Fed. Circ. Ruling Creates Circuit Split On ITC Preclusion

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May 24, 2910 - The U.S. International Trade Commission, a quasijudicial independent agency based in Washington, D.C., is a common forum for patent, trademark and trade secret disputes. The U.S. Court of Appeals for the Federal Circuit has long held that the ITC's rulings on patent infringement and validity issues do not have preclusive effect on later district court proceedings. According to the court, Congress "did not intend decisions of the ITC on patent issues to have preclusive effect."[1]

In a ruling issued on May 9 in Swagway LLC v. ITC,[2] the Federal Circuit extended this nonpreclusion rule to the ITC's findings in trademark cases as well, seeing "no reason" to distinguish between patent and trademark claims for preclusion purposes. But while this case marked the first time the Federal Circuit addressed the issue, other circuit courts of appeals have previously come to the opposite conclusion. The preclusive effect of the ITC's trademark rulings remains questionable, and the issue may be teed up for the U.S. Supreme Court.

The ITC Investigation Underlying Swagway

In the underlying ITC proceeding, Segway Inc., DEKA Products Limited Partnership and Ninebot (Tianjin) Technology Co. Ltd. (collectively, "Segway") filed a complaint alleging Section 337 violations based on infringement of six patents, as well as infringement of two registered trademarks. The two trademarks — the subjects of the appeal here — were for both the stylized and nonstylized versions of the "Segway" mark for "motorized, self-propelled, wheeled personal mobility de-vices, namely, wheelchairs, scooters, utility carts, and chariots." In addition to the patent infringement claims, Segway alleged that Swagway's self-balancing hoverboards (marketed as "Swagway" and "Swagtron") infringed Segway's marks.

After institution of the investigation, Swagway moved to terminate the trademark infringement allegations, agreeing to a consent order stipulation not to import products using the designations at issue. Declining to rule on the pending motion for consent order, the administrative law judge issued an initial determination that Segway's patents were not infringed, but finding that the "Swagway" designation did pose a likelihood of confusion and therefore infringed Segway's trademarks. The ALJ also noted that "[a]ny pending motion that has not been adjudicated is denied." The commission affirmed the ALJ's overall determinations on likelihood of confusion and trademark infringement, and entered an exclusion order.

The Federal Circuit's Decision

The appeal presented two main issues: (1) whether the commission correctly ruled on likelihood of confusion and trademark infringement, and (2) whether the commission erred in denying Swagway's consent order motion. Regarding trademark infringement, the court did not materially disagree with the commission's analysis of the likelihood-of-confusion issue, and affirmed the commission's decision in this respect.[3]

As for the consent order motion, the court first noted that practically speaking, there appeared to be virtually no difference between Swagway's proposed consent order and the exclusion order entered by the commission — each prevented Swagway from importing the products accused of trademark infringement. Swagway argued, however, that the commission's final decision and resulting orders, unlike the consent order, would have preclusive effect on later proceedings — particularly, a co-

pending case in the U.S. District Court for the District of Delaware between the parties.

The Federal Circuit rejected this reasoning. While this was an issue of first impression for the court, it looked to its prior rulings on the preclusive effect of ITC decisions in the patent context. Noting the Federal Circuit's history of denying the preclusive effect of the ITC on patent issues, the court saw "no reason to differentiate between" the preclusive effects of the Commission decisions in patent and trademark cases.[4] The court then held that the ITC's trademark decisions, like its patent decisions, do not have preclusive effect in subsequent district court proceedings.

Potential Implications and Circuit Split

Although prior to this case, the Federal Circuit had never squarely addressed the potential preclusive effect of the ITC's trademark decisions, this issued has been addressed before in other circuits. In fact, both the U.S. Court of Appeals for the Second Circuit[5] and the U.S. Court of Appeals for the Fourth Circuit[6] previously reached the opposite conclusion as the Federal Circuit did in Swagway, holding that trademark decisions by the ITC can have preclusive effect in district court.

Those courts noted that while the legislative history of Section 337 included statements explaining that the ITC's patent-related rulings are not intended to be binding on district courts, the legislative history included no similar statement on any nonpatent issues (such as trademarks). Indeed, other courts of appeal and district courts have also found that the ITC's decisions in additional nonpatent areas, such as antitrust and trade secrets, can have preclusive effect as well.[7]

So while the Federal Circuit's ruling appears to be a straightforward one, the question of whether ITC trademark rulings have a preclusive effect remains unsettled. Due to the disagreement among the circuits, it is not clear whether preclusion will apply in a given situation. For example, in this situation, the District of Delaware or the U.S. Court of Appeals for the Third Circuit might find the Federal Circuit's decision on the preclusion issue to be nonbinding, and apply issue preclusion to the ITC's trademark infringement findings.

Litigants in different jurisdictions will have to pay close attention to their own circuit's take on the issue, and consider which of these approaches to preclusion is more likely to adhere to that circuit's past precedent. This circuit split may even lead the Supreme Court to take up the issue — but for now, litigants will have to wade through murky territory.

Furthermore, one question that may arise after Swagway — particularly if the issue reaches the Supreme Court or an en banc Federal Circuit — is whether the Federal Circuit's approach to preclusion, either in the patent or trademark context, is at odds with Supreme Court precedent.

In a 2015 opinion in B&B Hardware Inc. v. Hargis Industries Inc., the Supreme Court confirmed that issue preclusion can apply to decisions made by administrative agencies — noting that absent a contrary indication, Congress presumptively intends an agency's determinations to have preclusive effect.[8] In the ITC context, the Federal Circuit has long stated that its holdings regarding the lack of preclusive effect for ITC patent-related decisions issues are based on statements in the legislative history of Section 337 that indicate that "Congress did not intend decisions of the ITC on patent issues to have preclusive effect."[9] But in B&B Hardware, the Supreme Court looked not at the legislative history, but to the text and structure of the relevant statute (there, the Lanham Act) in order to decide whether issue preclusion was appropriate.[10]

Indeed, a variety of Supreme Court justices have warned against relying too heavily on the legislative history to ascertain congressional intent on a given issue.[11] With potential renewed attention to ITC-related preclusion raised by by the Federal Circuit's Swagway decision, the issue of the preclusive effect of ITC proceedings could potentially be revisited in the not-too-distant future.

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[1] Texas Instruments Inc. v. Cypress Semiconductor Corp., 90 F.3d 1558, 1569 (Fed. Cir. 1996) (citing the legislative history of the Trade Act of 1974, which amended Section 337).

[2] Swagway, LLC v. ITC, No. 2018-1672 (Fed. Cir. May 9, 2019).

[3] Swagway, slip. op. at 7-12.

[4] Id. at 13.

[5] See Union Mfg. Co. v. Han Baek Trading Co., 763 F.2d 42 (2d Cir. 1985).

[6] See Baltimore Luggage Co. v. Samsonite Corp., 977 F.2d 571 (4th Cir. 1992).

[7] See Aunyx Corp. v. Canon U.S.A., Inc., 978 F.3d 3, 6-7 (1st Cir. 1992) (antitrust); Manitowoc Cranes LLC v. Sany Am. Inc., No. 13-C-677, 2018 WL 582334 (E.D. Wis. Jan. 29, 2018) (trade secrets).

[8] B&B Hardware, Inc. v. Hargis Indus., Inc., 135 S. Ct. 1293, 1304-05 (2015).

[9] Texas Instruments, 90 F.3d at 1569; see also Tandon Corp. v. ITC, 831 F.2d 1017, 1019 (Fed. Cir. 1987) (quoting legislative history of Trade Act of 1974 and holding that "appellate treatment of decisions of the Commission does not estop fresh consideration by other tribunals").

[10] Id. at 1305.

[11] See, e.g., Exxon Mobil Corp. v. Allapattah Services, Inc., 545 U.S. 546, 568 (2005) ("As we have repeatedly held, the authoritative statement is the statutory text, not the legislative history or any other extrinsic material . . . legislative history is itself often murky, ambiguous, and contradictory"); Digital Realty Trust, Inc. v. Somers, 138 S. Ct. 767, 783-784 (2018) (Thomas, J., concurring).