In re Bose: Federal Circuit Raises the Bar for Fraud in Trademark Cases

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On August 31, 2009, the Federal Circuit brought the standard for fraud in the Trademark Office in line with the patent world for inequitable conduct – "should have known" is no longer enough to sustain a claim for either a patent or a trademark filing. Six years ago in Medinol v. Neuro Vasx, Inc., 67 U.S.P.Q.2d 1205, 1209 (TTAB 2003), the Trademark Trial and Appeal Board held that a trademark applicant commits fraud when it "makes material representations of fact ... which it knows or *should know* to be false or misleading." (emphasis added) In *In re Bose*, the Federal Circuit ruled that *Medinol* "erroneously lowered the fraud standard to a simple negligence standard;" and that to succeed on a claim for fraud, a litigant must show that the filed affidavit contained false statements of material fact that were submitted with the intent to deceive. While the prior standard may have been set too low, it remains to be seen what does or does not show "intent to deceive."

In *Bose*, the company had initiated an opposition proceeding challenging registration of Hexawave based upon Bose's prior registration for WAVE. The applicant counterclaimed to cancel Bose's WAVE registration, alleging that Bose committed fraud when its Section 8 affidavit of continued use said that Bose was using the mark on all goods listed in the original registration even though it had stopped manufacturing and selling audio tape recorders and players. The Board found that Bose had stopped manufacturing and selling these products sometime between 1996 and 1997; and the in-house counsel who signed the Section 8 affidavit knew that Bose discontinued them. *Bose Corp. v. Hexawave, Inc.*, 88 U.S.P.Q.2d 1332 (TTAB 2007). Deeming it "unreasonable," the Board rejected counsel's testimony that in his belief, the WAVE mark was used in commerce because "in the process of repairs, the product was being transported back to customers." The Board noted that Bose had offered no case law to support its theory that this activity qualifies as use in commerce under the Lanham Act. Id. at 1335-38. Having found fraud, the Board cancelled the WAVE registration in its entirety, and Bose appealed.

On appeal, the CAFC ruled that *Medinol* was an erroneous departure from earlier precedent (both in the CAFC and sister circuit courts) that proof of intent to deceive must be shown before cancelling a trademark registration. Citing its earlier decisions, the Court stated that prior to *Medinol*, it had held that "mere negligence is not sufficient to infer fraud or dishonesty." Reaffirming this principle, the Court went on to hold that "a trademark is obtained fraudulently under the Lanham Act only if the applicant or registrant knowingly makes a false, material representation with the intent to deceive the PTO."

With respect to the particular facts at hand, the Court ruled that Bose did not commit fraud. According to the Court, "there is no fraud if a false misrepresentation is occasioned by an honest misunderstanding or inadvertence without a willful intent to deceive." The party asserting a fraud claim must "point to evidence to support an inference of deceptive intent" in order to "satisfy the clear and convincing evidence standard required to establish a fraud claim."

Because the CAFC found that the standard of fraud was not met, it vacated the Board's order cancelling Bose's registration, and remanded the case back to the Board to amend the goods described in the registration "to reflect commercial reality." According to the Court, "when a trademark registrant fulfills the obligation to refrain from knowingly making material misrepresentations, '[i]t is in the public interest to maintain registrations of technically good trademarks on the registrar so long as they are still in use.'"

This decision brings the standards for fraud in trademark cases in line with other areas of the law, including the standard of inequitable conduct in a patent case. The looming question is what does it take to be inequitable? Establishing falsity and materiality typically is the easy part; what evidence shows that a statement was made with an intent to deceive is far from clear. Can there be inequitable conduct if a person making a statement later found to be false can show a reasonable, factual basis for his or her belief that the statement is true? In *Bose*, counsel could not recall the basis for his understanding that transporting goods in connection with repair services constitutes use; nor could he recall consulting with outside counsel on this issue. Under those circumstances, the CAFC has ruled that intent to deceive could not be inferred; but this begs the question of how intent can be shown. The Federal Circuit decision also calls into question what obligations a trademark owner has to investigate the facts (e.g., is a mark in use on all of the listed goods) and law (e.g., what is "use in commerce;" the Lanham Act's definition is "goods that are sold or transported").

Thus, although *Bose* is clear that "should have known" is not enough to prove intent to deceive, it leaves open many questions relating to how that standard will be applied.

To view the decision, click here.

Authors

James B. Lampert

RETIRED PARTNER

james.lampert@comcast.net

+1 617 526 6000