New Jersey Law Journal

VOL. CXCIX - NO.1 - INDEX 38 JANUARY 4, 2010 ESTABLISHED 1878

IN PRACTICE

INTELLECTUAL PROPERTY

Federal Circuit Relaxes Fraud Standard for Trademark Owners

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A much anticipated decision by the United States Court of Appeals for the federal circuit removes a significant risk that trademark owners have faced for the past six years.

In *In re Bose Corp.,* 91 U.S.P.Q.2d 1938 (Fed. Cir. Aug. 31, 2009), the federal circuit reversed the trademark trial and appeal board's finding that Bose Corporation committed fraud when it renewed a trademark registration for the trademark WAVE. Bose had indicated in its renewal declaration that the mark was used in connection with, among other goods, audio tape recorders and players. When evidence later revealed that Bose had ceased manufacturing and selling audio tape recorders and players in the mid-1990s, the TTAB found fraud based on the finding that Bose "knew or should have known" that the statements in its renewal documentation were false — a strict standard set by one of the TTAB's most controversial decisions, *Medinol Ltd. v. NeuroVasx Inc.,* 62 U.S.P.Q.2d 1205 (T.T.A.B. 2003).

The concept of use is a dominant theme in United States trademark law. It is not possible to register or maintain a registered trademark without legitimate commercial use. Rather, the law protects only those trademarks that are actually used to identify goods and services in interstate commerce. If a trademark applicant has not used its trademark but has a bona fide intent to do so, it can file an intent-to-use application, but even intent-to-use applications must be supported by a statement of actual use within three years of receipt of a notice of allowance from the trademark office. Moreover, even a registered trademark will be cancelled if its owner ceases to use it. Thus, when Bose stopped using its WAVE trademark on audio tape recorders and players, it should not have included those goods in its renewal declaration for the mark. The question that the TTAB, and later the federal circuit, faced, was whether Bose's inclusion of those goods, even if done in good faith, constituted fraud on the trademark office. The TTAB held that it did. The federal circuit disagreed.

In reversing the TTAB's *Bose* decision, the federal circuit overturned the standard established in *Medinol,* an infamous decision of the TTAB holding that any false statement made in the procurement or maintenance of a registration — even if inadvertent — is grounds for the cancellation of a trademark registration in its entirety. This approach deviated from the generally accepted elements of a typical fraud claim, which include the crucial scienter factor.

The *Medinol* decision represented a sharp departure from prior treatment of fraud claims in trademark cases. Fraud claims have never been uncommon — fraud is a claim that can be asserted by petitioners to seek cancellation of registered trademarks that have been deemed "incontestable" by the trademark office pursuant to 15 U.S.C. Section 1115(b)(1), a generally powerful status that renders trademarks immune to many other statutory grounds for cancellation. Before *Medinol*, however, fraud claims were rarely successful because they required evidence of subjective intent to deceive the trademark office.

Medinol represented a dramatic, and somewhat surprising, shift because the TTAB found that the registrant had committed fraud against the trademark office despite a complete lack of evidence of deceptive intent. The facts in *Medinol* involved an intent-to-use trademark application filed by Neuro Vasx covering "medical devices, namely, neurological stents and catheters" that matured into a registration. Medinol brought a cancellation action alleging that Neuro Vasx had never used the mark in connection with stents, despite the sworn statements attesting to commercial use of both goods included in its application. Neuro Vasx

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demonstrated that it had used the mark in connection with catheters, but not with stents. The TTAB granted summary judgment against Neuro Vasx.

There was no evidence that Neuro Vasx intended to deceive the Trademark Office; however, the TTAB nevertheless held that the registrant had committed fraud. The TTAB held that "[a] trademark applicant commits fraud in procuring a registration when it makes material representations of fact in its declaration which it knows or should know to be false or misleading." The TTAB reasoned that the intent of the trademark owner was irrelevant, and that the operative question was whether the trademark owner "knew or should have known that its statement of use was materially incorrect." The TTAB concluded that because the trademark owner should have known that it was not using the trademark on stents, the inclusion of stents in its application constituted fraud against the trademark office. Moreover, the TTAB declined to simply cancel the portion of the registration applying to stents, reasoning that such a narrow remedy would not effectively dissuade other trademark owners from committing fraud. The result was the cancellation of the entire registration – widely criticized as a harsh consequence for an inadvertent mistake.

Thus, the *Medinol* decision set a precedent that false information automatically equated with fraudulent information — a precarious standard for trademark owners, and one that claimed many victims during the six years following the maligned decision. In several post-*Medinol* cases, the TTAB was unmoved by explanations such as applicant's failure to comprehend the requirement of use of the mark on all goods enumerated in the application, or the language difficulties alleged by foreign applicants. It became common practice for a court following the *Medinol* standard to impose the cancellation of an entire registration for a trademark owner's inclusion of or failure to delete unused goods or services from an application or registration, regardless of whether the error was made by the trademark owner in good faith and without regard to the materiality of the mistaken representation at issue. The pre-*Medinol* standard of subjective intent had been completely abandoned, replaced by an inflexible strict standard that all false representations were fraudulent representations.

Bose represented the federal circuit's first opportunity to review the TTAB's strict *Medinol* fraud standard. To the relief of many trademark owners, the federal circuit rejected the TTAB's view, stating that "[s]ubjective intent to deceive … is an indispensable element in the [fraud] analysis" and reasoning 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." The federal circuit elaborated that there exists "[a] material legal distinction between a 'false' representation and a 'fraudulent' one, the latter involving an intent to deceive, whereas the former may be occasioned by a misunderstanding, an inadvertence, a mere negligent omission, or the like."

The correct standard, according to the federal circuit, is "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." To be clear, said the Court, "[t]here is no fraud if a false misrepresentation is occasioned by an honest misunderstanding or inadvertence without a willful intent to deceive." And with that, the federal circuit put the misguided *Medinol* doctrine to rest.

Within weeks of the federal circuit's *Bose* decision, the TTAB has begun to apply the new standard. On Aug. 31, in *Societe Cooperative Vigneronne Des Grandes Caves Richon-Lezion and Zicron-Jacob Ltd. v. Albrecht-Piazza, LLC*, Opposition No. 91190040, the TTAB required the applicant-counterclaimant to amend its petition for cancellation because the pleading contained allegations based on the "knew or should have known" standard of *Medinol*. Similarly, the TTAB denied a summary judgment motion based on a fraud allegation in *Enbridge, Inc. v. Exelerate Energy Limited Partnership*, Opposition No. 91170364, on Oct. 6.

Notwithstanding the new standard established by *Bose,* trademark owners would be prudent to continue to exercise care when indicating goods and services in statements of use, declarations of use and renewals. Trademark owners should also maintain records documenting the use in interstate commerce of all trademarks in their portfolios. For example, copies of product labeling, marketing collateral and advertisements related to the products and services can help substantiate commercial use. Similarly, internal documentation regarding product research and other business plans related to the development of new goods and services can constitute evidence of a bona fide intent to use a trademark that is the subject of in an intent-to-use application. That said, there can be no question that the standard applicable to fraud claims in trademark cases declared by the federal circuit removes a significant risk that trademark owners have faced since *Medinol* that an inadvertent mistake could result in the cancellation of a valuable trademark right.■