

Defendant Sings the Blues as Third Circuit Decides Claim Preclusion Based on Prior TTAB Decision Does Not Apply in Matter of First Impression

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In a recent precedential opinion, Beasley v. Howard, ___ F.4th ___ (3d Cir. 2021) (publication pending), the United States Court of Appeals for the Third Circuit determined, in an issue of first impression, that trademark cancellation proceedings before the Trademark Trial and Appeal Board (TTAB) do not have claim preclusive effective in trademark infringement lawsuits in federal district court.

In 1969, plaintiff David Beasley founded “The Ebonys,” a soul, funk and disco band based in the Philadelphia area. In the 1990s, defendant William Howard joined the band, but later parted ways, and both performers continued to use “The Ebonys” name. Of particular note, in 1997, Beasley had obtained a New Jersey state service mark for THE EBONYS, but in 2012, Howard was granted a federal trademark registration for THE EBONYS. Beasley alleged that since Howard’s registration was issued, he has regularly used it to interfere with Beasley’s business, for instance by keeping concert venues from booking Beasley’s performances and attempting to collect royalties from Beasley’s recordings.

In light of this, Beasley filed a TTAB petition to cancel Howard’s registration, alleging he had defrauded the Patent and Trademark Office (PTO), but the TTAB dismissed the petition for failure to establish fraud. A second petition was also later dismissed, ironically on grounds of preclusion; Beasley appealed neither one. However, still unsatisfied, Beasley filed a federal lawsuit for trademark infringement under Section 43(a) of the Lanham Act, 15 U.S.C. sec. 1125(a). Howard moved to dismiss the Complaint on the grounds of claim preclusion. The District Court granted the motion, reasoning that the infringement claim turned on the “facts and legal theories that were all actually litigated before the TTAB,” notwithstanding that a damages theory not pursued at the TTAB was being asserted in federal court. Beasley then appealed, with the lone issue on appeal whether Beasley’s prior losses in TTAB cancellation proceedings precluded his Section 43(a) claim.

The panel first recounted the claim preclusion doctrine, which requires “(1) a final judgment on the merits in a prior suit involving (2) the same parties or their privies and (3) a subsequent suit based on the same cause of action.” However, it noted that claim preclusion “generally does not apply where the plaintiff was unable to rely on a certain theory of the case or to seek a certain remedy because of the limitations on the subject matter jurisdiction of the courts.”

In determining whether this limitation applied, the panel noted that the TTAB has limited jurisdiction to determine only the right to register a trademark and not broader questions of infringement, and thus no authority to determine damages or injunctive relief. In contrast,

Section 43(a) creates liability for deceptive use in commerce of a mark likely to cause confusion as to affiliation, association, origin, sponsorship or approval of a defendant's products, as well as for deceptive advertising practices, a scope that it determined "extends far further" than the grounds on which the TTAB may cancel a mark under Section 14 of the Lanham Act, 15 U.S.C. sec. 1064, which also do not consider a party's "use" of the mark.

Thus, the panel held that claim preclusion does not apply when a plaintiff seeks damages or an injunction in a Section 43(a) infringement claim after pursuing a cancellation claim before the TTAB.

In reaching this decision, the panel noted that the Second and Ninth Circuits have also recognized the limited preclusive effect of TTAB proceedings. Moreover, it disagreed with Howard's argument that Beasley could have decided to first raise his claims in district court rather than the TTAB, and thus preclusive effect should still apply. Specifically, it recognized that a party, such as Beasley, could have "good reason" to first proceed before the TTAB because TTAB *inter partes* proceedings are expedited and require more limited discovery and proof than infringement suits.

Finally, the panel observed that issue preclusion would still apply to any issues actually decided before the TTAB and necessary to the judgment.

A copy of the Third Circuit opinion can be found at the following link.