

## Fraud and the TTAB: What Hath *Bose* Wrought?

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In *In re Bose Corporation*, 91 USPQ2d 1938 (Fed. Cir. 2009), the U.S. Court of Appeals for the Federal Circuit (CAFC) swept aside the Trademark Trial and Appeal Board's still-developing fraud jurisprudence and left practitioners facing a rather barren landscape. The CAFC discarded the "knew or should have known" standard for fraud set out by the TTAB in *Medinol Ltd. v. Neuro Vasx, Inc.*, 67 USPQ2d 1205 (TTAB 2003), ruling that "[b]y equating 'should have known' with a subjective intent," the Board had "erroneously lowered the fraud standard to a simple negligence standard." This paper will explore some of the questions about fraud that now remain to be answered.

### Fraud in the Post-Bose Era

The TTAB, in *Bose Corporation v. Hexawave, Inc.*, 88 USPQ2d 1332 (TTAB 2007) [not precedential], held that Bose Corporation committed fraud in its 2001 renewal of a registration for the mark WAVE for, *inter alia*, audio tape recorders and players. Bose stated in the renewal declaration that the mark was still in use in commerce on all the identified goods. However, it had in fact stopped manufacturing and selling audio tape recorders and players in 1996-97, but it did not delete those goods from the WAVE registration when it filed for renewal.

Bose contended that the statement regarding "use in commerce" was proper "because owners of audio tape recorders and players continue to send their previously purchased goods to opposer for repair services and upon completion of the repair services, Bose 'transports' them

back to the owner.” The Board, however, concluded that this repairing and shipping back did not constitute “use in commerce” under the *Trademark* Act, and that “inasmuch as Bose was not using the mark in connection with audio tape recorders and players, the statement in its Section 8/9 renewal paper was false” and “not reasonable” and therefore Bose had committed fraud.

The CAFC disagreed, holding that, even though the statement regarding use was legally incorrect, there was insufficient proof that Bose’s statement was made with deceptive intent. Reviewing the Board’s seminal ruling in *Medinol*, the court concluded the TTAB had been applying a much too liberal test for fraud:

[D]espite the long line of precedents from the Board itself, from this court, and from other circuit courts, the Board [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.” . . . By equating “should have known” of the falsity with a subjective intent, the Board erroneously lowered the fraud standard to a simple negligence standard. 91 USPQ2d at 1940.

The CAFC then made it clear that proof of intent to deceive is required to establish fraud: “Thus, we 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.”

Subjective intent to deceive, however difficult it may be to prove, is an indispensable element in the analysis. Of course, “because direct evidence of deceptive intent is rarely available, such intent can be inferred from indirect and circumstantial evidence. But such evidence must still be clear and convincing, and inferences drawn from lesser evidence cannot satisfy the deceptive intent requirement.” *Star Scientific, Inc. v. R.J. Reynolds Tobacco Co.*, 537 F.3d 1357, 1366 (Fed. Cir. 2008). When drawing an inference of intent, “the involved conduct, viewed in light of all the evidence . . . must indicate sufficient culpability to require a finding of intent to deceive.” *Kingsdown Med. Consultants, Ltd. v. Hollister Inc.*, 863 F.2d 867, 876 (Fed. Cir. 1988) (*en banc*). 91 USPQ2d at 1941.

Bose’s general counsel, Mark E. Sullivan, testified that he believed the statement that Bose was still using the mark was true when he signed the renewal application. The appellate

court pointed out 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.” On that basis, the court reversed the finding of fraud.

The CAFC’s decision in *Bose* brought an abrupt end to the reign of *Medinol*, when fraud was a favored avenue of attack in TTAB *inter partes* proceedings. Under *Medinol*, once a party discovered that the other side had filed its use-based application or maintained its registration for a mark that was not in use for all the listed goods or services, summary judgment for fraud was a near certainty. The attacking party did not have to prove that its adversary intended to deceive the US Patent and Trademark Office (USPTO), but only that the adversary “knew or should have known” that its statement regarding use was false. All that changed with *Bose*.

#### If Not “Knew or Should Have Known,” Then What?

In light of *Bose*, proof that a declarant “knew or should have known” that his or her statement regarding use was false is not enough to support a finding of fraud. Clear and convincing evidence of deceptive intent is required. But because “direct evidence of deceptive intent is rarely available,” in most cases “indirect and circumstantial evidence” will have to fill the bill. But how much evidence, and of what?

The CAFC stated in *Bose* that “there is no fraud if a false misrepresentation is occasioned by an honest misunderstanding or inadvertence without a willful intent to deceive.” 91 USPQ2d at 1942. Let’s explore that statement and see where it leads us.

The particular facts in *Bose* fall under the “honest misunderstanding” umbrella. General Counsel Sullivan explained that, when he signed the Section 8 Declaration in 2001 verifying that the mark WAVE was still in use for audio recorders, he believed that Bose’s repairing of the

damaged, previously-sold WAVE audio tape recorders and players and returning the repaired goods to the customers met the “use in commerce” requirement for the renewal of the trademark. It turned out that Sullivan’s statement was not correct – returning repaired goods does not constitute “use” of the mark – but prior to 2001, neither the USPTO nor any court had interpreted “use in commerce” to exclude the repairing and shipping of repaired goods.

So Bose had an explanation for the false statement of use. The law was unclear, and Sullivan could honestly believe that the WAVE mark was still in “use” for audio recorders. [The TTAB had questioned whether this belief was “reasonable,” but the CAFC stated that reasonableness “is not part of the analysis.” That seems a bit strange to me, since an honest but totally off-the-wall belief would hardly seem a legitimate explanation that would avoid fraud.]

We have seen at least one other fraud case in which the declarant was absolved of fraud because of an honest (reasonable) belief in the truth of the statement made: *Maids to Order of Ohio, Inc. v. Maid-to-Order, Inc.*, 78 USPQ2d 1899 (TTAB 2006) (“It was not unreasonable for Ms. Kern, as a layperson, to believe that the ... activities constituted use of the MAID TO ORDER mark in interstate commerce.”) But a claimed failure to understand basic trademark law does not excuse fraud. *See, e.g. Hurley Int’l LLC v. Volta*, 82 USPQ2d 1339 (TTAB 2007) (Board rejected Australian applicants’ claim of misunderstanding as to the requirements of Section 1(a)); *Standard Knitting, Ltd. v. Toyota Jidosha Kabushiki Kaisha*, 77 USPQ2d 1917 (TTAB 2006) (Board rejected claim of Canadian registrant that it did not understand the term “use in commerce”).

In short, if a party is going to rely on the “honest misunderstanding” excuse to avoid fraud, it had better have a good (reasonable?) explanation. Unfamiliarity with basic trademark law will not do the trick.

In most cases, however, the “honest misunderstanding” excuse will probably not be available because it will be clear (typically after discovery) that the mark had simply not been used with some of the identified goods or services. In those cases, the declarant will likely claim that the false statement regarding use resulted from “inadvertence” of some sort. But under what circumstances does “inadvertence” go too far?

#### When Does Inadvertence Become Reckless Disregard for the Truth?

Let’s consider that issue by going back to the facts in *Medinol*, where Registrant Neuro Vasx relied, unsuccessfully, on the inadvertence excuse. Neuro Vasx verified in its Statement of Use that its mark NEUROVASX had been in use for “medical devices, namely, neurological stents and catheters.” After Medinol’s petition for cancellation was filed alleging that the SOU was fraudulent, Neuro Vasx admitted in its answer that it had not used the mark for stents. It moved to amend its registration to delete “stents,” claiming that the word had been “overlooked” when the SOU form was completed. The Board denied the motion to amend and instead entered summary judgment *sua sponte* against Neuro Vasx on the ground of fraud. Although it accepted the “overlooked” statement, the Board still found fraud under the now-defunct “knew or should have known” standard.

Suppose the TTAB were deciding *Medinol* today? Would Neuro Vasx’s alibi qualify as “inadvertence” under *Bose*? Is that all a declarant has to do to avoid a fraud ruling: claim the error was overlooked? Suppose an applicant or registrant “overlooked” not one of two items, but two out of four? 10 out of 20? 50 out of 100?

Just what “sins of overlooking” does the inadvertence shield cover? Is the Board more likely to excuse one overlooked item out of 50 than one item out of two? Does it matter whether

the overlooked item is closely related to the other(s): for example, overlooking “v-necked t-shirts” in a list of 100 clothing items may be more readily excusable than overlooking “nuclear power plants” in an identification that lists only “chewing gum and nuclear power plants.”

Maybe the question should be posed this way: At what point does failure to pay attention become fraud? When does carelessness become inexcusable?

In *Medinol* the TTAB stated that Neuro Vasx’s “knowledge that its mark was not in use on stents – or its reckless disregard for the truth – is all that is required to establish intent to commit fraud.” The Board took the same position in *Standard Knitting, Ltd. v. Toyota Jidosha Kabushiki Kaisha*, 77 USPQ2d 1917 (TTAB 2006) (failure to make appropriate inquiry regarding its false statements constituted “reckless disregard for the truth”), and in *Zanella Ltd. v. Nordstrom, Inc.*, 90 USPQ2d 1758 (TTAB 2008) (failure to make appropriate inquiry is a “reckless disregard for the truth”).

The CAFC in *Bose* declined to reach the issue of whether reckless disregard for the truth constitutes fraud. But the Board’s recent precedential decision in *DaimlerChrysler Corporation and Chrysler, LLC v. American Motors Corporation*, 94 USPQ2d 1086 (TTAB 2010) suggests that “reckless disregard” may suffice for a fraud finding. There, in denying Daimler Chrysler’s motion for summary judgment based on alleged fraud, the Board pointed out that Petitioner DaimlerChrysler offered no direct evidence regarding AMC’s intent to deceive the USPTO, nor

any indirect or circumstantial evidence which would lead us to the inevitable conclusion (which on summary judgment means the absence of any genuine issue of material fact) that respondent had the intent to deceive the office, or at least had a reckless disregard for the truth. (slip op. at 10) [emphasis supplied].

Suppose that reckless disregard for the truth will suffice to support a fraud claim. That leads to the question: where does “inadvertence” leave off and “reckless disregard” begin?

*Medinol* and its progeny stress that averments made with “such degree of solemnity” should be thoroughly investigated prior to signature. If a declarant fails to read the declaration before signing, is that a reckless disregard for the truth? What if, as in *Medinol*, the declarant claims to have overlooked one of only two items in the identification of goods? Or suppose the declarant read the statement and assumed it was correct, but did nothing to investigate the truth of the statement? Is that a “reckless disregard” amounting to fraud? The answers to these questions will tell us a lot about the viability of the fraud defense in TTAB proceedings.

### Why Apply Patent Law to Trademark Fraud?

In its fraud analysis in *Bose*, the CAFC relied on various precedents involving inequitable conduct in the patent arena. However, as trademark expert Joe Dreitler has pointed out in his recent article, “The Dangers Posed by *Bose*,” December-January 2010 *World Trademark Review* 13-17 (Issue 23), trademark fraud and patent inequitable conduct are completely different beasts, and they should be treated differently.

Generally speaking, a patent is a government grant of an exclusive right, for a limited time, to make, use, offer for sale, and sell a particular invention. If a patent is held unenforceable due to inequitable conduct, the patentee is left with nothing. Consequently, the CAFC maintains a very high standard of proof for inequitable conduct:

The need to strictly enforce the burden of proof and elevated standard of proof in the inequitable conduct context is paramount because the penalty for inequitable conduct is so severe, the loss of the entire patent even where every claim clearly meets every requirement of patentability. *Star Scientific, Inc. v R.J. Reynolds Tobacco Co.*, 537 F.3d 1357, 1366 (Fed. Cir. 2008).

The patent doctrine of inequitable conduct requires clear and convincing proof of both the materiality of the misrepresentation and the intent to deceive the USPTO. “Information is

material when a reasonable examiner would consider it important in deciding whether to allow the application to issue as a patent.” *Id.* at 1367. Information concealed from the UPSTO may be material even if it does not invalidate the patent. *Ibid.*

Determining materiality in the patent context is not easy: Should some piece of information have been disclosed to the USPTO? Is a certain prior art reference merely cumulative? What exactly does it disclose? Would it affect examination of the application? This is hardly a black-and-white decision, and there is much room for disagreement.

In short, the CAFC requires clear and convincing proof of inequitable conduct in patent cases because of the severity of the penalty and the uncertainty surrounding the materiality issue.

This contrasts sharply with the trademark side of the coin. In the typical trademark fraud case, there is no issue of materiality because a false statement regarding use is clearly material to the examination of the application or Section 8 declaration: the application would not be approved for publication, or the declaration accepted, if the USPTO knew the truth. Moreover, it is usually a simple question with a black or white answer: either the mark was in use for a particular good or service, or it wasn't.

Furthermore, as Mr. Dreitler points out, the consequence of a finding of trademark fraud is not nearly as severe as in the patent context. A trademark applicant or registrant found to have committed fraud will lose its application or registration (and the appurtenant priority thereof), but its common law rights will remain intact. Unlike the patentee, it hasn't lost everything.

Given the lesser severity of the punishment for trademark fraud and the relatively simple and straightforward determination of materiality, why should such a high standard of proof for fraud be imported from the patent context? Yet that's what the CAFC did in *Bose*, relying on *Star Scientific* at the core of its ruling.

As discussed above, “reckless disregard for the truth” might satisfy the intent requirement for fraud in the trademark context. The CAFC in *Bose* specifically declined to rule on that question (footnote 2), but did it also gave some indication that reckless disregard might not be enough?

We [have] even held that “a finding that particular conduct amounts to ‘gross negligence’ does not of itself justify an inference of intent to deceive.” *Kingsdown Med. Consultants, Ltd. v. Hollister Inc.*, 863 F.2d 867, 867 (Fed. Cir. 1988) (*en banc*). The principle that the standard for finding intent to deceive is stricter than the standard for negligence or gross negligence, even though announced in patent inequitable conduct cases, applies with equal force to trademark fraud cases. After all, an allegation of fraud in a trademark case, as in any other case, should not be taken lightly. *San Juan Prods.*, 849 F.2d at 474 (quoting *Anheuser-Busch, Inc. v. Bavarian Brewing Co.*, 264 F.2d 88, 92 (6th Cir. 1959)). Thus, we 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. 91 USPQ2d at 1941.

There is no dispute that an allegation of trademark fraud “should not be taken lightly.” But does that preclude a lesser standard of proof for fraud in trademark cases, where the consequences are less severe than in a patent case and where the materiality is unquestionable? The verification of an application or a declaration of use is not to be taken lightly either.

The CAFC insists that trademark fraud should be treated the same way as inequitable conduct in a patent application, since they both constitute false representations made to the same agency, the USPTO. But it is only by historical accident that the trademark operation and the patent operation inhabit the same governmental agency. In reality, they have nothing to do with each other. [As an attorney who has practiced both patent and trademark law for decades, I can think of no reason why patents and trademarks should be handled by the same agency.] This leads me to ask this question: If patents and trademarks were each handled by separate agencies, would the CAFC so readily apply patent fraud principles to a trademark case? I doubt it.

In any event, in its criticism of *Medinol*, the CAFC stated that the TTAB had “lowered the fraud standard to a simple negligence standard.” And it further stated that even gross negligence is not enough. But has the CAFC left the door open for “reckless disregard” as a basis for trademark fraud? Is the TTAB ready to step through that door? We shall see.

#### Can Fraud be Cured After *Bose*?

You will recall that, in an apparent attempt to lessen the pain of the its stringent *Medinol* doctrine, the TTAB threw a lifeline to trademark applicants and registrants by developing a (rather clunky) set of decisions that allowed one to “cure” a fraud on the USPTO under certain circumstances. But with the stricter fraud standard mandated by the CAFC in *Bose*, does this line of “cure” cases remain viable? I think not.

In *Medinol*, Registrant Neuro Vasx attempted to “cure” its fraud by amending its registration to remove one of two items (stents and catheters) from its identification of goods because its mark had not been used on stents. The Board found fraud (under the now defunct “knew or should have known” theory), pointing out that even if the amendment were allowed, “the question remains whether or not respondent committed fraud upon the Office in the procurement of its registration.” So much for curing fraud after a registration has been challenged.

The Board first suggested the possibility of “curing” fraud in *Hurley Int’l LLC v. Volta*, 82 USPQ2d 1339 (TTAB 2007). There, after the opposition commenced, the Applicants sought to cure their non-use problem by amending their filing basis to Section 44(e). The Board observed, however, that “the proposed amendment does not serve to cure a fraud that was committed.” But in *dictum* the Board offered a ray of hope to trademark practitioners worried

about potential fraud charges: “We note, however, that a misstatement in an application as to the goods or services on which a mark has been used does not rise to the level of fraud where an applicant amends the application prior to publication.” *Id.* at 1344, n. 5 [emphasis supplied].

The *dictum* in *Hurley* was given life in *University Games Corp. v. 20Q.net Inc.*, 87 USPQ2d 1465 (TTAB 2008) [precedential], wherein the Board ruled that an applicant who corrected a false statement as to use while the subject application was under prosecution enjoyed “a rebuttable presumption that [the applicant] lacked the willful intent to deceive the Office.” Judge Walsh, concurring with the majority, would have gone even farther, urging that this corrective action during prosecution negated fraud altogether:

In my view, such corrective action should preclude a fraud claim: (1) because the action effectively negated the intent to establish fraud, and (2) because the allegedly false statement, once deleted, was not material to the Office’s later approval of the application. 87 USPQ2d at 1469.

And in 2009 the Board extended its “cure” jurisprudence beyond the prosecution stage, designating as precedential its decision in *Zanella Ltd. v. Nordstrom, Inc.*, 90 USPQ2d 1758 (TTAB 2008). It followed the approach of the panel majority in *University Games* in ruling that correction of a false statement regarding use, *if made before a registration has been challenged*, creates “a rebuttable presumption that [registrant] did not intend to commit fraud.”

So, prior to the CAFC’s decision in *Bose*, applicants and registrants who were concerned that an erroneous statement regarding use might lead to a fraud claim, were given a way to cure the problem by filing a corrective amendment – the sooner the better, and hopefully before any challenge arose.

But that “cure” jurisprudence was developed under the *Medinol* fraud regime, where “knew or should have known” was the relevant standard. *Bose* requires a much more substantial showing to support a finding of fraud – just what that standard is remains to be seen.

Let’s suppose that reckless disregard for the truth is now the minimum requirement. How does that affect the concept of curing fraud?

If a corrective amendment regarding the use of a mark is made while the application is being prosecuted, how can there be fraud at all? There has been no reliance on the false statement by the USPTO, since the Examining Attorney has not yet approved the mark for publication. So it seems to me (as Judge Walsh stated in *Universal Games*) that there is no fraud because there is no materiality and/or no reliance. [Whether there should be some other consequence for filing a false verification of the application is a different question, not addressed here.]

What about after the application has been approved for publication? Remember we have posited that the false statement regarding use was made with at least a reckless disregard for the truth. Is there any reason why the Board should allow such a false statement to be cured? We are not dealing with an innocent false statement, or even the negligent false statement, or even a grossly negligent false statement. I submit that if fraud has occurred under the heightened post-*Bose* standard, then there should be no cure available after publication. Period.

In sum, I suspect that the TTAB’s “cure” jurisprudence has suffered the same fate as the *Medinol* fraud standard: it’s now defunct too.

## Conclusion

As the Board sets out to reconstruct its fraud jurisprudence in the wake of *Bose*, we may expect some important developments soon. Where and how the Board draws the line between gross negligence and reckless disregard for the truth may be the most pressing issue. Whether and when to allow fraud to be “cured” will be another matter for debate. But one thing is for sure: we won’t have *Medinol* to kick around any more.