

FEDERAL CIRCUIT RULING RAISES THE BAR FOR FRAUD IN TRADEMARK CASES BEFORE THE TRADEMARK TRIAL AND APPEAL BOARD

Since its 2003 decision in *Medinol v. Neuro Vasx, Inc.*, the Trademark Trial and Appeal Board (TTAB) has made it relatively easy to claim and prove fraud in trademark opposition and cancellation proceedings. The mere filing of a declaration of use containing a material misstatement that the signing party “should know” was false was sufficient grounds for a finding of fraud after *Medinol*. This effectively created a strict liability standard which eliminated the element of “intent” from fraud claims before the TTAB. The recent decision by the Federal Circuit in *In Re Bose Corporation* clarifies that the element of intent is mandatory for trademark fraud claims. This may potentially make it harder to cancel a registered trademark based on alleged fraud. Innocent error or negligence—although no longer resulting in a total cancellation of a trademark—may nonetheless still limit trademark protection for mistakenly included goods or services.

THE BOSE DECISION

The Lanham Act, which codifies US trademark law, allows a third party to cancel a trademark registration if the “registration was obtained fraudulently.” 15 U.S. C. § 1064(3).

On August 31, 2009, the United States Court of Appeals for the Federal Circuit decided *In Re Bose Corp.*, No. 2008-1448. 2009 WL 2709312 (Fed. Cir. August 31, 2009). The Court held that a finding that a trademark was fraudulently obtained requires clear and convincing evidence that the applicant knowingly made a false and material representation to the Patent and Trademark Office (PTO), and had the intent to deceive it.

In recent years, the TTAB has consistently ruled that a finding of fraud on the PTO did not require evidence of a subjective “intent to deceive,” reasoning that a material factual misrepresentation which the applicant should have known was false was sufficient to infer fraudulent intent. See *Medinol v. Neuro Vasx, Inc.*, 67 USPQ2d 1205, 1209 (T.T.A.B. 2003). The *Bose* decision reintroduces the intent requirement in fraud cases and clarifies that the remedy for instances of mere innocent mistake or negligence is a restriction of an overbroad trademark registration instead of total cancellation.

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As a result of *Bose*, applicants filing trademark registrations or renewals with the PTO should continue to ensure that their declarations of use are factually correct, but mere innocent mistakes or negligence may not result in cancellation of the whole registration.

BOSE'S ALLEGED FRAUD

Bose filed a Notice of Opposition against Hexawave, a company seeking to register the trademark HEXAWAVE. Bose asserted that the HEXAWAVE trademark would create a likelihood of confusion with its own registered trademarks, including the trademark WAVE. Hexawave, however, counterclaimed against Bose for alleged fraud on the PTO based on Bose's 2001 trademark renewal application for the WAVE trademark.

Hexawave alleged that Bose's general counsel had signed a declaration in 2001 stating that Bose was continuing to use the WAVE trademark in interstate commerce on audio tape recorders and tape players. In fact, Bose had ceased making such devices by 1997, although it continued to service such products which customers shipped to it, and sent them back to the customers. Bose argued that its shipping and repairs were sufficient use-in-commerce to justify its declaration of continued use.

The TTAB determined that Bose's repairs and shipping were not use of the WAVE trademark, and that Bose's general counsel should have known this when he signed the declaration of continuing use. Because the misstatement was material, the TTAB ordered Bose's WAVE trademark cancelled in its entirety.

THE FEDERAL CIRCUIT REASSERTS A SUBJECTIVE STANDARD

In overturning the TTAB, the Federal Circuit rejected the TTAB's holding in *Medinol* stating that "[b]y equating 'should have known' of the falsity with a subjective intent, the Board erroneously lowered the fraud standard to a simple negligence standard." 2009 WL 2709312, at *3. The Court found that such a lower standard conflicted with precedents that stressed the importance of the "intent"

element in Lanham Act fraud cases. Accordingly, the Court held that "a trademark is obtained fraudulently under the Lanham Act only if the applicant or registrant knowingly makes a false material misrepresentation with the intent to deceive the PTO." *Id.*

The Federal Circuit also restated that evidence of fraudulent intent must be "clear and convincing and inferences drawn from lesser evidence cannot satisfy the deceptive intent requirement." In emphasizing the importance of subjective intent, it distinguished *Torres v. Cantine Torresella S.r.l.*, 808 F.2d 46 (Fed. Cir. 1986), a case that the TTAB relied on in lowering the standard announced in *Medinol*.

Turning to Bose, the Court found that although the misrepresentations in its 2001 renewal declaration were material, Bose had submitted evidence showing that the mistake was not willful. Because Hexawave never presented clear and convincing evidence of fraudulent intent to overcome Bose's evidence, the TTAB's finding of fraud, it held, was an error. Therefore, the Court determined that cancellation of the WAVE mark was inappropriate, and instead, the proper remedy should have been to restrict the trademark registration "to reflect commercial reality." 2009 WL 2709312, at *6.

FUTURE FRAUD STRATEGY BEFORE THE TTAB

Despite the decision in *Bose*, the risk of a fraud claim still may weigh heavy on businesses asserting or defending their trademark rights. As the Federal Circuit recognized, "an allegation of fraud in a trademark case, as in any other case, should not be taken lightly." *Id.* at *3. Trademark applicants should continue to scrutinize their declarations of use, as well as other communications with the PTO. Similarly, potential trademark opposers should continue to review their trademarks before asserting them against others to ensure material misstatements do not make their registrations susceptible to a claim of fraud. Under *Bose*, even innocent mistakes may still eliminate protection for incorrect goods or services in a trademark registration.

We hope that you have found this advisory useful. If you have additional questions, please contact your Arnold & Porter attorney or:

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