MASSACHUSETTS
LAWYERS WEEKLY
www.masslawyersweekly.com
September 14, 2009
DOLAN MEDIA COMPANY

Fraud standards redefined in 'Bose' trademark case

By Julia Huston and Kimberly J. Seluga


HUSTON


SELUGA

Trademark owners are breathing easier as a result of a recent decision by the Federal Circuit — and have Massachusetts-based innovator Bose to thank.

Bose took on the unforgiving (and controversial) standard for "fraud on the trademark office" in effect at the Trademark Trial and Appeal Board since 2003 and won.

The Federal Circuit reversed the TTAB's determination that Bose committed fraud by virtue of a statement signed by its general counsel, Mark Sullivan, in renewing Bose's registration for the well-known WAVE trademark. The court ruled that, even if Sullivan's statement was incorrect, a fact that Bose and indeed many independent trademark lawyers dispute, fraud cannot be found in the absence of a knowing intent to deceive.

Julia Huston is a partner and chair of the Trademark Practice Group at Sunstein Kann Murphy & Timbers LLP, a Boston intellectual property law firm. Kimberly J. Seluga is an attorney at the firm.

Focus

This change in legal standards brings trademark law back in line with patent law and allows trademark owners to maintain their rights with greater predictability.

TTAB reprimanded

A finding of fraud typically results in the harsh consequence of cancellation of a trademark registration in its entirety.

In recent years, the TTAB has been on a virtual crusade against overly broad goods and services descriptions in trademark applications, particularly in light of the influx of applications filed by foreign applicants that often list hundreds of unrelated items.

BOSE®

By cancelling an entire registration based on fraud if even just one good or service is erroneously claimed, the TTAB seeks to discourage applicants from listing goods or services on which the mark is not actually used.

By redefining the fraud standard, however, the Federal Circuit in *In re Bose Corp.*, No. 2008-1448 (Fed. Cir. Aug. 31, 2009), repudiated the TTAB's aggressive use of fraud as a tool to penalize trademark owners whose registrations do not perfectly reflect commercial reality but who lack a knowing intent to deceive.

The question presented by *Bose* was whether Bose committed fraud in 2001, when Sullivan signed a renewal declaration for Bose's WAVE trademark registration in connection with, inter alia, audio tape recorders and players, when, in fact, Bose had completely phased out those goods by 1997.

Bose argued that although Sullivan was aware that Bose no longer sold audio tape recorders and players at the time he signed the declaration, he believed Bose satisfied the "use in commerce" requirement under the Lanham Act because Bose continued to transport the goods to customers in connection with making repairs.

The TTAB evaluated the facts under the standard established in the seminal 2003 *Medinol* case, in which the TTAB held that fraud may be established where a registrant made material representations that it "knew or should have known" to be false.

The TTAB first found that, contrary to Sullivan's belief, the technical repair of a previously sold product does not constitute use in commerce.

It then concluded that Bose committed fraud because Sullivan signed the declaration with knowledge that Bose was not using the WAVE mark in connection with audio tape recorders and players.

Although the TTAB acknowledged that it would not have found fraud were it reasonable for Sullivan to believe repair services alone constituted use in commerce, it determined Sullivan's belief was not reasonable based on both the lack of legal authority in support of Bose's position and the lack of evidence of Sullivan's diligence in determining the accuracy of the renewal declaration.

On appeal, the Federal Circuit reprimanded the TTAB for applying a "should have known" standard (overruling the *Medinol* case) and emphasized that negligence or even gross negligence is not enough to sustain a finding of fraud.

The court made it clear that fraud may be found only where the owner "knowingly makes a false material representation with the intent to deceive the PTO." Thus, the court ruled, subjective intent must be shown. Although evidence of deceptive intent can be inferred from indirect and circumstantial evidence, such evidence must be clear and convincing.

Accordingly, the Federal Circuit, although in agreement with the TTAB that Sullivan's statement to the PTO was false, reversed the holding of fraud because it found that Sullivan signed the renewal declaration with the belief that the statement was true and because there was insufficient evidence to infer deceptive intent.

While Bose's registration was therefore not cancelled, the court nevertheless remanded for the TTAB to properly restrict the goods description to exclude audio tape recorders and players.

Triumph for trademark owners

In the wake of *Bose*, trademark attorneys and their clients no longer have to painstakingly agonize over the risk that they will be summarily stripped of their federal trademark rights due to an honest mistake of fact or misunderstanding of an unclear area of the law.

The *Bose* case has therefore been lauded by many as a triumph for trademark owners (at least for those focused on defending rather than attacking registrations). The risks of fraud are still quite real after *Bose*, however, and are best navigated by skilled trademark counsel.

Importantly, *Bose* was decided on its rather unique facts and does not preclude a finding of fraud in the more run-of-the-mill situation where a trademark owner is unquestionably not using its mark in connection with a particular product in commerce and, knowing this, still signs a declaration attesting to use.

Moreover, the Federal Circuit expressly left the door open as to whether recklessness will suffice to establish fraud. Accordingly, a trademark applicant who is willfully blind or indifferent as to whether a statement is true may still be found to have acted fraudulently.

It is easy to see how the TTAB could apply a recklessness standard to find fraud in the situation where an applicant does not bother to determine whether its mark is in use prior to signing a declaration or fails to take adequate steps to make this determination, especially where he or she has some reason to believe that the mark is not in use.

While *Bose* reformulated the standard in a way that provides some security to trademark owners and poses additional obstacles to challengers, it is doubtful that we have seen the last of fraud. MLW