

No. 19-48

In The
Supreme Court of the United States

B&B HARDWARE, INC.,

Petitioner;

v.

HARGIS INDUSTRIES, INC., d/b/a
SEALTITE BUILDING FASTENERS, d/b/a
EAST TEXAS FASTENERS, et al.,

Respondents.

**On Petition For A Writ Of Certiorari
To The United States Court Of Appeals
For The Eighth Circuit**

REPLY BRIEF FOR PETITIONER

TIM CULLEN
CULLEN & Co., PLLC
Post Office Box 3255
Little Rock, AR 72203
(501) 370-4800
tim@cullenandcompany.com

Counsel for Petitioner

August 21, 2019

TABLE OF CONTENTS

	Page
REPLY BRIEF FOR PETITIONER.....	1
I. Respondent Hargis' attempts to divert this Court's attention to irrelevant facts that have no bearing on the questions pre- sented for review	3
II. Respondent Fails To Explain Away The Conflict Between Regional Courts of Ap- peals and the Federal Circuit Over The Correct Legal Standard to Apply to Claims of Fraud on the USPTO in Obtaining or Maintaining a Trademark	6
III. Applying the wrong standard of review compounded the legal error on the test for a fraud finding.....	10
IV. This Court's anticipated decision in <i>Ro-</i> <i>mag</i> is dispositive	11
CONCLUSION.....	14

TABLE OF AUTHORITIES

	Page
CASES	
<i>B&B v. Hargis</i> , 912 F.3d 445 (8th Cir. 2018)	7
<i>B&B v. Hargis</i> , 135 S.Ct. 1293, 191 L.Ed. 2d 222 (2015).....	12, 13
<i>Fair Isaac Corp. v. Experian</i> , 650 F.3d 1139 (2011).....	2, 6
<i>Fishman Transducers, Inc. v. Paul</i> , 684 F.3d 187 (1st Cir. 2012).....	9
<i>Halliburton Co. v. Schlumberger Tech. Corp.</i> , 925 F.2d 1435 (Fed. Cir. 1991)	8
<i>Hokto Kinoko Co. v. Concord Farms, Inc.</i> , 738 F.3d 1085 (9th Cir. 2013).....	9
<i>In re Bose Corp.</i> , 580 F.3d 1240 (Fed. Cir. 2009) <i>passim</i>	
<i>Jones v. Miles</i> , 656 F.2d 103 (5th Cir. 1981).....	11
<i>Masters v. UHS of Del., Inc.</i> , 631 F.3d 364 (8th Cir. 2011)	12
<i>Minn. Pet Breeders, Inc. v. Schell & Kampeter</i> , 41 F.3d 1242 (8th Cir. 1994).....	12
<i>MPC Franchise, LLC v. Tarntino</i> , 826 F.3d 653 (2d Cir. 2016)	9
<i>Park 'N Fly, Inc. v. Dollar Park & Fly, Inc.</i> , 469 U.S. 189 (1985)	8
<i>Patsy's Italian Rest., Inc. v. Banas</i> , 658 F.3d 254 (2d Cir. 2011)	8, 9

TABLE OF AUTHORITIES – Continued

	Page
<i>Rand v. National Financial Ins. Co.</i> , 304 F.3d 1049 (11th Cir. 2002).....	11
<i>Romag Fasteners, Inc. v. Fossil, Inc.</i> (No. 18-1233)	1, 3, 11, 12, 13
<i>Sovereign Military Hospitaller Order of St. John v. Florida Priory of Knights Hospitallers</i> , 702 F.3d 1279 (11th Cir. 2012).....	9
<i>Sweetarts v. Sunline, Inc.</i> , 436 F.2d 705 (8th Cir. 1971)	12
<i>Therasense</i>	<i>passim</i>
 STATUTES	
15 U.S.C. § 1058(a).....	4
15 U.S.C. § 1059(a).....	4
15 U.S.C. § 1064(3).....	8
15 U.S.C. § 1117(a).....	12
 RULES AND REGULATIONS	
Fed. R. Civ. Proc. 9(b)	9
Fed. R. Civ. Proc. 50	2, 11
Fed. R. Civ. Proc. 59	1, 2, 10, 11
Fed. R. Civ. Proc. 59(a)(2).....	11
Fed. R. Civ. Proc. 59(e)	11

REPLY BRIEF FOR PETITIONER

The Federal Circuit in *Bose* and *Therasense* has established a comprehensive test to properly analyze fraud claims raised as a defense in trademark litigation. That test makes it clear that mere negligence is not sufficient to infer fraud or dishonesty. Most regional Circuits reference this standard, but several (including the Eighth Circuit) fail to apply this standard in practice. Absent consistency in this important standard, trademark litigants face uncertainty and risk substantial injustice where fraud claims mean one thing in one region and another elsewhere.

The established Federal Circuit standard should apply to all courts to resolve this inconsistency between Circuits. Further, had the Eighth Circuit used the proper standard of review (abuse of discretion) for B&B's Rule 59 motion instead of plain error review, the Eighth Circuit would have been required to address the fraud standard of the Federal Circuit. Additionally, such review would also require the Eighth Circuit to consider the willfulness issue that has been accepted for review in *Romag*. These questions have been squarely presented and are outcome determinative.

Respondent does not meaningfully defend the Eighth Circuit reasoning. Instead, Respondent offers four rationales in support of the district court judgment. First, Respondent uses its statement of facts to claim that every action taken by Petitioner against

Respondent's infringement was an element of fraudulent behavior.

Second, Respondent contends that no Circuit split exists because the standard used by the Federal Circuit is used by all Circuits including the Eighth Circuit. Respondent's claim is that if a Circuit cites *Bose* (or *Therasense*), it means they have applied the Federal Circuit analysis for a fraud claim. However, referencing a standard isn't the same as applying the standard. In defense of the Eighth Circuit decision here, Respondent cites to *Fair Isaac Corp. v. Experian* claiming that "both standards require intent and materiality." Respondent argues that because both standards use some of the same words, the requirement of materiality and intent must be the same. Instead, *Fair Isaac Corp.* is a perfect example of the differing view of materiality between the Federal Circuit and the Eighth Circuit because the decision in *Fair Isaac Corp.* is inconsistent with the "but-for" requirement for materiality established by the Federal Circuit in *Therasense*.

Third, Respondent contends that Petitioner has waived its right to a proper standard of review reasoning that it was not properly briefed, that plain error review was conceded to in oral argument, and that there is no Circuit split on the issue. However, Rule 59 does not require the filing of a Rule 50 motion at the close of evidence. The controlling standard of review for a Rule 59 motion is abuse of discretion, not plain error, and a mistaken concession does not invalidate a controlling standard of review. Additionally, a Circuit

split is not a requirement to correct a wrong standard of review.

Fourth, Respondent argues that the determination of this court in *Romag Fasteners, Inc. v. Fossil, Inc.* is not outcome determinative in this case because the district court only “considered Hargis’s lack of willfulness as one of several factors in its equitable analysis.” However, the Eighth Circuit historically has required willfulness for a disgorgement of profits. *See* Fn. 2, below. In ruling on disgorgement, the District Court stated: “considering these factors and how courts within the Eighth Circuit address similar situations, B&B would not be entitled to a profit award.” *See* D438 pages 4-5. The district court ruling on the willfulness issue must be reviewed in light of this Court’s anticipated decision on that precise point in *Romag*.

I. Respondent Hargis’ attempts to divert this Court’s attention to irrelevant facts that have no bearing on the questions presented for review.

Petitioner stands by its statement of facts in the opening petition.

Respondent raises several “factual” points not addressed in the opening petition. Although not relevant to the legal analysis of the questions presented, Respondent represents them as a legal argument to imply fraudulent behavior, Petitioner will briefly rebut those points.

First, Hargis emphasizes that it and B&B sell fasteners to different markets. However, likelihood of confusion between the two marks has already been determined by the TTAB and addressed by this court.

Next, Hargis stated without citation that it believed B&B had abandoned its mark. Failing to mention that it was at the same time claiming to be senior user of the mark both of which were disproven.

Next, Hargis references the 2010 jury verdict in its favor – a decision this Court reversed.

Next, Hargis recounts they discovered B&B had allowed its registration to lapse in 2013.¹ However, in Dkt. 411, the District Court previously addressed the relevance of this argument. The court reasoning that:

“Although the PTO’s listing states that the trademark was cancelled on February 29, 2016, Hargis argues that it occurred some time prior. B&B has since reapplied for registration, but no decision has been made. The

¹ The Lanham Act provides that registrations may be renewed for ten-year periods. 15 U.S.C. §§ 1059(a), 1058(a). B&B registered its mark on October 12, 1993. It was renewed ten years later in 2003. But B&B failed to renew again in 2013. This was a colossal oversight on the part of B&B. However, there is no evidence that it was fraudulent or that B&B tried to conceal this lapse. Hargis tried to use this lapse as a sword to defeat all of B&B’s claims. Doc. 341 – Motion for Judgment on the Pleadings. The trial court properly rejected this argument, finding that B&B had an actionable right to its trademark from its inception up until October 13, 2013. The trial court so ruled, and Hargis failed to cross appeal on that point. Therefore, the lapse has no bearing on the legal issues presented here.

parties disagree on what impact, if any, these developments have on the parties' claims." Dkt. 390.

The court ultimately determined that the lapse would limit the timeframe of B&B's claim for damages but had no further impact on B&B's infringement claims. Dkt. 390.

Next, Hargis quoted selectively from trial testimony about the affidavit of incontestability. Hargis omits Mr. Bogatz's explanation for why he did not view the 2000 verdict as adverse to B&B's mark because the mark remained ("on the Principal Register of the Patent and Trademark Office"). *Transcript Vol. 3, page 573*. Further omitted is the undisputed testimony that Mr. Bogatz relied on the advice of counsel in making this determination, and that the TTAB itself had referenced the district court decision prior to placing B&B's mark back on the principal register. *Transcript Vol. 3, pages 509-510*.

All of these undisputed facts plainly defeat even an inference that the affidavit of incontestability was filed with intent to defraud the PTO. None of these "factual" arguments raised by Respondent detract from the cert-worthiness of this petition.

II. Respondent Fails To Explain Away The Conflict Between Regional Courts of Appeals and the Federal Circuit Over The Correct Legal Standard to Apply to Claims of Fraud on the USPTO in Obtaining or Maintaining a Trademark.

Respondent claims there is no split of authority among the Circuits on the standard for finding fraud on the USPTO in obtaining or maintaining a trademark. In so doing, Respondent ignores the authority cited in the petition. Respondent further relies on an Eighth Circuit citation to the Federal Circuit's caselaw, but fails to analyze whether the Eighth Circuit decision actually applies it. It doesn't. Finally, Respondent claims no split of authority among the other Circuits stating that all Circuits are in compliance with *In re Bose Corp.*, 580 F.3d 1240, 1243 (Fed. Cir. 2009). Yet the Circuits themselves have identified and articulated a split between Circuits.

Respondent cites to *Fair Isaac Corp. v. Experian*, 650 F.3d 1139, 1148 (2011) claiming that the Eighth Circuit follows *Bose*. However, the Eighth Circuit has only facially cited to *Bose*, but does not in fact reference or apply *Bose* here or in any other case. In *Fair Isaac*, the Eighth Circuit did not include the Federal Circuit's holding on the very high burden of proof for fraud or discuss the important distinction between a "false" representation and a "fraudulent" one. Indeed, the Eighth Circuit in *Fair Isaac* (and Respondent) emphasize the materiality element of the test. But under

Bose, even a material misstatement is not fraud absent evidence of intent to deceive.

Respondent acknowledges that the Eighth Circuit test is whether a party “willfully withholds material information.” Respondent Opposition at 9. Respondent claims this meets the intent prong of the *Bose* test. It doesn’t.

The Eighth Circuit standard applied here departs significantly from the Federal Circuit standard announced in *Bose* and *Therasense*:

Fraud on the PTO consists of willfully withholding material information that, if disclosed, would result in an unfavorable outcome. We define “material information” in this context as “information that a reasonable examiner would have considered important” when making her decision.

B&B v. Hargis, 912 F.3d 445, 451 (8th Cir. 2018) (cleaned up).

The Eighth Circuit standard applied here made no inquiry into *why* the information was withheld. The testimony on that point was uncontradicted. The information (a prior jury verdict involving the mark) was not disclosed by the C.E.O. of B&B to the PTO on the *advice of counsel* that the information was not a “final adverse determination.” That advice could have been right or wrong, which might have given rise to an inference of an honest misunderstanding, negligence, or even gross negligence, but it was *not* clear and

convincing evidence of a willful intent to deceive as required by *Bose*.

Further, the Eighth Circuit test for materiality is similar to the inequitable conduct standard specified by *Halliburton Co. v. Schlumberger Tech. Corp.*, 925 F.2d 1435, 1440 (Fed. Cir. 1991) which is no longer Federal Circuit precedence and is a vast departure from the “but-for” standard of materiality now required by the Federal Circuit in *Therasense*.

Applying the *Bose* and *Therasense* tests to the evidence makes it perfectly clear that such a dispute cannot, as a matter of law, meet the high burden to prove fraud on the PTO.

The Eighth Circuit has previously held that to invoke cancellation of a registration, the alleged misrepresentation must go to the registration itself. A later Section 15 declaration is not an act in “obtaining a registration.” 15 U.S.C. § 1064(3) (2012). The statute therefore allows cancellation only if the registration itself, and not the incontestable evidentiary presumptions secured by a Section 15 declaration, is obtained fraudulently. *See Park 'N Fly, Inc. v. Dollar Park & Fly, Inc.*, 469 U.S. 189, 195 (1985).

Petitioner noted the conflict between the Second Circuit and the Federal Circuit as articulated in *Patsy's Italian Rest., Inc. v. Banas*, 658 F.3d 254 (2d Cir. 2011) (holding that “mere negligence” or “known or should have known” is adequate to support a finding of fraud in the Second Circuit). Respondent’s

resolution to this conflict was another example of factually citing but not actually applying the *Bose* test.

Respondent cites to *MPC Franchise, LLC v. Tarntino*, 826 F.3d 653, 659 (2d Cir. 2016). This case supports Petitioner's argument where the Second Circuit acknowledged the dicta in *Patsy's Italian Rest., Inc.* **did** contradict the *Bose* standard. The Second Circuit does not address how the *Bose* standard will affect its law going forward, only that the argument didn't change the outcome for *Tarntino*. However, in its decision the Second Circuit does reference cases also embodied within the present petition that are clearly **not** in compliance with the Federal Circuit standard in either *Bose* or *Therasense*.

Respondent likewise fails to resolve the conflicting holdings from the Eleventh Circuit (*Sovereign Military Hospitaller Order of St. John v. Florida Priory of Knights Hospitallers*, 702 F.3d 1279 (11th Cir. 2012)) and the Ninth Circuit. *Hokto Kinoko Co. v. Concord Farms, Inc.*, 738 F.3d 1085 (9th Cir. 2013).

Finally, Respondent dismisses the conflict noted in *Fishman Transducers, Inc. v. Paul*, 684 F.3d 187, 193 (1st Cir. 2012) as inapposite. But trademark law is replete with examples of applying a consistent analysis to similar concepts in patents, trademarks, and related claims.

Additional authority for the careful treatment of allegations of fraud, generally, appears at Rule 9(b) of the Federal Rules of Civil Procedure. The requirement that fraud be pled with specificity is entirely consistent

with the treatment of fraud as suggested in *Bose, Therasense*, and is urged in this petition. Respondent failed to address this point.

Finally, Respondent pivots to argue that even if there is a Circuit split, it is not dispositive here because of the jury's finding on fraud. That is a circular argument. There was not sufficient evidence to support the jury finding of fraud if the Federal Circuit test for fraud is applied.

This case is an ideal case for review of the fraud standard. An obvious Circuit split exists on this important legal analysis in trademark jurisprudence. This Court should accept certiorari to authoritatively announce that the Federal Circuit standard controls nationwide.

III. Applying the wrong standard of review compounded the legal error on the test for a fraud finding.

Without the full context, Respondent selectively quotes counsel's statements under questioning at oral argument for support that Petitioner somehow waived any argument about the correct standard of review. But surely counsel's mistaken concession is not strong enough authority to invalidate a controlling standard of review.

B&B filed a timely post-trial motion. Doc. 446. In that motion, B&B specifically invoked Rule 59 of the Federal Rules of Civil Procedure by requesting the

trial court amend its findings of fact and conclusions of law or make new ones and direct the entry of a judgment. Rule 59(a)(2). The motion also invoked Rule 59(e) and cited authority for correcting a clear legal error and preventing a manifest injustice.

B&B's post-trial motion under Rule 59 does **not** require as a prerequisite a Rule 50 motion at the close of evidence. *See Rand v. National Financial Ins. Co.*, 304 F.3d 1049, 1052 (11th Cir. 2002); *Jones v. Miles*, 656 F.2d 103, fn. 1 (5th Cir. 1981).

Respondent additionally argues that even if the wrong standard of review applies, Petitioner could not prevail. That's not correct. The error discussed in point one is intertwined with the error in point two. Had the Eighth Circuit given the fraud finding a full review, rather than merely reviewing for plain error, then a reversal would have likely followed. Where Hargis could not produce any evidence of B&B's intent to deceive the PTO, review on an abuse of discretion standard would have required reversing.

Because the standard of review issue is intertwined with the analysis and review of the fraud issue, this Court should accept certiorari to conclusively decide this issue.

IV. This Court's anticipated decision in *Romag* is dispositive.

Respondent also dismisses Petitioner's citation to this Court's grant of certiorari in *Romag Fasteners, Inc.*

v. Fossil, Inc. (No. 18-1233). Petitioner acknowledges there are other issues at play in its petition, but there can be no dispute that whether a finding of willful infringement is a prerequisite for an award of damages of an infringer's profits under the Lanham Act was a central issue in *B&B v. Hargis*² and does present a legitimate split of authority among the Circuits. Thus, depending on the outcome of the other issues, a merits decision in *Romag* would nullify one of the jury interrogatories in this case that was a basis for denying damages to B&B even though there was a jury verdict finding that Hargis is guilty of trademark infringement.

The focus of this certiorari petition is the review of the jury's finding that B&B committed fraud on the PTO in renewing its registration. If Petitioner prevails on that point, then the case is remanded. Whether the equities issue is resolved at the Eighth Circuit as previously requested or further remanded to the trial court with instruction to reconsider the equities, to

² The district court discussed willfulness, citing to several cases implying willfulness is a prerequisite to disgorgement of profits. *Masters v. UHS of Del., Inc.*, 631 F.3d 364, 471 (8th Cir. 2011) (for infringement claims, proof of "willful" infringement results in disgorgement). Disgorgement is "subject to the principles of equity," 15 U.S.C. § 1117(a), and does not follow as a matter of course after a violation. *Sweetarts v. Sunline, Inc.*, 436 F.2d 705, 711 (8th Cir. 1971); *Minn. Pet Breeders, Inc. v. Schell & Kampeter*, 41 F.3d 1242, 1247 (8th Cir. 1994) ("[A]ll Lanham Act remedies are equitable in nature[.]"). If disgorgement occurs, the award must be to remedy unjust enrichment, for damages, or to defer infringers. *Masters*, 631 F.3d at 471 (quoting *Minn. Pet Breeders, Inc.*, 41 F.3d at 1247).

award damages, or whether an entire new trial follows, the issue in *Romag* will be squarely in play. Here, without deciding the “willfulness” issue, the district court refused to award any disgorgement of Hargis’ profits. Therefore, any holding on the willfulness issue in *Romag* is certainly dispositive to any future proceedings in this litigation.

By accepting certiorari in *Romag*, this Court has signaled that the Circuit split on whether “willful” infringement is a prerequisite to disgorgement of an infringer’s profits deserves Supreme Court review. The fact that disgorgement was also denied here, and the ambiguity of the Eighth Circuit law on whether willfulness is required, this case likewise deserves certiorari to apply the answer in *Romag* to the facts here after the proper analysis for fraud and the application of the correct standard of review issues have been decided.

This Court made important law in *B&B v. Hargis*, 135 S.Ct. 1293, 191 L.Ed. 2d 222 (2015). Since this Court’s decision in 2015, trademark litigants and lawyers have watched this case carefully to understand the impact of that decision. This Court’s prior decision should not now be diminished due to subsequent legal errors by the Eighth Circuit’s decision affirming the late-raised fraud defense.

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted,

TIM CULLEN
CULLEN & Co., PLLC
Post Office Box 3255
Little Rock, AR 72203
(501) 370-4800
tim@cullenandcompany.com

Counsel for Petitioner

August 21, 2019