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Trademarks

The authors caution trademark owners to review their applications and registrations to make sure they are not vulnerable to fraud claims.

Fraud in the Trademark Office

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Trademark owners who are thinking about asserting their trademark rights have recently been forced to consider new issues: Were their trademark registrations fraudulently obtained, and are they vulnerable to cancellation?

Surprisingly, the answer appears to be yes far more often than one would expect. This is especially true in light of several recent rulings by the Trademark Trial and Appeal Board finding that registrants had unwittingly committed fraud simply by failing to delete extraneous goods and services from their statements of use and applications.

Unwitting Fraud. In these rulings, the board has not given any serious consideration to the trademark holder's intent, a cornerstone element in any fraud case; rather, it has concluded that fraud has occurred regard-

less of the intent of the trademark owner whenever the trademark owner files an overly broad application or statement of use.

This is a particularly troubling development because the board has found fraud, or permitted pleadings to be amended to allege fraud, with respect to registrations that issued before the board's new bright-line rule on fraud. In other words, the board has changed the rules of the game to hold that there is fraud even without a finding of intent, and is using the new rules to invalidate previously issued registrations.

Cases Grew Out of Intent-to-Use Practice. Since the Lanham Act was amended in 1989 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 owners to list all of the goods and services with which they *expected* or *intended* to use the mark in their applications. This practice often resulted in applications with a laundry list of goods and services.

Because use is required before a trademark can be registered, the Patent and Trademark Office issues a notice of allowance, rather than a certificate of registration, for applications filed based upon an intent to use the mark. Following the issuance of a notice of allowance, applicants have up to 36 months to submit a statement of use and specimens showing use of the mark for the goods and services included in the original applica-

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tion. Once the statement of use is filed, the application can mature to registration.

This relatively routine practice is the basis of a recent string of fraud cases decided by the board. It turns out that even trademark owners who deleted entire classes from their applications when they filed a statement of use,¹ often failed to pare down the goods and services in the remaining classes to limit them to specific goods and services with which the trademark had been used.² Consequently, many trademark registrations now include goods or services with which the trademark has never been used.

Starting in 2003, the board has issued several rulings holding that this practice of filing overly broad statements of use is fraudulent, making registrations that are challenged on this basis extremely difficult to defend.

Although many of the recent cases involve overly broad statements of use, the board has also issued rulings in cases where the challenged application/registration was filed based upon use, and there was no use of the mark on one or more goods and services included in the application. See *Tequila Cazadores S.A. de C.V. v. Tequila Centinela S.A. de C.V.*, 2004 TTAB LEXIS 109, at *14 (Feb. 24, 2004) (not citable as precedent) (at summary judgment, the board found fraud when the applicant included items on which the mark had not been used in its use-based application); *Orion Electric Co. v. Orion Electric Co.*, 2004 TTAB LEXIS 147, at *22 (Mar. 19, 2004) (not citable as precedent) (finding fraud as a result of amendments made to goods in original application). These rulings have even extended to post-registration filings. See *Jimlar Corp. v. Montrexpert S.P.A.*, 2004 TTAB LEXIS 333, at *20 (June 4, 2004) (not citable as precedent) (finding fraud as a result of extraneous goods included in Section 8 affidavit).

TTAB: Extraneous or False Claims Are Fraud. The board's position is very simple: because the PTO relies upon the information provided by trademark owners in documents that they submit as part of the application or registration process, a claim of use that includes extraneous goods or services—or false information—is fraudulent. See *Tequila Cazadores S.A. de C.V.*, 2004 TTAB LEXIS 109, at *13 n.3 (“[T]he Trademark Office relies on the thoroughness, accuracy and honesty of each applicant. . . . Allowing applicants to be careless . . . would result in a registration improperly accorded legal presumptions in connection with goods on which the mark is not used.”); *Medinol Ltd. v. Neuro Vasx Inc.*, 67 USPQ2d 1205, 1206 (T.T.A.B. 2003) (agreeing that “[r]egistrant . . . committed fraud in the procurement of the subject registration” because the PTO “reasonably rel[ied] upon the truth of said false statements”).

When fraud is found, rather than simply deleting the extraneous goods or services, the board has held that

¹ 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 was no use of the mark.

² For example, a trademark owner who initially filed an application for a variety of bags in Class 18 and a variety of clothing in Class 25, might have deleted Class 18 when it realized that the mark was not used on any bags at all, but might not have looked at the list of clothing items in Class 25 to consider whether the mark really was used on each of them.

“the entire resulting registration is void.” *Id.* at 1208.³ To do anything else would permit the trademark owner to retain the value of the registration without any meaningful consequences resulting from the fraud.

What is surprising about these cases is just how low the standard of proof is: “[P]roof of specific intent to commit fraud is not required, rather, fraud occurs when an applicant or registrant makes a false material representation that the applicant or registrant knew or should have known was false.” *Standard Knitting Ltd. v. Toyota Jidosha K.K.*, 77 USPQ2d 1917, 1928 (TTAB 2006) (quoting *General Car & Truck Leasing Systems v. General Rent-A-Car Inc.*, 17 USPQ2d 1398, 1400 (S.D. Fla. 1990)).

And as it turns out, the board has concluded that the trademark owner always should know whether a mark has been used in connection with specific goods and services. See, e.g., *id.*; *J.E.M. International Inc. v. Happy Rompers Creations Corp.*, 74 USPQ2d 1526 (TTAB 2005) (not citable as precedent) (trademark owner knew or should have known that its mark had not been used on approximately 100 of the 150 clothing items listed in the statement of use); *Hawaiian Moon Inc. v. Rodney Doo*, 2004 TTAB LEXIS 274 (Apr. 29, 2004) (not citable as precedent) (respondent, as owner of the mark, dictates on what and how the mark would be used; he would have known that the mark was used only on shirts at the time that he signed the statement of use).

In fact, in the first decision on the subject, the board described the inclusion of extraneous goods and services in a statement of use as “reckless disregard for the truth” and sufficient to establish fraud. See *Medinol Ltd.* 67 USPQ2d at 1210 (“Respondent’s knowledge that its mark was not in use on stents—or its reckless disregard for the truth—is all that is required to establish intent to commit fraud.”). This is because the board generally presumes that the trademark owner knew how its trademark was being used when the statement of use was filed.

Correcting Errors Not So Easy. In light of these recent rulings, owners of registrations that include extraneous goods or services may wish to correct the potential vulnerabilities of their registrations before they are challenged, but it is not clear that they can do so. This is because an amendment to delete extraneous goods and services from the registration would not address the core concern of the board: that the registration process was corrupted by what the board refers to as the trademark owner’s “reckless disregard for the truth.”

So long as the board’s rulings on this issue are not reversed, it appears that the only method for a trademark owner to protect itself against a fraud challenge is to file a new application, although that process is not without

³ This is in contrast with those cases where an opposer or petitioner has sought to oppose or cancel a registration that includes extraneous items but has merely alleged non-use, rather than fraud. In *Grand Canyon West Ranch LLC v. Hualapai Tribe*, 78 USPQ2d 1696 (TTAB 2006), the board recently affirmed the distinction between fraud and non-use allegations and held that “holding an application to be void is an appropriate remedy when the pleaded ground . . . is fraud” but not “if an applicant did not use the mark on all of the identified good or services before filing the application.” In the latter case, the application is not void in its entirety, but the extraneous goods should be deleted from the application.

risk, as any newly filed application must be published for opposition, and, of course, loses any incontestability benefits that the prior registration might otherwise have enjoyed.⁴

It's Fraud, Any Way the Board Looks at It. Many of the recent spate of fraud cases have a similar procedural posture: the fraud allegations arise in the context of an opposition or cancellation proceeding, when the party in the position of the defendant turns around and seeks to attack the validity of the opposer's or petitioner's registration on the basis of fraud.

The first case decided by the board, however, was a cancellation action where the party in the position of the plaintiff asserted fraud in its petition to cancel, and the respondent sought to defend itself from the fraud allegation by amending its registration to delete the item on which it had not used its mark. *Medinol Ltd.* (67 USPQ2d at 1207).

Often, the board is merely considering whether the defendant can amend its answer to add a counterclaim, but in some cases, the board has ruled on the ultimate issue, and found fraud. *Standard Knitting* (77 USPQ2d at 1928) (board ordered cancellation of opposer's three registrations due to fraud).

In the *Medinol* case, in considering the respondent's motion to amend its registration to delete the extraneous good, the board not only denied that motion, it sua sponte entered summary judgment finding that the respondent had committed fraud.

The board nearly always starts its analysis in these cases by pointing out that fraud must be established by clear and convincing evidence, with doubts resolved against a finding of fraud, and that fraud will not be found if the trademark owner had a reasonable and honest belief that its statement was true. *Standard Knitting* (77 USPQ2d at 1967). The board also cites language suggesting that intent is key to its analysis, either by stating that fraud "occurs 'when an applicant knowingly makes false, material representations of fact in connection with his application'" (*id.*) or by stating that "[t]he appropriate inquiry is . . . into the objective manifestations of [the signatory's] intent." *Medinol* (67 USPQ2d at 1209).

Actual Intent Not Material. All of this would lead one to believe that the trademark owner's actual intent is material to the board's analysis, but the board's decisions consistently hold that it is not. Not only do the decisions repeatedly state that "the specific or actual intent of [the signatory] is not material to the question of fraud" (*Standard Knitting*, 77 USPQ2d at 1928),⁵ they

⁴ The protections provided by a federal registration are strengthened by the provisions in Lanham Act § 15, 15 U.S.C. § 1065, which provide that a trademark registration can become "incontestable" five years after the date of registration. While a registration that is incontestable is immune to challenge on certain grounds, including that the registered mark is merely descriptive and lacks secondary meaning, fraud is not such a ground. A registration may be challenged based upon an allegation of fraud at any time, and without regard to incontestability.

⁵ See also *Medinol Ltd.*, 67 USPQ2d at 1209 ("'proof of specific intent to commit fraud is not required, rather, fraud occurs when an applicant or registrant makes a false material representation that the applicant or registrant knew or should have known was false'") (quoting *Gen. Car & Truck*, 17 USPQ2d at 1400).

quite often hold that the innocent trademark owner, who had no intent to defraud, "should have known" (see, e.g., *Medinol Ltd.* 67 USPQ2d at 1209–10), or was "obligated to inquire" (*Standard Knitting*, 77 USPQ2d at 1927), prior to signing the statement of use. See also *J.E.M. International*, 74 USPQ2d at 1530 (accepting holder's claim that there was no intent to defraud, but finding "respondent knew or should have known that its Statement of Use was materially incorrect").

Even in cases where the trademark owner pleads mistake (clerical error or mistake of law), and the board accepts the plea, the board still finds fraud by holding that the actions of the trademark owner show reckless disregard for the truth, which constitutes fraud. See *Medinol Ltd.* 67 USPQ2d at 1210 ("Respondent's knowledge that its mark was not in use on stents—or its reckless disregard for the truth—is all that is required to establish intent to commit fraud."); see also *J.E.M. International*, 74 USPQ2d at 1531 (considering that the mark had not been used on the first nine items listed in the notice of allowance, trademark owner showed reckless disregard for the truth); *Jimlar Corp. v. Montrexpport S.P.A.*, 2004 TTAB LEXIS 333, at *21 (June 4, 2004) (not citable as precedent) ("Respondent is charged with . . . 'reckless disregard for the truth' [and] statements that he did not 'believe . . . that statements . . . were false' and that he had 'no intention to deceive . . . ' do not avoid the fraud."); *Hawaiian Moon*, 2004 TTAB LEXIS 274, at *11 ("By failing to consult the application . . . yet being warned that the penalty for false statements . . . is a fine or imprisonment or both, respondent had reckless disregard for the truth.").

J.E.M. International is an example of a typical fraud case—it was decided on summary judgment, so statements made by the trademark owner, that it had acted in good faith and had merely committed an inadvertent error, were assumed to be true. 74 USPQ2d at 1529.⁶ Even so, the board found that the trademark owner had shown "reckless disregard for the truth." *Id.* at 1530. The board reasoned that

[the] respondent filled in the form checking the box for use on "all" goods; respondent further made a statement that "all" the goods were being used in commerce by it or a related company; and respondent signed its statement of use under penalty of "fine or imprisonment, or both, . . . and [knowing] that such willful false statements may jeopardize the validity of the application or any resulting registration. . . ." Statements made with such degree of solemnity clearly are—or should be—investigated thoroughly prior to signature and submission to the USPTO.

Id. (quoting *Medinol*, 67 USPQ2d at 1206).

Simplicity, 'Solemnity' of Documents. There are two recurring factors that contribute to the severity with which the board treats the issue, and its tendency to characterize every occurrence as "reckless disregard

⁶ Perhaps the only thing remarkable about *J.E.M. International* was the fact that there were 150 goods included in the statement of use, and the mark was actually used on only one third of those; however, the court has applied identical reasoning in cases in which far fewer goods were listed. See, e.g., *Medinol Ltd.* 67 USPQ2d at 1209–10 (citing simplicity and straightforwardness of statement where only two goods were listed).

for the truth.” First, the required documents, including the statement of use, are remarkably simple—the applicant simply lists the goods and services with which it has used the mark.⁷ Thus in *J.E.M. International*, the board remarked that “the Statement of Use form is not complicated, and the term ‘all’ has a commonly understood meaning in general as well as in the context of the form.” *Id.* In *Medinol*, the board stated that “[t]here were only two goods identified in the notice of allowance; the mark was either in use on both, or it was not.” 67 USPQ2d at 1209.

The second factor is the “solemnity” of the registration process—namely, the fact that the use claims are supported by the applicant’s oath. In spite of the routine nature of trademark applications, the board reminds practitioners that a registrant submits documents “under penalty of ‘fine or imprisonment, or both, . . . and [knowing] that such willful false statements may jeopardize the validity of the application or any resulting registration.’ Statements made with such degree of solemnity clearly are—or should be—investigated thoroughly prior to signature and submission.” *Id.*

Although an innocent mistake may not be fraud in other circumstances, because of the simplicity and solemnity of the documents and the trademark registration process, the board is clearly telling trademark practitioners that including extraneous goods or services in any document can never be an “innocent mistake.”

Renewed Application vs. Correction. Rather than face the prospect of defending an overly broad registration before the board, a trademark owner has two options.

First, the trademark owner can simply pursue the “safer option” and reapply for the mark. While this is safer because new registration presumably could never be challenged on the basis of fraud, the newly filed application would be subject to examination and opposition, and the newly issued registration would lose any benefits of incontestability that might have applied to the earlier registration, as mentioned above.

Second, the trademark owner can attempt to remedy the current registration by amending it, pursuant to 37 C.F.R. § 2.175, which relates to the correction of mistakes by the registrant.

At this point, however, it is not known whether such an amendment would be enough to remove the issue of fraud from the table because this issue has not been presented to the board. In virtually every case to date, the trademark owner has attempted to amend its registration to remove the offending goods and services *after* it has been challenged on the basis of fraud, and the amendments have been rejected by the board. *See, e.g., J.E.M. International*, 74 USPQ2d at 1527; *Jimlar*, 2004 TTAB LEXIS 333, at *17; *Medinol*, 67 USPQ2d at 1207.

The board has consistently reasoned that “even if the false information is deleted, the question remains whether or not respondent committed fraud upon the Office in the maintenance of its registration.” *Jimlar*, 2004 TTAB LEXIS 333, at *17. And given the board’s repeated statements that the documents are simple docu-

ments signed with an oath under solemn conditions (*Medinol*, 67 USPQ2d at 1210 (“[n]either the identification of goods nor the statement of use itself were lengthy, highly technical, or otherwise confusing”)), it is not clear that an amendment will suffice to correct the problem. After all, a later amendment would change none of these factors.

On the other hand, while none of the published board decisions squarely deals with a situation in which a trademark owner has spontaneously sought to amend its registration prior to any challenge to the registration’s validity, the board has used some language in fraud cases that may prove helpful to trademark owners who take this route.

Admitting Error May Help. In at least two decisions, the board has suggested that if a trademark owner recognizes its mistake and attempts to correct it sua sponte, it may weaken any later fraud allegation. *See Hawaiian Moon*, 2004 TTAB LEXIS 274, at *12 (not citable as precedent) (“Our conclusion that respondent had reckless disregard for the truth is reinforced by the fact that respondent failed to act to correct his registration, shortly after his registration issued.”); *Orion Electric Co. v. Orion Electric Co.*, 2004 TTAB LEXIS 147, at *21 (Mar. 19, 2004) (not citable as precedent) (“This is not a case where applicant realized its mistake and deleted a number of items upon which the mark had not been used, while inadvertently failing to also delete ‘moniputers.’”).

While helpful, this language is not entirely consistent with the board’s sweeping rulings in recent fraud cases where it has consistently found reckless disregard for the truth whenever an overly broad use claim was filed.

So, the question must be asked: If “reckless disregard for the truth” is sufficient to show an intent to defraud at the time that the original documents were filed, how would a later amendment to the registration “cure” the issue?

Perhaps the best case to shed light on this issue is the decision in *Tequila Cazadores S.A. de C.V.*, 2004 TTAB LEXIS 109, which, as with many of the board’s decisions, is not citable as precedent. *Tequila* was filed as a straightforward opposition to a use-based application. Fraud was not included as a cause of action in the notice of opposition. During the course of the opposition, however, applicant sought to amend the application to delete extraneous goods, and opposer countered by seeking to amend the notice of opposition to add a fraud claim.

The board permitted the amendment and sua sponte entered summary judgment in opposer’s favor on the issue of fraud. *Id.* at *14. In its decision, the board gave no consideration to the fact that the applicant sought to amend its application to delete extraneous goods *before* the opposer sought to add a fraud claim, and instead focused on what the trademark owner knew at the time that it filed its application:

At the time an applicant files an application under Section 1(a), the applicant must know if it is using the mark on the goods. While there may be circumstances where a mistake as to use is made that do[es] not constitute fraud (for example, an applicant believes its use is sufficient to support a use-based application when it is not), that is not the case before us.

⁷ In fact, if one is using the PTO’s electronic filing system, one must list on the statement of use all goods and services that are to be deleted from the application, not the goods and services with which the mark has been used, making the form much more confusing than the board acknowledges in these cases.

Id.

Tequila is not the ideal illustrative case where a trademark owner amended its registration shortly after realizing its error in including extraneous goods in a statement of use or application, and then faced a fraud challenge years later, but it is telling that the board was not concerned that the applicant filed its motion to amend the application to delete extraneous goods *before* a fraud claim was on the table.

New Applications Are the Safest Bet. In the face of the recent rulings by the board, including the *Tequila* case, it would be wise for trademark owners to review all of

their applications and registrations to make sure that they are not vulnerable to a fraud claim. If any of the registrations or applications include extraneous goods and services, the trademark owner will then face the difficult decision of whether to file new applications or to amend current registrations.

Until there is a clear ruling from the board on this issue, it seems that the prudent course will always be to file new applications.