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Lowering The Fraud Standard In Trademark Cases

Law360, New York (October 14, 2009) -- Until last month, fraud had not been that difficult to prove in inter partes proceedings before the Trademark Trial and Appeal Board (the "TTAB").

Rather than require that a party challenging a trademark registration prove that the registrant had a subjective intent to defraud the Patent and Trademark Office, the TTAB found fraud in numerous cases where the challenger merely claimed that the registrant "knew or should have known" that a document that had been filed with the Patent and Trademark Office contained a false statement.

See, e.g., *Bose Corp. v. Hexawave Inc.*, 88 U.S.P.Q.2d 1332 (TTAB 2007); *Hachette Filipacchi Presse v. Elle Belle LLC*, 85 U.S.P.Q.2d 1090 (TTAB 2007); *Hurley Int'l LLC v. Volta*, 82 U.S.P.Q.2d 1339 (TTAB 2007); *Standard Knitting Ltd. v. Toyota Jidosha K.K.*, 77 U.S.P.Q.2d 1917 (TTAB 2006); *J.E.M. Int'l Inc. v. Happy Rompers Creations Corp.*, 74 U.S.P.Q.2d 1526 (TTAB 2005) (not citable as precedent); *Medinol Ltd v. Neuro Vasx Inc.*, 67 U.S.P.Q.2d 1205 (TTAB 2003).

The "knew or should have known" standard was first adopted by the TTAB in 2003 in *Medinol Ltd v. Neuro Vasx Inc.*, 67 U.S.P.Q.2d 1205 (TTAB 2003). As with most typical oppositions, *Medinol* involved a claim of likelihood of confusion between a prior registration and a mark that had been published for opposition.

In defense, the applicant argued both that there was no likelihood of confusion between the marks, and that the registration should be cancelled due to fraud. The applicant also filed a counterclaim seeking cancellation of the registration.

The sole basis for the fraud claim was the applicant's contention that the registrant's filing of a false Statement of Use constituted fraud, with the falsity being the registrant's attestation that the mark had been used on all items included in the underlying application when it had been used on only one of the two items included in that application.

Although the registrant argued that it did not have the subjective intent to defraud the Patent and Trademark Office, the TTAB agreed with the applicant and held that the filing of the overly broad Statement of Use constituted fraud and that the registration was void in its entirety, and ordered the registration cancelled. *Id.* at 1208.

Since then, the TTAB has issued an extraordinary string of decisions cancelling trademark registrations even where the trademark owners protested that their incorrect use allegations were a result of inadvertence, lack of knowledge, inability to understand English, ill health, lack of representation 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 TTAB has disregarded all such excuses because it concluded that the nature of the documents containing use allegations, including Statements of Use, meant that virtually all incorrect statements must be fraudulent.

First, the goods included in the allegations of use that the TTAB has considered were relatively simple and non-technical in nature. *Id.* at 1210.

Second, the Statement of Use and other use allegation documents have very clear language.[1] See, e.g., *J.E.M. Int’l*, 74 U.S.P.Q.2d at 1530 (“Statement of Use form is not complicated, and the term ‘all’ has a commonly understood meaning.”).

Third, 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 TTAB 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.

Given the TTAB’s reasoning and the new lower standard for proving fraud in TTAB proceedings, it is not surprising that fraud became a widely pleaded defense in inter partes trademark proceedings over the past six years.

If a challenger could successfully establish through discovery that there had been no use of a trademark on any one item listed in a registration, the challenger knew that the registration was vulnerable to cancellation due to fraud and could either try to negotiate a settlement from a position of strength, or counterattack.

Even if the registrant also had separate common-law rights in the trademark, fraud issues would quickly sidetrack an opposition that would otherwise be routine.

The Federal Circuit Sets a New Standard

Because of these issues, the Medinol standard has been the focus of much commentary in the trademark community for the past six years, with trademark practitioners eagerly awaiting a decision from the Federal Circuit that would settle the issue — either affirming the “knew or should have known” standard or requiring proof of a subjective intent to deceive, as is required to cancel a trademark registration on the basis of fraud in nearly every other circuit.

See, e.g., *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.”); *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”); *Money Store v. Harris Corp Financial Inc.*, 689 F.2d 666, 670 (7th Cir. 1982) (fraud requires “a deliberate attempt to mislead the Patent Office into registering the mark.”).

The Federal Circuit has now spoken and is in agreement with its sister circuits that a showing of a subjective intent to deceive is required to cancel a trademark registration on the basis of fraud. See *In re Bose Corp.*, 2009 U.S. App. LEXIS 19658 (Fed. Cir. Aug. 31, 2009).

In its decision, the Federal Circuit firmly rejected the TTAB’s “knew or should have known” standard as too low, and, in its place, held that fraud can only be found if an applicant or registrant knowingly made a false, material misrepresentation with the intent to deceive the Patent and Trademark Office.

The Bose proceeding before the TTAB was not that different from the many other inter partes proceedings where fraud has been raised — an opposition had been filed on the

basis of likelihood of confusion and the defendant in the opposition proceeding counterattacked with a fraud claim.

The specifics differed slightly, however, because Bose did not concede that the WAVE mark had not been used on all items included in the use allegation document (a renewal affidavit), as had occurred in nearly every other case.

Instead, Bose argued that it had continued to use the WAVE trademark in commerce on all items in the renewal affidavit because it had continued to repair and transport even the discontinued WAVE products that were in the registration.

Moreover, Bose argued that because its general counsel, who had signed a renewal affidavit, had a good-faith belief that the repair and transport of WAVE products sufficed to establish continued use of the trademark, he did not have the subjective intent to defraud the Patent and Trademark Office.

The TTAB did not view the initial argument as a close call — it held that shipments of repaired goods did not constitute use in commerce on those goods, and that Bose’s claim that it did so was not reasonable.

Applying the *Medinol* standard, the TTAB 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.

In contrast with the many other TTAB fraud decisions from the last six years, the Bose decision was appealed to the Federal Circuit, with Bose arguing the same two points: the shipment of repaired goods constituted use of the WAVE trademark in commerce, and Bose’s belief that it did was reasonable and did not constitute fraud. The Federal Circuit was finally presented with its first opportunity to weigh in on the fraud issue.

While the Federal Circuit agreed with the TTAB that repair of goods was not sufficient to claim continuing use in commerce, it found in Bose’s favor on the fraud issue.

The Federal Circuit held that the “knew or should have known” standard adopted in *Medinol* had “erroneously lowered the fraud standard to a simple negligence standard,” and that this was inappropriate for “an indispensable element in the [fraud] analysis.”

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.” Applying this standard in the Bose case, the Federal Circuit held that Bose did not commit fraud and that the TTAB erred in cancelling the WAVE registration in its entirety.

In *re Bose* brings welcome clarity to trademark law. As an initial matter, it will allow registrants who have filed overly broad use allegations in the past to rest easy.

They can now come forward and amend those registrations to delete the extraneous items without fear that third parties will later use this as evidence that they had filed fraudulent documents in the past that would render those registrations invalid.

Until the Bose decision, no reasonable registrant dared come forward voluntarily to correct a registration because even reasonable mistakes would be considered fraud under the TTAB's strict liability standard.

In addition, now that the Federal Circuit has toughened the standard required to prove fraud, opposition and cancellation proceedings will be more likely to be resolved on their merits rather than sidetracked with a fraud claim.

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The opinions expressed are those of the author and do not necessarily reflect the views of Portfolio Media, publisher of Law360.

[1] Previously, the online 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." 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."