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Trademarks/Fraud

Federal Circuit Drops 'Should Have Known' From *Medinol* Trademark Fraud Standard

The U.S. Court of Appeals for the Federal Circuit overturned Aug. 31 that portion of the Patent and Trademark Office's standard allowing a finding of intent to commit fraud when the applicant "should have known" a trademark registration was false (*In re Bose Corp.*, Fed. Cir., No. 2008-1448, argued 5/6/09).

Saying that the PTO "erroneously lowered the fraud standard to a simple negligence standard" in its 2003 *Medinol* decision, the court equated the intent standard for trademark fraud with that required to establish inequitable conduct in prosecuting a patent.

'Use in Commerce' on Repair Services Only? Bose Corp. registered the marks "Acoustic Wave" and "Wave" for various products including audio tape recorders and players. Bose renewed the marks in 2001 for the same list of products, although it had not sold audio tape recorders and players since 1997.

Hexawave Inc. filed an application to register the mark "Hexawave," and Bose opposed the registration. Hexawave made a counterclaim of fraud against Bose, alleging that Bose filed its renewal "claiming use on audio tape recorders and players when it knew it no longer manufactured or sold those goods."

Bose claimed, however, that it was justified in continued use of the marks on those goods based on repair services that it was still providing at the time of the renewal. Bose's general counsel, Mark E. Sullivan, who signed the renewal, claimed that it was "his understanding that 'transporting' goods in connection with repair services constitutes use in connection with goods."

Citing a contrary Ninth Circuit holding in *Karl Storz Endoscopy-America v. Surgical Technologies Inc.*, 285 F.3d 848, 62 USPQ2d 1273 (9th Cir. 2002) (63 PTCJ 500, 4/12/02), that "mere repair" of a product and return to

its owner does not constitute "use in commerce," Administrative Trademark Judge Karen Kuhlke of the Trademark Trial and Appeal Board said "the only question is whether it was reasonable for [Bose] to believe that it did."

Kuhlke answered that question in the negative, pointing to Bose's inability to identify relevant case law for its interpretation, Sullivan's lack of inquiry within Bose as to the continued use of the marks on the goods, and his failure to investigate whether the interpretation was warranted.

She therefore found that Bose had committed fraud in its renewal, and she cancelled the marks in their entirety for all product lines, "inasmuch as fraud cannot be cured by the deletion of goods from the registration," citing *Medinol Ltd. v. Neuro Vasx Inc.*, 67 USPQ2d 1205 (T.T.A.B. 2003).

Bose appealed to the Federal Circuit. When Hexawave chose not to contest the board's decision against the company as to its own trademark claims, the PTO moved to participate in the appeal. The Federal Circuit granted the motion and changed the caption accordingly (77 PTCJ 230, 1/2/09).

Oral argument was held May 6 (78 PTCJ 61, 5/15/09). This journal also published May 29 an analysis of the issues in the case by attorneys at Finnegan, Henderson, Farabow, Garrett, and Dunner, Washington, D.C. (78 PTCJ 129, 5/29/09).

Oral argument for a second case on the trademark fraud issue was postponed, and the parties subsequently jointly agreed to withdraw the appeal. *Grand Canyon West Ranch LLC v. Hualapai Tribe*, No. 2009-1012 (Fed. Cir. dismissed July 29, 2009), appealed from 88 USPQ2d 1501 (T.T.A.B. 2008) (76 PTCJ 390, 7/18/08).

***Medinol* Erroneously Lowered to Negligence Standard.** Chief Judge Paul R. Michel began by citing the Federal Circuit's predecessor court's emphasis on a showing of "knowingly inaccurate or knowingly misleading statements" to establish intent. *Bart Schwartz International*

Textiles Ltd. v. Federal Trade Commission, 289 F.2d 665, 669, 129 USPQ 258 (C.C.P.A. 1961).

“[A]bsent the requisite intent to mislead the PTO, even a material misrepresentation would not qualify as fraud under the Lanham Act warranting cancellation,” Michel said.

He allowed that *Medinol* properly found that “intent must often be inferred from the circumstances and related statement made” by the trademark applicant. But he criticized the board for further adding “should have known” to the standard, which thus “erroneously lowered the fraud standard to a simple negligence standard.” He continued:

We have previously stated that “[m]ere negligence is not sufficient to infer fraud or dishonesty.” *Symbol Technologies Inc. v. Opticon Inc.*, 935 F.2d 1569, 1582[, 19 USPQ2d 1241] (Fed. Cir. 1991). We even held that “a finding that particular conduct amounts to ‘gross negligence’ does not of itself justify an inference of intent to deceive.” *Kingsdown Medical Consultants Ltd. v. Hollister Inc.*, 863 F.2d 867, 876[, 9 USPQ2d 1384] (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. . . . 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.

Michel said that the PTO read “too broadly” the Federal Circuit’s holding in *Torres v. Cantine Torresella S.r.l.*, 808 F.2d 46, 1 USPQ2d 1483 (Fed. Cir. 1986), in setting the *Medinol* standard. While “should know” was used in *Torres*, “one should not unduly focus on the phrase,” he said, distinguishing the facts of that case as showing a registrant who knowingly made false statements.

Effectively disowning the court’s use of the phrase, he cited a subsequent case that referenced *Torres* and “reaffirmed that fraud can only be found if there is ‘a willful intent to deceive.’” *Metro Traffic Control Inc. v. Shadow Network Inc.*, 104 F.3d 336, 340, 41 USPQ2d 1369 (Fed. Cir. 1997).

No Fraud in Instant Case. In the instant case, Michel acknowledged that Sullivan’s statement that the repair services constituted use in commerce was false. Bose further did not challenge that the statement was material, he said, so “Bose made a material misrepresentation to the PTO.”

However, he continued, citing Sullivan’s misunderstanding, “There is no fraud if a false misrepresentation is occasioned by an honest misunderstanding or inadvertence without a willful intent to deceive. . . . Unless 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.”

He concluded that the board erred in finding fraud and cancelling Bose’s mark on all goods, but said that the board, on remand, should modify the registration to exclude audio tape recorders and players.

Judges Timothy B. Dyk and Kimberly A. Moore joined the opinion.

Bose was represented by Charles Hieken of Fish & Richardson, Boston. Solicitor Raymond T. Chen of the Patent and Trademark Office represented the agency.

Amicus AIPLA Extremely Pleased. The American Intellectual Property Law Association submitted an amicus brief supporting Bose’s position. The brief was written by Susan J. Hightower of Pirkey Barber, Austin, Texas. Hightower was allowed to present the brief at oral argument.

After reviewing the opinion, AIPLA passed along to BNA comments attributed to William G. Barber of that firm, saying that “AIPLA is extremely pleased with both the Bose decision’s result and the rationale. The decision finally puts to rest the PTO’s approach to trademark fraud in the TTAB’s *Medinol* line of cases.”

Barber further said that the result is “a great development for trademark applicants and the trademark bar.”

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Full text at <http://pub.bna.com/ptcj/081448Aug31.pdf>