

Federal Circuit Tightens Standard for Proving Intent To Deceive in Trademark Fraud Cases: *In re Bose Corp.*

I. OVERVIEW OF THE CASE.....	313
II. BACKGROUND.....	314
III. THE COURT’S DECISION.....	316
IV. ANALYSIS.....	317

I. OVERVIEW OF THE CASE

The United States Patent and Trademark Office (PTO) has held that fraud in maintaining a trademark registration may result in the cancellation of a mark in its entirety.¹ Prior to the noted case, the PTO had 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.”² In the noted case, the Bose Corporation (Bose) challenged the HEXAWAVE trademark application by Hexawave, Inc., alleging that there is a likelihood that confusion may occur with their WAVE trademark and other prior registered trademarks.³ In response to Bose’s affidavit that they were still manufacturing and selling audio tape recorders using the WAVE mark, Hexawave counterclaimed that Bose knowingly committed fraud in its renewal application.⁴ The Trademark Trial and Appeal Board (Board) found that Bose committed fraud and canceled its WAVE registration.⁵ The Board found that Bose stopped manufacturing and selling audio tape recorders and players in 1996.⁶ Bose argued that at the time it filed the renewal application, its trademark was in continued use because they repaired previously purchased goods

1. See *In re Bose Corp.*, No. 2008-1448, 2009 WL 2709312, at *1 (Fed. Cir. Aug. 31, 2009) (citing *Bose Corp. v. Hexawave, Inc.*, 88 U.S.P.Q. 2d 1332, 1338 (T.T.A.B. 2007)).

2. *Id.* at *3 (citing *Medinol v. Neuro Vasx, Inc.*, 67 U.S.P.Q. 2d 1205, 1209 (T.T.A.B. 2003) (emphasis added) (internal quotations omitted)).

3. See *id.* at *1 (citing *Bose*, 88 U.S.P.Q. 2d at 1333).

4. *Id.* Federal trademark registrations issued on or after November 16, 1989, remain in force for ten years and may be renewed for ten-year periods. To renew a registration, the owner must file an Application for Renewal under section 9 of the Trademark Act, 15 U.S.C. § 1058 (2006). In addition, at the end of each successive ten-year period after the date of registration, the owner must file a section 8 Declaration of Continued Use, which is “an affidavit setting forth those goods or services recited in the registration on or in connection with which the mark is in use in commerce.” *Id.* at *5 n.1 (citing 15 U.S.C. § 1058(b)(1) (2006)).

5. See *id.* at *1 (citing *Bose*, 88 U.S.P.Q. 2d at 1338).

6. See *id.* (citing *Bose*, 88 U.S.P.Q. 2d at 1334-35).

still under warranty.⁷ Despite Bose's belief that it had met the "used in commerce" standard, the Board determined that transportation of repaired products back to customers did not constitute a use in commerce and further "did not constitute sufficient use to maintain a trademark for goods."⁸ As a result, the Board ruled that "Bose committed fraud against the PTO."⁹ Bose appealed the Board's ruling on the grounds that there was a lack of substantial evidence to prove intent to deceive the PTO.¹⁰

On appeal, The United States Court of Appeals for the Federal Circuit reversed the ruling of the Board, reasoning 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."¹¹ The court noted that a challenger of a trademark must provide clear and convincing evidence of intent to establish a fraud claim.¹² Finding a lack of deceptive intent, the Federal Circuit *held* that "Bose did not commit fraud in renewing its WAVE mark and the Board erred in cancelling the mark in its entirety." *In re Bose Corp.*, No. 2008-1448, 2009 WL 2709312, at *1 (Fed. Cir. Aug. 31, 2009).

II. BACKGROUND

A petition to cancel a registration of a trademark may be filed by "any person who believes that he is or will be damaged by the registration of a trademark if its registration was obtained fraudulently."¹³ Courts have recognized that an applicant who knowingly makes false material representations of fact has committed fraud in obtaining a trademark registration or renewal.¹⁴ Courts have determined that the burden of proof falls on the party seeking cancellation of a trademark registration.¹⁵

The United States Court of Customs and Patent Appeals (C.C.P.A.) explained that "any duty owed by an applicant for trademark registration

7. *See id.*

8. *Id.* (citing *Bose*, 88 U.S.P.Q. 2d at 1335-38).

9. *See id.*

10. *See id.* "Because the original appellee, Hexawave, did not appear, the PTO moved, and the court granted leave to the Director, to participate as the appellee. The Federal Circuit has jurisdiction pursuant to 15 U.S.C. § 1071 (a) (2006) and 28 U.S.C. § 1295 (a)(4)(B) (2006)." *Id.*

11. *Id.* at *3, *6. "The Lanham Act prohibits an applicant from making knowingly inaccurate or knowingly misleading statements." *Id.* at *2 (quoting *Bart Schwartz Int'l Textiles, Ltd. v. Fed Trade Comm'n*, 289 F.2d 665, 669 (C.C.P.A. 1961)).

12. *See id.* at *5.

13. 15 U.S.C. § 1064(3) (2006).

14. *Torres v. Cantine Torresella S.r.l.*, 808 F.2d 46, 48 (Fed. Cir. 1986).

15. *W.D. Byron & Sons, Inc. v. Stein Bros. Mfg. Co.*, 377 F.2d 1001, 1004 (C.C.P.A. 1967).

must arise out of the statutory requirements of the Lanham Act, which prohibits applicants from making knowingly inaccurate or knowingly misleading statements.”¹⁶ Thus a material misrepresentation would not result in cancellation under the Lanham Act because only intent to mislead warrants cancellation.¹⁷ Additionally, the intent to mislead must be willful and not a mistake or a misunderstanding to constitute fraud.¹⁸

Other courts have held similarly in creating standards for cancelling a trademark registration. The United States Court of Appeals for the Eighth Circuit held that “[i]n order to show that an applicant defrauded the PTO the party seeking to invalidate a mark must show that the applicant intended to mislead the PTO.”¹⁹ The United States Court of Appeals for the Fifth Circuit has held that “[t]o succeed on a claim of fraudulent registration, the challenging party must prove by clear and convincing evidence that the applicant made false statements with the intent to deceive the licensing authorities.”²⁰ The United States Court of Appeals for the Tenth Circuit has held that “in determining whether a statement is fraudulent, courts must focus on the ‘declarant’s subjective, honestly held, good faith belief.’”²¹ The United States Court of Appeals for the Seventh Circuit has similarly held that “[f]raud will be deemed to exist only when there is a deliberate attempt to mislead the Patent Office into registering the mark.”²²

Despite the rulings of other courts, the Board in *Medinol v. Neuro Vasx, Inc.*, 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.”²³ The Board continues to uphold this standard and has cancelled numerous trademark registrations as a result.²⁴

The Federal Circuit determined that “[b]y equating the *should have known* of the falsity with a subjective intent, the Board erroneously

16. *In re Bose Corp.*, 2009 WL 2709312, at *2 (citing *Bart Schwartz*, 289 F.2d at 669). The C.C.P.A. is the predecessor to the Federal Circuit, and the C.C.P.A.’s decisions are binding on the Federal Circuit.

17. *King Auto., Inc. v. Speedy Muffler King, Inc.*, 667 F.2d 1008, 1011 n.4 (C.C.P.A. 1981).

18. *Smith Int’l, Inc. v. Olin Corp.*, 209 U.S.P.Q. 1033, 1043 (T.T.A.B. 1981).

19. *In re Bose Corp.*, 2009 WL 2709312, at *2 (citing *Aromatique, Inc. v. Gold Seal, Inc.*, 28 F.3d 863, 877-78 (8th Cir. 1994)).

20. *Id.* (citing *Meineke Discount Muffler v. Jaynes*, 999 F.2d 120, 126 (5th Cir. 1993)).

21. *Id.* (citing *San Juan Prods., Inc. v. San Juan Pools of Kan., Inc.*, 849 F.2d 468, 472 (10th Cir. 1988)).

22. *Id.* (citing *Money Store v. Harriscorp Fin., Inc.*, 689 F.2d 666, 670 (7th Cir. 1982)).

23. *Id.* (citing *Medinol v. Neuro Vasx, Inc.*, 67 U.S.P.Q. 2d 1205, 1209 (T.T.A.B. 2003)).

24. *See id.* (citing *Bose Corp. v. Hexawave, Inc.*, 88 U.S.P.Q. 2d at 1332, 1334 (T.T.A.B. 2007)).

lowered the fraud standard to a simple negligence standard.”²⁵ The Federal Circuit has previously stated that “mere negligence is not sufficient to infer fraud or dishonesty.”²⁶ In *Kingsdown Medical Consultants, Ltd. v. Hollister Inc.*, the Federal Circuit held that “a finding that particular conduct amounts to ‘gross negligence’ does not of itself justify an inference of intent to deceive.”²⁷ The rationale that the standard for finding intent to deceive is stricter than the standard for negligence or gross negligence is applicable in trademark fraud cases.²⁸

The Federal Circuit has set a standard that allows intent to be inferred from indirect and circumstantial evidence.²⁹ Although, “such evidence must still be clear and convincing, and inferences drawn from lesser evidence cannot satisfy the deceptive intent requirement.”³⁰

III. THE COURT’S DECISION

The Federal Circuit held that the “should have known” standard adopted by the Board in *Torres v. Cantine Torresella S.r.l.* was interpreted too broadly.³¹ The court in *Torres* concluded that a party that files a trademark renewal application, knowing that the mark is no longer in use, has intentionally misled the PTO.³² The court then concluded that the facts of the case, rather than the “should have known” standard, should be used to determine whether a party knowingly attempted to mislead the PTO.³³ The Federal Circuit further noted that “(1) fraud in trademark cases ‘occurs when an applicant knowingly makes false, material representations,’ (2) the Lanham Act imposes on an applicant the obligation not to ‘make *knowingly* inaccurate or *knowingly* misleading statements,’ and (3) a registrant must also ‘refrain from knowingly making false, material statements.’”³⁴ The Federal Circuit subsequently held that the “should have known” standard is not consistent with both prior C.C.P.A. decisions and *Medinol*.³⁵

25. *Id.* at *3.

26. *Jaskiewicz v. Mossinghoff*, 822 F.2d 1053, 1058 (Fed. Cir. 1987).

27. 863 F.2d 867, 876 (Fed. Cir. 1988) (en banc).

28. *See In re Bose Corp.*, 2009 WL 2709312, at *2 (citing *San Juan Prods. v. San Juan Pools of Kan., Inc.*, 849 F.2d 468, 474 (10th Cir. 1988)).

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

30. *Id.*

31. *See In re Bose Corp.*, 2009 WL 2709312, at *4.

32. *See Torres v. Cantine Torresella S.r.l.*, 808 F.2d 46, 49 (Fed. Cir. 1986).

33. *See In re Bose Corp.*, 2009 WL 2709312, at *4.

34. *Id.* (citing *Torres*, 808 F.2d at 48).

35. *See id.*; *see also Newell Cos. v. Kenney Mfg. Co.*, 864 F.2d 757, 765 (Fed. Cir. 1988).

In the noted case, the Federal Circuit found that at the time Bose signed its renewal application, it had knowledge that it was no longer manufacturing and selling audio tape recorders and players.³⁶ Thus the statements made by Bose in the renewal application were false, which led the Federal Circuit to hold that Bose made a material misrepresentation to the PTO.³⁷ Bose contended that when it filed its renewal application, the trademark was in continued use through repairs of previously purchased goods, thus satisfying the “use in commerce” standard.³⁸ The court followed the reasoning of *Smith* that without a willful intent to deceive the PTO, there is no fraud.³⁹ After Bose testified that it believed its statement to be true, the Federal Circuit held that “[u]nless the challenger can point to evidence to support an inference of deceptive intent, it has failed to satisfy the clear and convincing evidence standard required to establish a fraud claim.”⁴⁰

The Federal Circuit held that the Board erred in cancelling the mark and that Bose did not willfully intend to deceive the PTO in renewing its WAVE mark.⁴¹ The court noted that the intent of the renewal application is to “remove from the register marks which are no longer in use.”⁴² The court reasoned that as long as a trademark is still in use, it is in the public’s interest to maintain that mark on the register, as no public purpose is served by cancelling the registration of a trademark when it is still in use.⁴³ However, the Federal Circuit agreed with the Board, stating that “because the WAVE mark is no longer in use on audio tape recorders and players, the registration needs to be restricted to reflect commercial reality.”⁴⁴

IV. ANALYSIS

The Federal Circuit’s holding in *Bose* put an end to the stringent rule of the fraud standard used by the Board under *Medinol*. Since *Medinol*, there has been significant criticism of the Board’s fraud standard and of the far-reaching outcomes of such a finding. The court

36. See *In re Bose Corp.*, 2009 WL 2709312, at *5.

37. See *id.*

38. See *id.*

39. See *id.* (citing *Smith Int’l, Inc. v. Olin Corp.*, 209 U.S.P.Q. 1033, 1043 (T.T.A.B. 1981)).

40. *Id.*

41. See *id.*

42. *Torres v. Cantine Torresella S.r.l.*, 808 F.2d 46, 48 (Fed. Cir. 1986).

43. See *In re Bose Corp.*, 2009 WL 2709312, at *5 (citing *Moorehouse Mfg. Corp. v. J. Strickland & Co.*, 407 F.2d 881, 888 (C.C.P.A. 1969)).

44. *Id.* at *6.

in *Bose* restored the original standard created by the C.C.P.A. and Federal Circuit prior to *Medinol*. Under *Bose*, fraud will be found only if a registrant knowingly makes a false or material representation with the intent to deceive. The Federal Circuit established that even if a material false statement was made, there must be evidence of the intent to deceive. As a result, the court held that the Board erred in cancelling the WAVE mark, thus changing the fraud standard.

The *Bose* “intent to deceive” standard established in the noted case elevates the burden of proof necessary to cancel a mark. The decision clarifies the fact that mere negligence is insufficient to infer fraud or intent to deceive. Instead, trademark challenges must show fraud by clear and convincing evidence. The change in proof required makes it considerably more difficult for a third party to succeed in challenging a trademark registration or application based on inadvertent mistakes in filing. By making the standard more difficult to meet, the risk that another party will spend the time and money to oppose an application or cancel a registration will likely be lowered.

Although the Federal Circuit’s *Bose* ruling may decrease the amount of fraud allegations filed with the Board, one must still be careful of making false statements because those statements may constitute reckless disregard. The court used the term “reckless disregard” without giving a meaning to the term. Additionally, the court failed to address what obligations a trademark owner has to investigate the facts and the law. Thus, trademark owners should remain careful and take every step necessary to honestly obtain or renew a trademark.

Furthermore, the status of trademarks invalidated under *Medinol* is put into question by the *Bose* ruling. This is a question that the PTO will have to answer. For now, a challenger of a trademark will have to establish that there was intent to deceive the PTO in order to successfully invalidate a mark. Trademark owners should be excited about this decision because they no longer have to worry about their registrations being in jeopardy of cancellation as a result of inadvertence or an honest mistake.

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