

IP Bulletin

Proving Fraud Just Got Tougher in Trademark Cancellations The Impact of the *In re Bose* Decision

On August 31, 2009, the United States Court of Appeals for the Federal Circuit changed the standard of proof for fraud in trademark oppositions and cancellations. This standard is now aligned with the standards of proof for fraud in other types of intellectual property, namely, copyrights and patents. One consequence of this decision is the revival of the role of the often-battered and misunderstood incontestability status of trademarks. As expected, this change in standard of proof will be felt mostly by litigants in opposition and cancellation proceedings before the Trademark Trial and Appeals Board (TTAB).

To understand the implications of this return to an intent-based standard of proof, we begin with a historical overview of trademark law, we then discuss *inter partes* proceedings before the TTAB, and, finally, we address how the new standard of proof diverges from precedent at the TTAB.

Historical Perspective

Copyrights and patents are constitutional rights woven deeply into the fabric of this nation by its founders. Article 1, Section 8, Clause 8 of the U.S. Constitution grants to the federal government the right "to promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries."

In contrast, trademark law was born from the desire to curb unfair competition in the marketplace.¹ In the 19th century, Congress first restricted confusion of customers by enacting the first federal act directing itself trademark registration.² In this act, infringement of marks was somewhat analogous to a claim of fraud in a commercial environment. The constitutional grant of power invoked to regulate trademarks is the Commerce Clause of the U.S. Constitution.³

By the 20th century, a strict definition of fraud was no longer required for a finding of trademark infringement. The focus shifted slowly to the likely confusion of buyers and their impression in the marketplace.⁴ To this day, the beating heart of trademark law is the grant of limited rights sufficient to police the marketplace and ultimately aid the real beneficiaries: consumers. The current trademark law, often referred to as the Lanham Act, was enacted in 1946 and codifies these policies.⁵

Trademarks Today

The three most easily recognized types of intellectual property are patents, copyrights, and trademarks. Certificates of registration or grant can be obtained for each from the United States. There is an important distinction to be made between each of these types of intellectual property. Patents and copyrights are exclusionary rights granted to an individual (inventor or author) against third parties, whereas trademarks are granted to those who offer goods or services in commerce but with limited rights based on the ever-changing conditions of the marketplace. A trademark owner is a mere guardian of the marketplace, protecting its clients from confusion. A trademark registration is not a monopoly and, accordingly, standards for proof of fraud committed in the process of securing a trademark registration differs from other standards for proof of fraud in intellectual property.

Trademark is a form of property recognized by the law. Rights may be established by proving actual use in commerce or via a certificate of registration in the trademark registry with the United States Patent and Trademark Office. Trademarks can be established for words, designs, and composite marks, but also shapes, colors, smells, or any other feature that can lead to public association with a source of origin of goods or

services. Trademark registration is used to enforce rights through trademark infringement proceedings. In the United States, a trademark is granted to the “first to use” the mark, unlike some other jurisdictions in which the mark is granted to the “first to file.”

A federal registration gives the owner of a mark important legal rights and benefits, but the registration does not create the trademark. It only recognizes and provides notice of these rights to others.⁶ Owners abandon marks, goods and services sold under a mark evolve, corporations merge, and public perception evolves and changes. Famous examples of marks that have traveled to and back from a graveyard of genericness include the mark SINGER for sewing devices and the mark THERMOS for glass vacuum bottles.

Cancellations and Oppositions at the Trademark Office

Inter partes proceedings are mechanisms established by the Lanham Act to block, alter, or remove registrations from the Trademark Registry. In particular, oppositions and cancellations enable one to either prevent registration or remove/correct a mark from the registry, respectively. The Lanham Act permits cancellations by one who “believes that he/she is or will be damaged by the registration.”⁷ It is important to understand that, unlike a voided patent or copyright, a cancelled trademark registration does not result in the cancellation of the common-law rights associated with the trademark.

A cancellation proceeding may be instituted at any time after a registration has been granted. During an initial period of five years from registration, the mark can be cancelled based on any ground that would have prevented registration at the outset. After the initial five years, a trademark owner can file a claim of incontestability and thereby limit the grounds upon which cancellation can be sought. The policy reason for this five-year statute of limitations is a balancing of the interest of the public, which after five years has come to know and associate the mark for this potentially wrongful source of origin.⁸

For example, suppliers and manufacturers of goods are owners of marks but not their local distributors. Let’s assume that a distributor filed for a mark rather than the manufacturer. In normal circumstances the manufacturer is entitled to the registration; but once five years have

elapsed and only if the distributor has filed for incontestability after continuous and open use of the mark for five years, the statute of limitations protects consumers by leaving the marketplace undisturbed even if, originally, the mark was awarded to the wrongful legal owner.

As with any statute of limitations, a keen sense of unfairness may be felt by close observers unless one is reminded that consumers, not trademark owners, are the real beneficiaries of trademarks. One of the few grounds available for cancellation of an incontestable mark is fraud. As a practical matter, attorneys often circumvent incontestability by making far-reaching claims of fraud. These claims are as varied as the process of registration. Some attorneys argue that the translation of a mark inspired by a foreign word was omitted from the original trademark application or was incorrect; others argue that a color is missing from a claimed design, etc. Claims of fraud today are pivotal in many cancellation proceedings. These claims, as they were easy to win, served to somewhat nullify the incontestability status of marks.

Practice Tip:

The fifth anniversary of the registration of a mark is a critical date. Always file the statement of continuous use required on that date and claim incontestability status, as there is no disadvantage.

File federal applications for trademarks within five years of the market introduction, as this may uncover pending or issued marks filed by distributors, agents, or individuals before the potentially conflicting marks become incontestable.

Even if a mark is unregistered, trademark attorneys should docket and evidence the date of first use in commerce to benefit at an earlier stage of incontestability if a common-law mark ever enters the registry.

Fraud Prior to In re Bose

Prior to *In re Bose*, the standard of proof of fraud in the trademark sense must have been shown at the time a registration is obtained or when statements were made

to renew a registration. Plaintiffs had a heavy burden of proof to demonstrate fraud by a preponderance of the evidence.⁹ Fraud must have been pled with particularity following the Federal Rules of Civil Procedure.¹⁰

To prove fraud in a cancellation, a petitioner must prove five elements: (1) a false representation of a material fact; (2) knowledge or belief on the part of the filer that the representation is false; (3) intent to induce the PTO to act or refrain from acting in reliance on the misrepresentation; (4) reasonable reliance by the PTO on the misrepresentation; and (5) damage from such a reliance.¹¹

The TTAB is the administrative body that has jurisdiction over cancellation proceedings. In *Medinol*, the case of precedence before *In re Bose*, the TTAB took the position that “[t]he appropriate enquiry is ... not into the registrant’s subjective intent [to lie], but rather into the objective manifestation of that intent ... [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.”¹² As a consequence, a subjective standard was used to determine whether knowledge could be implied.

In *Medinol*, registration of the mark NEUROVASX for catheters and stents was cancelled based on a finding of fraud. At the end of the application process, the registrant made a hasty online declaration that use was for all goods in the notice of allowance. The mark owner later admitted that the mark was never used for stents but for catheters only. The statement may not have amounted to fraud in the traditional sense of the term. However, the TTAB cancelled the registration for both stents and catheters, finding that the registrant should have known there was no use of the mark for stents and that fraud had been perpetuated before the Office. The TTAB simply did not care that the mark NEUROVASX was used in the marketplace for catheters or that consumers were starting to associate the mark with the registrant.

Thus, the *Medinol* ruling resulted in very harsh penalties for simple errors. Patent cases never have followed the *Medinol* rule. The Federal Circuit in *Exergen*,¹³ two years before *In re Bose*, dismissed a claim of inequitable conduct (a broader concept than fraud) in a patent case on failure to plead actual knowledge of conduct. The Federal Circuit sided with the “known” standard from the Court of Customs and Patent Appeals over the “known or should have known” requirement of the TTAB.¹⁴ The Federal Circuit reaffirmed

that even in pleadings under Rule 9(b) of the Federal Rules, the standard is one of knowledge, not of implied knowledge.¹⁵ In *Exergen*, the Federal Circuit made its position quite clear, paving the way for *In re Bose*. Today, things have changed as a result of *In re Bose*.

Practice Tip:

It is important to update the recitation of goods and services when filing Statements of Use to remove goods or services with which the mark has not been used. Such amendment does not mean the registration cannot later be read to recapture such goods or services.

Under the doctrine of reasonable expansion of trade or the doctrine of related goods, a certificate may be read to include related goods such as the stents, while the certificate is directed only to catheters (i.e., doctors associate a manufacturer of catheters with a manufacturer of stents).

In re Bose Changes the Law

The Bose Corporation owns U.S. Trademark Registration No. 1,633,789 for the mark WAVE. In 2001, the general counsel for Bose signed a Section 9 renewal application stating that the mark was still used in conjunction with several goods, including audiotape recorders and players. Hexawave, Inc. filed a petition for cancellation, arguing that Bose no longer sold or manufactured audiotape recorders and players as of 1996. The situation was highly analogous to *Medinol*.

Bose admitted this fact but argued that it still used the mark in conjunction with the repair and maintenance of those goods. The TTAB concluded that the repair and maintenance of old recorders did not constitute sufficient use in commerce in connection with the goods. Additionally, the TTAB concluded that fraud had been committed before the Office based on a finding that the corporate officer “should have known” that Bose had discontinued use of the mark in connection with audiotape recorders and players.

The Federal Circuit reversed the ruling of *In re Bose Corp.*, No. 2008-1448 (Fed. Cir. 2009), and explained that the TTAB erroneously lowered the fraud standard to

a simple negligence standard when it added the “should have known” language to the *Medinol* opinion.¹⁶ The court continued: “Because direct evidence of deceptive intent is rarely available, such intent can be inferred from indirect and circumstantial evidence. But such evidence must be clear and convincing, and inferences drawn from lesser evidence cannot satisfy the deceptive intent requirement.”¹⁷

The court went even further and said that the involved conduct must be a “willful intent to deceive.”¹⁸ In the case of the Section 9 statement related to the claim of use of the mark for audiocassette players, the court found that misstatements did not represent a conscious effort to obtain for Bose a registration to which Bose’s general counsel knew it was not entitled. At the time of the signature of the statement, the general counsel stated in a deposition that he believed the statement to be true and simply did not know Bose had discontinued the product.

The Federal Circuit deleted a portion of the goods on the registration certificate and tried to explain some of the policy considerations that are unique to trademarks, namely, that the purpose of Section 8 or 9 renewals (statements of continuous use) is “to remove from the register automatically marks which are no longer in use. When a trademark registrant fulfills the obligation to refrain from knowingly making material misrepresentations, it is in the public interest to maintain registrations of technically good trademarks on the register so long as they are still in use. Nothing is to be gained from and no public purpose is served by canceling the registration of this trademark.”¹⁹

Practice Tip:

The Court explained that evidence must be clear and convincing. Since lesser evidence is no longer relevant, only direct evidence can be used to prove intent. This implies that registrants who conduct a full investigation but mistakenly believe use is ongoing disadvantage themselves. Fraud claims should now be filed when the record of a mark implies strongly that registrants lied willfully, not merely had incompetent counsel.

Conclusion

We are currently involved in several pending cancellation proceedings before the TTAB in which fraud has been asserted as a ground for cancellation. These pending cases and other decisions to be published will result in a better understanding of the actual level of evidence needed to sustain a claim of fraud. Currently, the docket of the TTAB is filled with petitions for cancellation based on claims of fraud, and we do not believe that the TTAB can take a hard line and require uncontested proof of intent, since this would have disastrous effects on the capacity of trademark owners to police the registry. There is no doubt that *In re Bose* is the end of baseless fraud claims before the TTAB. We do expect summary judgment to be granted more often at early stages of litigation. These dispositive motions must be filed before the opening of the testimony period and after the closure of the pleading phase. We will continue to monitor the evolution of this situation and provide you with an update in subsequent issues of *IP Strategies*. ■

¹ McCARTHY ON TRADEMARKS, §1:10.

² Act of July 8, 1870, 16 Stat. 198, §§ 77–84.

³ Trade-Mark Cases, 100 U.S. 82, 85 (1879).

⁴ *Champion Spark Plug Co. v. Sanders*, 331 U.S. 125, 130 (1947).

⁵ Signed into law by President Truman on July 5, 1946, now 15 U.S.C.A. §1051 et seq.

⁶ McCARTHY ON TRADEMARKS, §20:41.

⁷ Lanham Act §14, 15 U.S.C.A. §1064.

⁸ *Consorzio del Prosciutto di Parma v. Parma Sausage Prods., Inc.*, 23 U.S.P.Q.2d 1894 (TTAB 1992).

⁹ *Massey Junior College, Inc. v. Fashion Inst. of Tech.*, 492 F.2d 1399 (CCPA 1974).

¹⁰ Fed. R. Civ. P. 9(b).

¹¹ *Artcraft Novelties v. Baxter Lane Co.*, 685 F.2d 988, 992 (5th Cir. 1982); *Hard Rock Café Int'l, Inc. v. Hard Rock Café Int'l, Inc.*, 951 F.2d 684 (5th Cir. 1992).

¹² *Medinol v. Neuro Vaxx, Inc.*, 67 U.S.P.Q.2d 1205, 1209 (TTAB 2003).

¹³ *Exergen Corp. v. Wal-Mart Stores, Inc.*, 575 F.3d 1312 (Fed. Cir. 2006).

¹⁴ *King Automotive Inc. v. Speedy Muffler King, Inc.*, 667 F.2d 1008, 1010 (CCPA 1981).

¹⁵ *FMC Corp. v. Manitowoc Co., Inc.*, 835 F.2d 1411, 1415 (Fed. Cir. 1987).

¹⁶ *In re Bose Corp.*, No. 2008-1448 (Fed. Cir. 2009).

¹⁷ *Star Scientific, Inc. v. R.J. Reynolds Tobacco Co.*, 537 F.3d 1357, 1366 (Fed. Cir. 2008).

¹⁸ *Metro Traffic Control, Inc. v. Shadow Network Inc.*, 104 F.3d 336 (Fed. Cir. 1997).

¹⁹ *In re Bose Corp.*, No. 2008-1448 (Fed. Cir. 2009).

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