OLIFF
ATTORNEYS AT LAW
SPECIAL
REPORT

FOURTH CIRCUIT TAKES NEW APPROACH TO APPELLATE REVIEW OF DISTRICT COURT USPTO APPEALS

March 21, 2014

A recent Fourth Circuit opinion, *Swatch S.A. v. Beehive Wholesale, LLC*,[1] takes a new approach to the standard applied by a district court in reviewing USPTO decisions, holding that whenever new evidence is submitted in a district court case, review of all USPTO factual determinations must be *de novo*. This decision, in which Oliff PLC represented the successful appellee, will control future USPTO-derived trademark appeals in the Fourth Circuit, and may affect appeals of USPTO decisions elsewhere in both patent and trademark cases.

I. The Case Background and Result

The *Swatch* case, which was also discussed in our August 30, 2012 Special Report, originated as an opposition proceeding before the Trademark Trial and Appeal Board (TTAB) of the United States Patent and Trademark Office (USPTO) brought by Swatch against the application of our client, Beehive. Swatch asserted three issues: (1) likelihood of confusion between Swatch's mark SWATCH and Beehive's mark SWAP, (2) likely dilution of SWATCH by SWAP, and (3) that SWAP was ineligible for trademark registration as merely descriptive of the relevant goods: watch faces and bands that are interchangeable. The TTAB ruled against Swatch on all these issues in 2011.

Swatch appealed to the United States District Court for the Eastern District of Virginia. Based on the TTAB trial record and additional evidence, the district court again ruled against Swatch on all three issues.[2]

Swatch appealed that decision to the United States Court of Appeals for the Fourth Circuit, which again ruled against Swatch on all three issues. In doing so, however, the Fourth Circuit enunciated a new test for appellate review of TTAB decisions, rejecting the test applied by the district court.

II. Review of USPTO Decisions

A party who has lost before the TTAB has two appellate options: (1) an appeal to the United States Court of Appeals for the Federal Circuit under 15 U.S.C. § 1071(a), or (2) an appeal by "civil action" before a federal district court under 15 U.S.C. § 1071(b). An appeal to the Federal Circuit is exclusively on the basis of the record developed before the TTAB, while in an appeal by civil action the record can include both the evidence before the TTAB and further evidence introduced by the parties.

A parallel procedure applies to appeals of USPTO patent decisions, which are issued by the Patent Trial and Appeal Board (PTAB). Under

[1] 739 F.3d 150, 109 USPQ2d 1291 (4th Cir. 2014).

[2] *See Swatch, S.A. v. Beehive Wholesale, L.L.C.*, 888 F. Supp. 2d 738 (E.D. Va. 2012).

35 U.S.C. § 141, a patent applicant unsuccessful before the PTAB may take an appeal to the Federal Circuit. Alternatively, such an applicant may "have remedy by civil action" under 35 U.S.C. § 145.

III. Appellate Standards Applicable to Review of USPTO Decisions

When an appeal is taken to the Federal Circuit based solely on the record created before the TTAB or PTAB, the USPTO's decision is reviewed under the deferential "substantial evidence" standard applicable to administrative action. *Dickinson v. Zurko*, 527 U.S. 150 (1999).[3] Under this standard, the agency decision is upheld if there is any substantial evidence to support it.

In the *Swatch* case, the district court held that a "dual" standard of review is applied to an appeal of a USPTO decision by "civil action." The district court determined that where new evidence is introduced, its role was as an initial fact finder reviewing the evidence *de novo*. However, in the absence of new evidence, the district court considered its role to be that of an appellate reviewer of facts found by the TTAB, applying the substantial evidence standard. 888 F. Supp. 2d at 745.

IV. The Fourth Circuit's Analysis

The Fourth Circuit concluded that the standard of review articulated by the district court was erroneous. 739 F.3d at 156. Because Swatch submitted new evidence before the district court, the Fourth Circuit held that a *de novo* review of the entire record was required.

In reaching this conclusion, the Fourth Circuit relied on *Kappos v. Hyatt*, 132 S. Ct. 1690 (2012). The Supreme Court held in *Kappos* that "where new evidence is presented to the district court on a disputed fact question, a *de novo* finding will be necessary to take such evidence into account together with the evidence before the board." 739 F.3d at 156 (*quoting* 132 S. Ct. at 1700).

The Fourth Circuit, however, applied this holding much more broadly than did the Supreme Court, and arguably in conflict with the Supreme Court's decision in *Zurko*. The Fourth Circuit implied that when new evidence is presented on "a disputed fact question," *de novo* review is necessary as to <u>all</u> fact questions. This is a proposition never put forth by the Supreme Court. The Supreme Court's holding applied only to the extent new evidence was admitted relevant to "a disputed fact question."

There can be many fact issues in a case. For example, in the Fourth Circuit, likelihood of confusion is an ultimate fact issue, turning on the analysis of a nine-factor test, each factor of which is a potential secondary fact issue. Each of those secondary factors can be dependent on the presence or absence of further subsidiary facts. For example, the second factor is "the similarity of the two marks to consumers." Among the tertiary facts relevant to that factor in the *Swatch* case were that "SWATCH and SWAP: 1) look different when written; 2) sound different when spoken; and 3) have completely different meanings in common usage." 739 F.3d at 159.

The Fourth Circuit appeared to overlook the presence of multiple fact issues in cases, perhaps causing it to misread *Kappos* as mandating ignoring the USPTO decision. *See* 739 F.3d at 156 & n.6 (except when a party has withheld evidence from the USPTO, which may affect the weight to be given to the new evidence, "*Kappos* seems to prohibit any other reliance on

[3] In the *Zurko* case, the Supreme Court reversed the Federal Circuit's former practice of reviewing USPTO decisions under the less deferential "clearly erroneous" standard.

the TTAB's findings and conclusions").[4] Under the Fourth Circuit's approach, the introduction of new evidence on a single fact issue would require *de novo* review as to all fact issues in a case, even those that had been thoroughly vetted before the TTAB. This is inconsistent with the rationale of *Zurko*, which rejected application of the deferential "clearly erroneous" factual review standard to USPTO decisions, in favor of the even more deferential "substantial evidence" factual review standard. The *de novo* review standard would not defer to TTAB determinations at all. The Fourth Circuit did not explain why, when there is no new evidence bearing on a fact, the TTAB's factual determination as to that fact should be subject to highly deferential review when appealed directly to the Federal Circuit and to no deference whatsoever when appealed to a district court.

The Fourth Circuit analysis is also contrary to the three authorities relied upon by Judge O'Grady in his *Swatch* district court opinion: (1) the analysis in *Skippy, Inc. v. Lipton Inv., Inc.*, 345 F. Supp. 2d 585, 586 (E.D. Va. 2002), which the Fourth Circuit affirmed *per curiam*, 74 Fed. Appx. 291 (4th Cir. 2003); (2) the views of Professor McCarthy in McCarthy on Trademarks and Unfair Competition § 21:21 (4th ed. 2012); and (3) the views of the Seventh Circuit in *CAE, Inc. v. Clean Air Eng'g, Inc.*, 276 F.3d 660, 674 (7th Cir. 2001). The Fourth Circuit's approach is also contrary to its own repeated reference to the need for reliance on USPTO expertise in distinguishing between descriptive and suggestive marks. *See Pizzeria Uno Corp. v. Temple*, 747 F.2d 1522, 1528-29 (4th Cir. 1984); *Lone Star Steakhouse & Saloon v. Alpha of Va., Inc.*, 43 F.3d 922, 934 (4th Cir. 1995); *U.S. Search, LLC v. U.S. Search.com, Inc.*, 300 F.3d 517, 524 (4th Cir. 2002); *George & Co., LLC v. Imagination Entm't Ltd.*, 575 F.3d 383, 395 (4th Cir. 2009).

Such prior authority, of course, might be irrelevant if it were trumped by the more recent *Kappos* decision of the Supreme Court. However, the rationale of the Supreme Court in *Kappos* only applied where there was new evidence that was pertinent:

> The district court must assess the credibility of new witnesses and other evidence, determine how the new evidence comports with the existing administrative record, and decide what weight the new evidence deserves. As a logical matter, the district court can only make these determinations *de novo* because it is the first tribunal to hear the evidence in question.

132 S. Ct. at 1700 (emphasis added). When there is no new evidence bearing on a fact, there is no need for *de novo* review because the district court is not then "the first tribunal to hear the evidence in question." With respect to that fact, the need for deference to administrative expertise, given effect by the Supreme Court in *Zurko*, would seem applicable.

V. Recommendations In View of the Fourth Circuit's Analysis

Within the Fourth Circuit, which covers the states of Maryland, Virginia, West Virginia, North Carolina and South Carolina, the *Swatch* decision has precedential effect. Indeed, it has already been applied by at least one district court. *See Timex Group USA, Inc. v. Focarino*, 2014 WL 130977 (E.D. Va. 2014). If applied uncritically, the effect of the Fourth Circuit's approach is to provide an appellant from a TTAB decision with a *de novo* review — the proverbial second bite at the apple — if any new evidence is added to the record, regardless of the probative

[4] There were subsidiary facts as to which no new evidence was introduced by Swatch, such as the similarities between the marks and Beehive's intent in adopting its mark. *See* 739 F.3d at 159 & 161.

effect of that evidence. The district courts in the Fourth Circuit are thus attractive venues in which to bring such appeals.

Of course, the theoretical effect of *de novo* review may not be sufficient to make a practical difference. Despite its reversal with respect to the standard of review, the Fourth Circuit had little trouble holding that the district court had pointed to sufficient evidence in the record to support each of the ultimate factual conclusions it reached, regardless of whether the nominal level of review it applied was *de novo* or for substantial evidence.

If a USPTO decision is reviewed by a civil action brought outside the Fourth Circuit, an appellant should consider arguing for the application of the *Swatch* decision, as a less deferential standard of review is beneficial to the unsuccessful party. This argument could be made in either a trademark case or a patent case, given the parallel nature of the statutory provisions.[5] However, for the reasons given above, there is a substantial argument that the Fourth Circuit has misapplied the holding of *Kappos*, and so it is unclear whether courts outside the Fourth Circuit will adopt the rationale of the *Swatch* case. Certainly, an appellee outside that Circuit should argue to the contrary and, if in the Fourth Circuit, should consider arguing for clarification of the review standard.

Aside from the potential for forum shopping that the *Swatch* decision makes possible, unsuccessful litigants before the TTAB considering an appeal should also consider the factors described in our August 30, 2012 Special Report.

* * * * *

Oliff PLC is a full-service Intellectual Property law firm based in historic Alexandria, Virginia. The firm specializes in patent, copyright, trademark, and antitrust law and litigation, and represents a large and diverse group of domestic and international clients, including businesses ranging from large multinational corporations to small privately owned companies, major universities, and individual entrepreneurs.

For further information, please contact us by telephone at (703) 836-6400, facsimile at (703) 836-2787, email at email@oliff.com or mail at 277 South Washington Street, Suite 500, Alexandria, Virginia 22314. Information about our firm can also be found on our web site, www.oliff.com.

スペシャル･レポートの日本語版は、英語版の発行後、二週間以内にウエブ･サイトでご覧いただけます。

[5] Appeals in a district court patent case will be to the Federal Circuit. Accordingly, Federal Circuit law will apply to those cases, even if they are brought within the Fourth Circuit.