

New Fraud Standard For Trademark Proceedings

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In a long-awaited decision in *In re Bose Corp.*, 2009 U.S. App. LEXIS 19658 (Fed. Cir. Aug. 31, 2009), the Court of Appeals for the Federal Circuit finally considered and rejected the standard that the Trademark Trial and Appeal Board (the “T.T.A.B.”) has used for the past six years to determine whether a trademark registration should be cancelled due to fraud. As a result of the court’s order, allegations of fraud in trademark cases will be subject to a single standard, regardless of whether the fraud is alleged before the T.T.A.B. or in federal district court. The standard will also be consistent with what is required to prove inequitable conduct in a patent case: the party asserting fraud will need to show that the party accused of fraud acted with the subjective intent to deceive the Patent and Trademark Office.

THE T.T.A.B. DISREGARDS INTENT ELEMENT IN FRAUD CLAIMS

The T.T.A.B.’s recent jurisprudence on fraud began in 2003 with the decision in *Medinol Ltd. v. Neuro Vasx, Inc.*, 67 U.S.P.Q.2d 1205 (T.T.A.B. 2003). Like many fraud cases, the *Medinol* case involved an application that was filed based upon a bona fide intent to use the mark in commerce in the U.S. and a subsequent overly broad Statement of Use. In the case of *Medinol*, the registrant had submitted a Statement of Use that claimed that the trademark had been used on “all” items included in the application, when it had in fact only been used on one of the two items listed in the application. The registrant relied on that registration to oppose a later-filed application and then ended up facing a counterclaim seeking to cancel the registration due to a claim that the registrant’s filing of an overly broad Statement of Use amounted to fraud. The T.T.A.B. agreed with the challenger and held that the filing of the Statement of Use constituted fraud. Rather than just excise the extraneous item from the registration, the T.T.A.B. cancelled the registration in its entirety. It reasoned that if the only available remedy was to excise the extraneous item, the remedy would do nothing to dissuade others

from committing fraud in the same fashion as the registrant in *Medinol*.

What is most interesting about *Medinol* is not that a registration was cancelled when the T.T.A.B. found fraud, it is the standard that the T.T.A.B. applied to determine whether fraud had occurred. The common law tort of fraud requires that the party alleging fraud prove four factors: (1) a false, and (2) material¹ misrepresentation, with (3) the intent to deceive, and (4) reliance by another on the misrepresentation. This, however, is not the test that the T.T.A.B. applied in *Medinol*. Instead of requiring that the challenger establish an actual intent to deceive, the T.T.A.B. established a lower “knew or should have known” standard for trademark cases. The standard arose out of the T.T.A.B.’s view that the appropriate inquiry is “not into the registrant’s subjective intent, but rather into the objective manifestations of that intent.” *Medinol*, 67 U.S.P.Q.2d at 1209.

As a result of the standard set by the T.T.A.B. in *Medinol*, the T.T.A.B. has found fraud in virtually every case filed since 2003 where a party was found to have filed a use allegation, such as a Statement of Use, that included any goods on which the trademark had not been used. *See, e.g., Bose Corp. v. Hexawave, Inc.*, 88 U.S.P.Q.2d 1332 (T.T.A.B. 2007); *Hachette Filipacchi Presse v. Elle Belle, LLC*, 85 U.S.P.Q.2d 1090 (T.T.A.B. 2007); *Hurley Int’l LLC v. Volta*, 82 U.S.P.Q.2d 1339 (T.T.A.B. 2007); *Standard Knitting Ltd. v. Toyota Jidosha K.K.*, 77 U.S.P.Q.2d 1917 (T.T.A.B. 2006); *J.E.M. Int’l, Inc. v. Happy Rompers Creations Corp.*, 74 U.S.P.Q.2d 1526 (T.T.A.B. 2005) (not citable as precedent).

As a result of its decision to read the intent requirement out of the law altogether, the T.T.A.B. was able to issue a remarkable string of decisions cancelling trademark registrations with absolutely no evidence of an intent to deceive the Patent and Trademark Office, despite contemporaneously holding that fraud must “be proven with *clear and convincing evidence*.” *Standard Knitting Ltd.*, 77 U.S.P.Q.2d at 1926 (emphasis added). The T.T.A.B. found fraud even where the trademark owners protested that incorrect Statements of Use were a result of inadvertence, lack of knowledge, inability

to understand English, illness, or mistake. *See, e.g., Hurley*, 82 U.S.P.Q.2d at 1345 (“The fact that applicants allegedly misunderstood a clear and unambiguous requirement for an application based on use, were not represented by legal counsel, and were suffering health problems does not change our finding of fraud herein.”).

The T.T.A.B. reasoned that the nature of the Statement of Use itself meant that virtually all incorrect statements were in fact fraudulent. First, the T.T.A.B. noted that the list of goods included in the allegations of use that it had considered were relatively simple and non-technical in nature. *Medinol*, 67 U.S.P.Q.2d at 1210. Second, the T.T.A.B. noted that the Statement of Use and other use allegation documents have very clear language.² *See, e.g., J.E.M. Int’l*, 74 U.S.P.Q.2d 1526 at 1530 (“Statement of Use form is not complicated, and the term ‘all’ has a commonly understood meaning.”). Third, the T.T.A.B. noted that the oath accompanying the Statement of Use and the declaration of continued use is weighty: “The undersigned, being hereby warned that willful false statements and the like are punishable by fine or imprisonment, or both, . . . and that such willful false statements and the like may jeopardize the validity of this document, declares that . . . all statements made of his/her own knowledge are true and that all statements made on information and belief are believed to be true.” *Medinol*, 67 U.S.P.Q.2d at 1209 (“Statements made with such a degree of solemnity clearly are – or should be – investigated thoroughly prior to signature and submission.”). Moreover, the T.T.A.B. has noted repeatedly that because the Patent and Trademark Office cannot investigate the accuracy of every document that it receives, it must rely “on the thoroughness, accuracy and honesty of each applicant.” *Standard Knitting*, 77 U.S.P.Q.2d at 1928 n.14.

While the T.T.A.B.’s jurisprudence applies with equal force to allegations of use contained in other documents filed in the Patent and Trademark Office, the Statement of Use document has proved most fertile for fraud claims. Since the Lanham Act was amended nearly two decades ago to permit the filing of federal applications based upon an intent to use a mark in commerce, it has been a common practice for trademark applicants to include in their applications all goods and services with which they *expected, intended, or even hoped* to use the mark, often resulting in a laundry list of

goods and services. Following the issuance of a Notice of Allowance, applicants are required to file a Statement of Use for each class in which the mark has been used. Until the *Medinol* decision in 2003, they often did so without deleting any goods or services from those classes.³ Consequently, many trademark registrations that were originally filed on an intent-to-use basis now include goods or services on which the trademark was never used.

All such registrations have been vulnerable to attack under the *Medinol* standard, which has made fraud claims a powerful potential defense in any inter partes proceeding before the T.T.A.B. An applicant whose application was opposed based upon a prior registration often could file a counterclaim asserting that the opposer's registration was fraudulently obtained because the opposer's mark had not been used in connection with all of the goods and/or services for which it was registered. The specter of having their own registrations potentially challenged on the basis of a fraud claim no doubt meant that at least some registrants hesitated to file otherwise appropriate oppositions.

THE CIRCUIT COURTS CONTINUED TO REQUIRE INTENT IN ANALOGOUS CASES

Although the T.T.A.B. lowered the standard to prove fraud in trademark cancellation actions, its standard was not adopted by any circuit court. In the Ninth Circuit, for example, a challenger has been required to prove that the registrant acted with scienter, in order to cancel a registration. See *Robi v. Five Platters*, 918 F.2d 1439, 1444 (9th Cir. 1990) (Fraud requires "a false representation regarding a material fact, the registrant's knowledge or belief that the representation is false, the intent to induce reliance upon the misrepresentation and reasonable reliance thereon, and damages proximately resulting from the reliance."); *Far Out Prods., Inc. v. Oskar*, 247 F.3d 986, 996 (9th Cir. 2001) (fraud requires a showing that the registrant acted "in bad faith or with knowledge").

Similar standards have been applied by other circuit courts.⁴ See, e.g., *Marshak v. Treadwell*, 240 F.3d 184, 196 (3rd Cir. 2001) (fraud requires a showing that the registrant "knew or believed" the statement to be false); *Aromatique, Inc. v. Gold Seal, Inc.*, 28 F.3d 863, 877-78 (8th Cir. 1994) ("In order to show that an applicant defrauded the PTO the party seeking to invalidate a

mark must show that the applicant intended to mislead the PTO."); *Meineke Discount Muffler v. Jaynes*, 999 F.2d 120, 126 (5th Cir. 1993) ("[C]lear and convincing evidence that the applicant made false statements with the intent to deceive" is required to cancel a trademark registration on the basis of fraud.); *San Juan Prods., Inc. v. San Juan Pools of Kansas, Inc.*, 849 F.2d 468, 472 (10th Cir. 1988) (fraud turns on the "declarant's subjective, honestly held, good faith belief").

As a result of these differing standards, trademark owners have become very strategic in the past few years in making sure that any fraud claims that might be made against their registrations were heard in district courts rather than by the T.T.A.B. Because the T.T.A.B. fairly routinely suspends T.T.A.B. proceedings when there is a concurrent district court proceeding whose outcome might bear upon the T.T.A.B. proceeding (T.B.M.P. § 510), there can be no doubt that there have been instances when civil actions were initiated in district courts to avoid the T.T.A.B.'s tough position on fraud, particularly where a registrant made a simple mistake in filing a document with a use allegation, such as a Statement of Use.

THE FEDERAL CIRCUIT OVERRULES THE MEDINOL STANDARD

On August 31, 2009, the Federal Circuit addressed the issue of trademark fraud for the first time since the T.T.A.B.'s *Medinol* decision. In its ruling, the Federal Circuit expressly rejected the "knew or should have known" standard that the T.T.A.B. had been applying in inter partes proceedings since 2003. In its place, the Federal Circuit held that fraud can only be found if an applicant or registrant knowingly makes a false, material representation with the intent to deceive the Trademark Office. *In re Bose*, 2009 U.S. App. LEXIS 19658 (Fed. Cir. Aug. 31, 2009).

The *Bose* case started out as a fairly typical trademark dispute. Bose opposed Hexawave's application to register HEXAWAVE as a trademark, on the basis that it was likely to be confused with Bose's WAVE mark, for which Bose claimed prior common law rights as well as a prior federal registration. *Bose Corp. v. Hexawave*, 88 U.S.P.Q.2d 1332 (T.T.A.B. 2007). Hexawave counterclaimed, seeking to cancel Bose's WAVE registration because Bose had allegedly defrauded the Trademark Office when it filed its renewal

affidavit claiming continued use of the WAVE mark on audio tape recorders and players though it was no longer selling such goods. Although Bose had stopped manufacturing and selling audio tape recorders and players before the renewal affidavit was filed, Bose contended that it had continued to use the WAVE mark "in commerce" on such goods because it continued to repair them and to ship the repaired goods, bearing the WAVE trademark, back to their owners. *Id.* at 1335.

The T.T.A.B. quickly dispatched with Bose's theory that "transporting" a repaired product back to the owner constituted "use in commerce," and focused its decision on the fraud issue. Applying the *Medinol* standard, the T.T.A.B. concluded that Bose "knew or should have known" that repair of products did not constitute use of a trademark "in commerce," held that Bose's submission of the false renewal affidavit constituted fraud, and ordered the WAVE registration cancelled in its entirety. *Id.* at 1338.

Unlike all of the other recent fraud cases, the T.T.A.B. did not have the last word in *Bose*. Bose appealed the T.T.A.B.'s decision, arguing both that the T.T.A.B. erred in its conclusion that the shipment of repaired goods did not constitute use of the trademark in commerce, and, alternatively, that Bose's belief that it did was reasonable and did not constitute fraud. *In re Bose*, 2009 U.S. App. LEXIS 19658, at *4.⁵ Bose's appeal met with a mixed result.

As an initial matter, the Federal Circuit rejected Bose's argument that repair of goods was sufficient to claim continuing use in commerce where the repaired goods were shipped across state lines (*id.* at *15), and held that the WAVE registration needed to be restricted to delete audio tape recorders and players. *Id.* at *17. Bose, however, had more success on the fraud issue: the Federal Circuit expressly rejected the "knew or should have known" standard that the T.T.A.B. had adopted in the *Medinol* case. The Federal Circuit found that this "knew or should have known" standard had "erroneously lowered the fraud standard to a simple negligence standard" (*id.* at *8-9), which was inappropriate for "an indispensable element in the [fraud] analysis." *Id.* at *10.

In its place, the Federal Circuit held that fraud requires that an "applicant or registrant knowingly [make] a false, material representation with the intent to deceive the PTO." *Id.* (emphasis added). Applying

this standard in the *Bose* case, the Federal Circuit held that Bose did not commit fraud and that the T.T.A.B. erred in cancelling the WAVE registration in its entirety. *Id.* at *15-16. The Federal Circuit ruling was based upon the fact that Bose’s general counsel (who had signed the renewal affidavit) had testified under oath that he believed the statement was true at the time that he signed the document. Although the T.T.A.B. had found the declarant’s belief not to be reasonable, the Federal Circuit noted that “reasonableness” is not part of the fraud analysis (*id.* at *15) and found that the declarant’s testimony was sufficient to establish that he did not have the subjective intent to defraud the Trademark Office. *Id.* at *16.

Going forward, fraud will be found only where an applicant or registrant has knowingly made a false, material representation with the intent to deceive the Patent and Trademark Office—the same high standard required to prove inequitable conduct in patent cases, which, the court noted, is “stricter than the standard for negligence or gross negligence.” *Id.* at *10. As a result of the Federal Circuit decision in *Bose*, fraud has relinquished its position at center stage in trademark cases, and will, once again, be relegated to an occasional defense.

ENDNOTES

1. Materiality has never been seriously challenged in any of the relevant cancellation actions because the T.T.A.B. views any misstatement as to the scope of use to be a material misrepresentation. See *Hachette Filipacchi Presse v. Elle Belle, LLC*, 85 U.S.P.Q.2d 1090 (T.T.A.B. 2007) (dismissing argument that the overly broad Statement of Use was not a material misrepresentation because the mark was in use on some of the goods listed and thus a registration would have issued in any case).
2. Previously, the on-line form used for a Statement of Use had the following language: “The owner is using the mark in commerce on or in connection with *all* goods and/or services listed in the application or Notice of Allowance” (emphasis added). The current version states: “The mark is in use in commerce on or in connection with all of the goods and/or services listed in either the application or Notice of Allowance or as subsequently modified for this specific class” (emphasis in original).
3. Because applicants are required to submit a specimen showing use of the mark in each class, together with the Statement of Use, applicants need to delete from the Statement of Use any classes where there has been no use of the mark.
4. There has been one instance, however, where a district court applied the lower “knew or should have known” standard from *Medinol*. In July 2009, the District Court for the Central District of California issued an order finding fraud based upon the fact that the declarant who had signed the relevant document in that case “should have known that

the representation was false.” *Tokidoki, LLC v. Fortune Dynamic, Inc.*, 2009 U.S. Dist. LEXIS 65665, at *29 (C.D. Cal. July 28, 2009). The court equated “shown have known” with actual knowledge, and held that the declarant knew that the misrepresentation was false and had committed fraud. *Id. Tokidoki*, decided just one month before the Federal Circuit overruled the *Medinol* standard, is the only published decision where a district court opted to apply the “knew or should have known standard” from *Medinol*. No doubt it will be the last, now that the Federal Circuit has overruled that standard.

5. Hexawave, the party who originally challenged the Bose registration on the basis of fraud, however, chose not to participate in the appeal, so the Trademark Office stood in as the appellee.