 1291915, at *7 (quoting Restatement (Second) of Judgments 27, p 250 (1980)).

³ Id.

⁴ Id.

⁵ Id, at *8.

⁶ Id, at *9.

⁷ Id.

⁸ 501 U.S. 104 (1991).

⁹ 2015 WL 1291915, at *10–11.

¹⁰ Id, at *11.

¹¹ Id, at *13. The court did recognize that the inability to introduce a live witness, in a particular case, may tip the scales of fairness, but called such a situation "rare" and noted the showing of unfairness would need to be "compelling" (id).

¹² 90 F.3d 1558 (Fed. Cir. 1996).

¹³ Id at 1568 (citing *Astoria Federal Savings and Loan Assoc. v. Solimino*, 501 U.S. 104, 110 (1991)).

¹⁴ Id at 1569 (quoting S. Rep. No. 1298, 93d Cong., 2d Sess. 196 (1974), reprinted in 1974 U.S.C.C.A.N. 7186, 7329).

¹⁵ S. Rep. No. 1298, 93d Cong., 2d Sess. 196 (1974), reprinted in 1974 U.S.C.C.A.N. 7186, 7329.

¹⁶ Id. (“The Judicial review provided is in the Court of Customs and Patent Appeals, in the same manner and subject to the same limitations and conditions as in the case of appeals from decisions of the U.S. Customs Court.”)

¹⁷ Note the reference in the passage cited by the Federal Circuit to “binding interpretations of the U.S. patent laws *in particular factual contexts*.”

¹⁸ 831 F.2d 1017 (Fed. Cir. 1987).

¹⁹ 851 F.2d 342 (Fed. Cir. 1988).

²⁰ 799 F.2d 1559 (Fed. Cir. 1986).

²¹ *Tandon*, 831 F.2d at 1019.

²² Id.

²³ 799 F.2d 1572 (Fed. Cir. 1986).

²⁴ Id at 1580.

²⁵ 851 F.2d 342 (Fed. Cir. 1988).

²⁶ Id at 344.

²⁷ Id (“Even if TI’s argument had merit, the established practice in dealing with civil cases that become moot while on their way through the appeal process is to ‘reverse or vacate the judgment below and remand with a direction to dismiss’.”)

²⁸ 799 F.2d 1559 (Fed. Cir. 1986).

²⁹ Id at 1570 n.12.

³⁰ *Cypress*, 90 F.3d at 1569 n.10