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TRADEMARKS

The author provides a preview of two cases challenging the TTAB's *Medinol* "knew or should have known" standard of intent for fraud in trademark registrations, with oral argument at the Federal Circuit set for early May.

Federal Circuit to Hear Two Trademark Fraud Cases in May

By ANDREA ANDERSON

In early May, the U.S. Court of Appeals for the Federal Circuit will hear arguments in two appeals from decisions of the Patent and Trademark Office's Trademark Trial and Appeal Board on the issue of fraud. Both *In re Bose Corp.*, No. 2008-1448 (Fed. Cir. hearing scheduled May 6, 2009) and *Hualapai Tribe v. Grand Canyon West Ranch LLC*, No. 2009-1012 (Fed. Cir. hearing scheduled May 7, 2009) involve the all-too-common scenario in which an applicant or registrant incorrectly represents to the PTO that a mark is in use in connection with a list of several goods or services, when in fact, it is not in use with one or more of the listed goods or services.

These cases provide the Federal Circuit its first opportunity to address the Board's recent line of fraud decisions beginning with *Medinol Ltd. v. Neuro Vasx Inc.*,

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67 USPQ2d 1205 (T.T.A.B. 2003), which held that, where an applicant represents that it is using a mark in connection with a certain product, when in fact it is not, the erroneous statement amounts to fraud if the applicant knew or should have known that the mark was not in use with that product.¹ A finding of fraud in the prosecution or maintenance of a trademark registration constitutes grounds for cancellation of the resulting registration for the entire class of goods or services in which the fraud occurred.²

¹ A few of the recent cases in which the board has relied on *Medinol* and invalidated applications and registrations based on fraud due to an overbroad use claims include: *Herbaceuticals Inc. v. Xel Herbaceuticals Inc.*, 86 USPQ2d 1572 (T.T.A.B. 2008); *Hachette Filipacchi Presse v. Elle Belle LLC*, 85 USPQ2d 1090 (T.T.A.B. 2007); *Hurley International LLC v. Volta*, 82 USPQ2d 1339 (T.T.A.B. 2007); *Standard Knitting Ltd. v. Toyota Jidosha Kabushiki Kaisha*, 77 USPQ2d 1917 (T.T.A.B. 2006); *J.E.M. International Inc. v. Happy Rompers Creations Corp.*, 74 USPQ2d 1526 (T.T.A.B. 2005).

² In *Medinol*, the board actually stated that, where there is fraud, "the entire resulting registration is void." *Medinol*, 67 USPQ2d at 1208. However, the board has since clarified that the registration should only be cancelled for the class of goods

I. Background on the *Medinol* Line of Cases

The Board's authority to cancel a registration due to fraud is established by the Lanham Act, which provides that a petition to cancel a registration on the ground that it was fraudulently obtained, may be filed at any time. 15 U.S.C. § 1064(3).

The Lanham Act does not define the term "fraudulently." However, the Federal Circuit has found fraud in the procurement or maintenance of a trademark registration where an applicant or registrant makes a statement that is (1) false, (2) made knowingly, and (3) a material representation. *L.D. Kichler Co. v. Davoil Inc.*, 192 F.3d 1349, 1351, 52 USPQ2d 1307 (Fed. Cir. 1999); *Metro Traffic Control Inc. v. Shadow Network Inc.*, 104 F.3d 336, 340, 41 USPQ2d 1369 (Fed. Cir. 1997).

According to a long line of cases, fraud on the PTO must be proved "to the hilt" by "clear and convincing evidence." See *Metro Traffic Control*, 104 F.3d at 340; *Marshall Field & Co. v. Mrs. Fields Cookies*, 25 USPQ2d 1321, 1328 (T.T.A.B. 1992); *First International Services Corp. v. Chuckles Inc.*, 5 USPQ2d 1628, 1634 (T.T.A.B. 1988).

Applying this standard, the Federal Circuit and the board have been careful, at least in the past, to distinguish between statements that are merely false, and statements that are fraudulent. Statements, though false, made with an honest and reasonable belief that they are true have not been deemed fraudulent. *Metro Traffic Control*, 104 F.3d at 340; *Kemin Industries Inc. v. Watkins Products Inc.*, 192 USPQ 327, 329 (T.T.A.B. 1976) ("There is, however, a material legal distinction between a 'false' representation and a 'fraudulent' one."); see also *Smith International Inc. v. Olin Corp.*, 209 USPQ 1033, 1043 (T.T.A.B. 1981) ("If it can be shown that the statement was a 'false misrepresentation' occasioned by an 'honest' misunderstanding, inadvertence, negligent omission or the like rather than one made with a willful intent to deceive, fraud will not be found.").

Moreover, the board has even found that negligent omissions do not rise to the level of fraud. See, e.g., *Woodstock's Enterprises Inc. (Cal.) v. Woodstock's Enterprises Inc. (Ore.)*, 43 USPQ2d 1440, 1443 (T.T.A.B. 1997) (stating that fraud will not be found where there is an inadvertent or negligent omission); *Cerveceria India Inc. v. Cerveceria Centroamericana S.A.*, 10 USPQ2d 1064, 1066 (T.T.A.B. 1989); *First International Services Corp.*, 5 USPQ2d at 1634 (T.T.A.B. 1988); *Giant Food Inc. v. Standard Terry Mills Inc.*, 231 USPQ 626, 630 (T.T.A.B. 1986).

However, in its *Medinol* decision, the board significantly narrowed the distinction between a false and a fraudulent statement, as it deemed a false statement fraudulent not only where the applicant knew it was false but also where the applicant *should have known* that the statement was false. *Medinol*, 67 USPQ2d at 1209-10.

In *Medinol*, the respondent submitted a Statement of Use alleging use of the mark NEUROVASX for "medical devices, namely, neurological stents and catheters." *Id.* at 1205-06. However, Neuro Vasx had never used the mark with "stents." *Id.* at 1206-07. In defense of its registration, Neuro Vasx claimed that it inadvertently

"overlooked" stents in the goods description and therefore had no intent to deceive the PTO. *Id.* at 1210.

The board rejected this excuse and cancelled the registration for fraud, stating that "[t]he appropriate inquiry is not into the registrant's subjective intent, but rather into the objective manifestations of that intent. . . . [I]ntent must often be inferred from the circumstances." *Id.* at 1209. Therefore, "proof of specific intent to commit fraud is not required, rather, fraud occurs when an applicant or registrant makes a false material representation that the applicant knew or *should have known* was false." *Id.* (emphasis added.)

The *Medinol* "knew or should have known" standard appears to have originated with the Federal Circuit's 1986 decision in *Torres v. Cantine Torresella S.r.l.*, 808 F.2d 46, 1 USPQ2d 1483 (Fed. Cir. 1986). In that case, the registrant owned a registration for the mark LAS TORRES. *Id.* at 47. Although the registrant had actually ceased using the LAS TORRES mark and had switched to the mark TORRES, it filed a renewal application and submitted a specimen showing the LAS TORRES mark, even though neither the specimen nor the LAS TORRES mark was in use. *Id.* at 48.

The Federal Circuit observed that "the problem of fraud arises because Torres submitted a label that he *knew or should have known* was not in use that contained a mark clearly different from the one in use." *Id.* at 49 (emphasis added). The court concluded that this conduct amounted to a knowing attempt to mislead the PTO, sufficient to support a fraud claim and the resultant cancellation of Torres' registration. *Id.*

Critics of the *Medinol* line of cases claim that the "knew or should have known" standard essentially establishes a strict liability regime for incorrect statements to the PTO and departs from the board's long-standing position that honest misunderstandings, inadvertence, or negligent omissions do not rise to the level of fraud. In addition, the board's pronouncement that "intent must often be inferred from the circumstances" creates some tension with prior case law requiring that fraud be proved by clear and convincing evidence.

The appeals in *Hualapai Tribe* and *In re Bose* both involve scenarios where a trademark owner submitted to the PTO a false statement that it was using a mark with certain goods or services when in fact, it was not. Both trademark owners claim that they reasonably believed that they were using the mark in commerce with the disputed goods or services, and that they did not knowingly make a false statement to the PTO.

Both appeals present the Federal Circuit with an opportunity to clarify its *Torres* decision regarding the circumstances in which the "knew or should have known" standard is appropriate and to rule upon whether the clear and convincing evidence required for a showing of fraud may, in some circumstances, be satisfied only by an inference drawn by the fact finder.

II. The Current Appeals

A. *Hualapai Tribe v. Grand Canyon West Ranch LLC*

The Hualapai Tribe owns and inhabits 108 miles along the southwestern rim of the Grand Canyon in Arizona, where it operates a tourist destination under the mark GRAND CANYON WEST. *Grand Canyon West Ranch LLC v. Hualapai Tribe*, 88 USPQ2d 1501, 1503

or services involved in the fraud. *G&W Laboratories Inc. v. GW Pharma Ltd.*, 89 USPQ2d 1571, 1573-74 (T.T.A.B. 2009).

(T.T.A.B. 2008) (76 PTCJ 390, 7/18/08). As a part of its business, the tribe provides tours of the canyon by raft, airplane, helicopter, and shuttle bus. *Id.*

On Jan. 23, 2003, the tribe filed a use-based application to register the mark GRAND CANYON WEST in connection with “airport services; air transportation services; arranging for recreational activities and tours and providing related transportation.”

The examining attorney objected to the wording “related transportation,” as indefinite, and after a conference with the applicant’s counsel, suggested the following revised identification in an examiner’s amendment: “airport services; air transportation services; arranging for recreational travel tours and providing related transportation of passengers by air, boat, raft, rail, tram, bus, motorized on-road and off-road vehicles, non-motorized vehicles featuring bicycles and domestic animals.” The tribe did not object to the examiner’s amendment, and the application proceeded to publication with the revised recitation of services as suggested by the examining attorney. *Id.* at 1508.

Grand Canyon West Ranch LLC opposed the tribe’s application on the grounds of descriptiveness and non-use, claiming that the tribe had not used the mark in connection with “providing transportation of passengers related to recreational travel tours by means of rail, tram, non-motorized vehicles featuring bicycles, and domestic animals.”

In response, the tribe filed an amendment deleting these services because it did not deem them critical to the application. *Id.* at 1507-08. Grand Canyon West Ranch amended its Notice of Opposition to claim fraud, arguing that the deletion of the services from the application constituted an admission that the mark had never been used on these services.

The tribe argued that its application was not fraudulent, because although it was not rendering the disputed services at the time it filed its application, its inclusion of these services resulted from an honest mistake about the Lanham Act’s “use in commerce” requirement. *Id.* at 1509.

Specifically, the tribe claimed that, because it had attempted, unsuccessfully, to offer horseback rides, bicycle tours, and tractor based tram rides under its mark, it believed that it had “used” the mark with these services and therefore that the amended identification of goods was appropriate. *Id.* The tribe also pointed out that the disputed services were included in the application as a result of an examiner’s amendment and not as a result of any verified statement made by a representative of the tribe under oath. *Id.*

Notwithstanding these arguments, in a precedential decision, the board applied the *Medinol* standard, and found that the tribe should have known that it was not using the mark in commerce within the meaning of the Lanham Act. *Id.*

As for the tribe’s argument that its acceptance of an examiner’s amendment was not the same as an affirmative statement under oath, the board stressed that it saw no reason to treat an agreement to an examiner’s amendment differently than other cases involving inaccurate claims of use. The board observed that “[t]he accuracy of the information applicant provided in agreeing to the examiner’s amendment was no less critical to the application than the information applicant provided in the application as filed. The integrity of the registra-

tion system rests on the accuracy of the information provided in either form.” *Id.* at 1510.

The tribe appealed the board’s decision to the Federal Circuit, arguing that the board’s application of the *Medinol* “knew or should have known” standard was not appropriate since it departs from prior case law, which conditions a finding of fraud upon proof of deceptive intent by clear and convincing evidence. Applying this “clear and convincing” evidentiary standard for fraud, the tribe argues that the evidentiary record supports neither the board’s finding of an intent to deceive nor the board’s finding that the tribe knew or should have known that it was not using the mark in commerce. *Hualapai Tribe*, No. 2009-1012, Appellant’s Brief at 22-28.

B. *In re Bose*

In *Bose Corp. v. Hexawave Inc.*, 88 USPQ2d 1322 (T.T.A.B. 2007), Bose opposed Hexawave’s application to register the mark HEXAWAVE for several electronic components, including amplifiers, tuners, receivers, and antennae on the basis of its previously used and registered mark WAVE for “radios, clock radios, audio tape recorders and players, portable radio and cassette recorder combinations, compact stereo systems and portable compact disc players.” *Id.* at 1333.

Hexawave counterclaimed to cancel Bose’s registration for WAVE on the ground of fraud, alleging that Bose’s Jan. 6, 2001, renewal application falsely represented that Bose was using the WAVE mark in connection with audio tape recorders and players. *Id.* Discovery revealed that Bose had stopped manufacturing and selling audio tape recorders and players some time between 1996 and 1997. *Id.* at 1334-35. However, Bose continues to repair audio cassette players and recorders sent to Bose by their owners, and after their repair, Bose returns the products to their owners. *Id.* at 1335.

In response to Hexawave’s fraud claim, Bose argued that it was in fact using the mark in commerce within the meaning of the Lanham Act because it transported repaired cassette players back to their owners. *Id.* Bose based its theory on the Lanham Act’s definition of “use in commerce,” which states “[f]or purposes of this Act, a mark shall be deemed to be in use in commerce (1) on goods when (A) it is placed in any manner on the goods or their containers . . . and (B) the goods are sold or transported in commerce.” 15 U.S.C. § 1127 (emphasis added). Bose argued that, because it “transported” repaired tape players to their owners, under the Lanham Act, it was using the WAVE mark in commerce on these goods. *Id.* at 1335-37.

The board rejected this argument, focusing on the Lanham Act’s definition of the term “trademark,” which includes “any word, name, symbol, or device or any combination thereof (1) used by a person . . . to identify and distinguish his or her goods. . . .” 15 U.S.C. § 1127. The board posited that the insertion of the possessive pronouns “his or her” before the term “goods” indicated the party asserting trademark rights must own the goods being transported in order for their transport to constitute a use in commerce. *Id.* at 1337.

The board also held that it was not reasonable for Bose to believe that the shipment of repaired goods to their owners constituted a use in commerce of the WAVE mark, particularly since Bose could point to no case law supporting its interpretation. *Id.* at 1338.

The board's hard line approach in this case was probably motivated by its sense that Bose's theory of "use in commerce" was nothing more than post hoc rationalization. Bose's general counsel could not recall how he reached the understanding that the transport of repaired goods to their owners constituted a use in commerce under the Lanham Act. *Id.* at 1335.

Moreover, Bose introduced no evidence that it confirmed this understanding with outside counsel before submitting its renewal application. *Id.* In addition, there was conflicting testimony on the issue of whether Bose took any steps at all to confirm that the WAVE mark was in use on tape players and recorders. *Id.*

On appeal, Bose argues that the board erred in its legal conclusion that the shipment of repaired goods did not constitute a use of the WAVE mark in commerce. Alternatively, Bose argues that its belief that it was using the WAVE mark in commerce on tape players and recorders was reasonable, and that the board's finding to the contrary lacked substantial evidence.

Bose does not specifically argue that the board's application of the *Medinol* "knew or should have known" standard was erroneous. Nevertheless, Bose asserts that the board's finding of an intent to deceive was not supported by the evidence, particularly in light of the "clear and convincing" standard traditionally applied in fraud cases.

Hexawave chose not to participate in the appeal, which the Federal Circuit has recaptioned *In re Bose Corp.* to reflect its ex parte status (77 PTCJ 230, 1/2/09).

C. Briefs of Interested Parties

This pair of fraud cases captured the interest and attention of the American Intellectual Property Law Association and the PTO's Solicitor's Office, both of which submitted briefs to the Federal Circuit. However, the solicitor intervened and submitted a brief only in the *In re Bose* case, whereas AIPLA submitted amicus curiae briefs in both cases.

1. AIPLA's Position

In its amicus briefs, AIPLA argues that the *Medinol* line of cases creates a strict liability standard for fraud, departing from the Federal Circuit's fraud jurisprudence, which requires a showing of "the intent to deceive, or at least a state of mind so reckless as to the consequences that it is held to be the equivalent of intent."

AIPLA asserts that this strict liability standard is inappropriate because its mechanical application reaches the same result for vastly different degrees of culpability. For example, under the *Medinol* "knew or should have known" standard, an applicant who carefully reviews a draft Statement of Use for an application covering numerous goods, but inadvertently overlooks one product on which the mark is not in use, fares no better than an applicant who carelessly signs a Statement of Use without taking any steps to confirm that the mark is in use with any of the goods set forth in the application.

Both knew or should have known that they were not using the mark with a certain good, and under *Medinol*, both of their registrations should be cancelled, despite the differing degrees of culpability. *Id.* at 11-13.

2. PTO Solicitor's Position

In defense of the *Medinol* "knew or should have known" standard, the solicitor argues that the standard

reflects the "well settled rule" that proof of actual knowledge of falsity or a specific intent to deceive is not required, since such evidence is rarely, if ever available. *In re Bose*, No. 2008-1448, PTO Br. at 18. Therefore, it follows that intent must often be inferred from circumstances.

Reviewing the facts and holdings of several of the board's fraud decisions over the last fifty years, the solicitor demonstrates that the board has inferred an intent to deceive from surrounding circumstances for years, but "apparently, it was not until *Medinol* that the trademark bar took notice." *Id.* at 42.

Citing several recent decisions in which the board declined to find fraud based on a lack of clear and convincing evidence of an intent to deceive, the solicitor attempts to refute the charge that the board's *Medinol* "knew or should have known" standard creates a strict liability regime. The solicitor explains that, although in its role as fact finder, the board may decline to find fraud where there is an "honest mistake," bald assertions of inadvertence or mistake should not be allowed to negate evidence of deceptive intent. Nor should objectively unreasonable misunderstandings of law be given a "free pass." *Id.* at 49. Obviously, any applicant caught in a fraud situation will instinctively argue that the false claim of use was the result of a mistake or based on a misunderstanding of law.

Turning to the specific facts presented by the *In re Bose* case, the solicitor posits that Bose's contention that it is using the WAVE mark in commerce is objectively unreasonable because it is not supported by case law, and because the legislative history of the Lanham Act indicates that "use in commerce" contemplates activities related to placing goods on the market. *Id.* at 25.

Therefore, the solicitor urges the Federal Circuit to affirm the board's decision cancelling Bose's registration for fraud.

III. Practical Considerations That May Influence the Federal Circuit's Decision

In addition to the legal arguments forwarded by the parties, AIPLA, and the solicitor, three practical considerations may lead the Federal Circuit to conclude that the *Medinol* "knew or should have known" standard is appropriate in making determinations of fraud in trademark cases.

First, unlike the sometimes technical and subjective issues related to the disclosure of prior art in patent cases, the issue of whether a mark is in use with certain goods is usually fairly straightforward: either it is or it isn't. All that is usually necessary to confirm use of the mark is a simple inquiry to the appropriate business people or an examination of a catalog or Web site.

Consequently, in light of the relatively objective and uncomplicated nature of the determination of use, the Federal Circuit may feel justified in demanding complete accuracy and truthfulness in any statements regarding use of a mark.

Second, the Federal Circuit is keenly aware that the PTO's limited resources prevent it from independently verifying allegations of use and other critical information. Therefore, the federal trademark registration system depends upon the accuracy of information that applicants and registrants provide to the PTO. Based on this practical reality, the Federal Circuit may have little

sympathy for careless applicants or registrants who fail to thoroughly verify the accuracy of their claims of use.

The third practical consideration that may influence the court's decision relates to the consequences of cancelling a trademark registration for fraud. Unlike patent law, where the only rights a patentee has are those granted by the PTO, a finding of fraud and the resultant cancellation of a trademark registration does not extinguish an applicant's or registrant's underlying common law trademark rights.

Of course, invalidation of a registration or application does have some deleterious consequences, as it may deprive the applicant or registrant of the application's "constructive priority date" and the presumption of validity and other evidentiary presumptions afforded by federal registration. However, even after a federal registration is cancelled, the underlying common law trademark rights remain.

Moreover, a trademark owner whose registration is cancelled for fraud may immediately file a new application to register the same mark in connection with the identical goods. Therefore, the Federal Circuit may be inclined to view cancellation of a trademark registration as a slap on the wrist, when compared to the "atomic

bomb" of patent unenforceability that arises from a finding of inequitable conduct in patent cases. See *Aventis Pharma S.A. v. Amphastar Pharmaceuticals Inc.*, 525 F.3d 1334, 1349, 87 USPQ2d 1110 (Fed Cir. 2008) (76 PTCJ 116, 5/23/08) (Rader, J., dissenting).

As a result, the court may see no problem in upholding a fraud regime for trademark cases that may be more rigorous than traditional notions of inequitable conduct in patent prosecution.

IV. Conclusion

Although a precedential decision in one or both of these cases will not remove all uncertainties surrounding the board's fraud jurisprudence, it could shed light on the appropriate interplay between the *Torres/Medinol* "knew or should have known" standard of intent, the board's traditional tolerance for inaccurate use claims based on mistake or negligence, and the "clear and convincing" evidentiary standard historically applied in fraud cases.

Oral argument for both cases is currently set for the first week of May, and decisions on the cases will likely issue by early July.