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Federal Circuit Holds that ITC's Trademark Decisions Are Not Binding on District Courts, Creating a Potential Circuit Split

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The U.S. International Trade Commission, a quasi-judicial independent agency based in Washington, D.C., is a common forum for patent, trademark, and trade secret disputes. 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." *Texas Instruments Inc. v. Cypress Semiconductor Corp.*, 90 F.3d 1558, 1569 (Fed. Cir. 1996) (citing the legislative history of the ITC's governing statute).

In a ruling issued on May 9 in *Swagway, LLC v. ITC* opinion, the Federal Circuit extended this non-preclusion 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 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 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 non-stylized versions of the SEGWAY mark for "motorized, self-propelled, wheeled personal mobility devices, 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 ALJ 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.

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 accused products. 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 District of Delaware.

The Federal Circuit rejected this reasoning. While this was an issue of first impression for the court, it looked to its prior rulings 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. 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

While this issue was one of first impression for the Federal Circuit, the preclusive effect of ITC trademark rulings has been addressed before in other circuits. Both the Second Circuit (in *Union Manufacturing Co. v. Han Baek Trading Co.*, 763 F.2d 42 (2d Cir. 1985)) and the Fourth Circuit (in *Baltimore Luggage Co. v. Samsonite Corp.*, 977 F.2d 571 (4th Cir. 1992)) previously reached the opposite conclusion, 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 noting that the ITC's patent-related rulings are not intended to be binding on district courts, no similar statement on any non-patent issues (such as trademarks) is present in the statute or legislative history. Indeed, some district courts have also found that the ITC's decisions in other non-patent areas, such as trade secrets, can have preclusive effect as well. *See Manitowoc Cranes LLC v. Sany Am. Inc.*, No. 13-C-677, 2018 WL 582334 (E.D. Wis. Jan. 29, 2018).

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 this 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 Third Circuit might find the Federal Circuit's decision on the preclusion issue to be non-binding, and find the ITC's trademark infringement decision to have preclusive effect.) Litigants in different jurisdictions will have to pay close attention to their own circuit's take on the issue, or determine which of these approaches 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 slightly murkier territory.