

PROVING FRAUD JUST GOT TOUGHER



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On August 31, 2009, the United States Court of Appeals for the Federal Circuit changed the standard for proof of fraud in trademark oppositions and cancellations. Ajay Jagtiani and Alain Villeneuve explain.

The standard for proof of trademark fraud is now aligned with the standards for proof of fraud in other types of intellectual property, such as copyrights and patents. One consequence of this decision is the revival of the role of the often battered and misunderstood incontestability status of trademarks. As expected, this change in standard of proof will be felt mostly by litigants in opposition and cancellation proceedings before the Trademark Trial and Appeals Board (TTAB).

Trademarks today

Trademark is a form of property recognised by the law. Rights may be established by proving actual use in commerce or via a certificate of registration with the trademark registry of the United States Patent and Trademark Office (USPTO). Trademarks can be established for words, designs and composite marks, but also shapes, colours, smells or any other feature that can lead to public association with a source of origin of goods or services. Trademark registration is used to enforce rights through trademark infringement proceedings. In the United States, a trademark is granted to the 'first to use' the mark, unlike some other jurisdictions in which the mark is granted to the 'first to file'.

The three most easily recognised types of intellectual property are patents, copyrights and trademarks. Certificates of registration or grant can be obtained for each of these from the USPTO. There is an important distinction to be made between each of these types of intellectual property. Patents and copyrights are exclusionary rights granted to an individual (inventor or author) against third parties, whereas trademarks are granted to those who offer goods or services in commerce but with limited rights based on the ever-changing conditions of the marketplace. A trademark owner is a mere guardian of the marketplace, protecting its clients from confusion.

A trademark registration is not a monopoly and, accordingly, proof of fraud committed in the process of securing a trademark registration differs from other standards for proof of fraud in intellectual property.

A federal registration gives the owner of a mark important legal rights and benefits, but the registration does not create the trademark. It only recognises and provides notice of these rights to others. Owners abandon marks, the goods and services sold under a mark evolve, corporations merge, and public perception evolves and changes. Famous examples of marks that have travelled to and back from a graveyard of 'genericness' include the 'Singer' mark for sewing devices and the 'Thermos' mark for glass vacuum bottles.

Cancellations and oppositions at the USPTO

Inter partes proceedings are mechanisms established in the Lanham Act to block, alter or remove registrations from the trademark registry. In particular, oppositions and cancellations enable one to either prevent registration or remove/correct a mark from the registry, respectively. The Lanham Act permits cancellations by one who "believes that he/she is or will be damaged by the registration". It is important to understand that, unlike a voided patent or copyright, a cancelled trademark registration does not result in the cancellation of the common law rights associated with the trademark.

A cancellation proceeding may be instituted at any time after a registration has been granted. During an initial period of five years from registration, the mark can be cancelled based on any ground that would have prevented registration at the outset. After the initial five years, a trademark owner can file a claim of incontestability and thereby limit the grounds upon which cancellation can be sought. The policy reason for this five-year statute

of limitations is a consideration of the interests of the public, which, after five years, has come to know and associate the mark with this potentially wrongful source of origin.

As with any statute of limitations, a keen sense of unfairness may be felt by close observers unless one is reminded that consumers, not trademark owners, are the real beneficiaries of trademarks. One of the few grounds available for cancellation of an incontestable mark is fraud. As a practical matter, attorneys often circumvent incontestability by making far-reaching claims of fraud. These claims are as varied as the process of registration. Some attorneys argue that the translation of a mark inspired by a foreign word was omitted from the original trademark application or was incorrect; others argue that a colour is missing from a claimed design, etc. Claims of fraud today are pivotal in many cancellation proceedings. These claims, as they were easy to win, served to somewhat nullify the incontestability status of marks.

Fraud prior to *In re Bose*

The famous British author Samuel Johnson wrote: "Fraud and falsehood only dread examination. Truth invites it." Prior to *In re Bose*, the standard for proof of fraud in a trademark sense was required to have been shown at the time a registration was obtained or when statements were made to renew a registration. Plaintiffs had a heavy burden of proof to demonstrate fraud by a preponderance of the evidence. Fraud needed to be pleaded with particularity as per the Federal Rules of Civil Procedure.

To prove fraud in a cancellation proceeding, a petitioner must prove five elements: a false representation of a material fact; knowledge or belief on the part of the filer that the representation is false; intent to induce the USPTO to act or refrain from acting in reliance on the misrepresentation; reasonable reliance

by the USPTO on the misrepresentation; and damage from such a reliance.

The TTAB is the administrative body that has jurisdiction over cancellation proceedings. In the case of precedence before *In re Bose* (i.e. *Medinol*), the TTAB took the position that “[t]he appropriate enquiry is...not into the registrant’s subjective intent [to lie], but rather into the objective manifestation of that intent... [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”. As a consequence, a subjective standard was used to determine whether knowledge could be implied. The *Medinol* ruling provided very harsh results for simple errors.

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Patent cases have never followed the *Medinol* rule. The Federal Circuit in *Exergen*, two years before *In re Bose*, dismissed a claim of inequitable conduct (a broader concept than fraud) in a patent case on failure to plead actual knowledge of conduct. The Federal Court sided with the “known” standard from the Court of Customs and Patent Appeals over the “known or should have known” requirement of the TTAB. The Federal Circuit reaffirmed that even in pleadings under Rule 9(b) of the Federal Rules, the standard is one of knowledge, not of implied knowledge. In *Exergen*, the Federal Circuit made its position quite clear, paving the way for *In re Bose*.

In re Bose

The Bose Corporation owns a trademark registration for the mark ‘Wave’. In 2001, general

counsel for Bose signed a Section 9 renewal application stating that the mark was still used in conjunction with several goods, including audiotope recorders and players. The situation is highly analogous to *Medinol*. Hexawave filed a petition for cancellation, arguing that Bose no longer sold or manufactured audiotope recorders and players as of 1996.

Bose admitted to this fact but argued that it still used the mark in conjunction with repair and maintenance of those goods. The TTAB concluded that repair and maintenance of old recorders did not constitute sufficient use in commerce in connection with the goods. Additionally, the TTAB concluded that fraud had been committed before the office based on a finding that the corporate officer “should have known” that Bose had discontinued use of the mark in connection with audiotope recorders and players.

The Federal Circuit reversed in the ruling of *In re Bose* and explained that the TTAB had erroneously lowered the fraud standard to a simple negligence standard when it added the “should have known” language to the *Medinol* opinion. The court continued: “Because direct evidence of deceptive intent is rarely available, such intent can be inferred from indirect and circumstantial evidence. But such evidence must be clear and convincing, and inferences drawn from lesser evidence cannot satisfy the deceptive intent requirement.”

The court went even further and said that the involved conduct must be a “willful intent to deceive”. In the case of the Section 9 statement related to the claim of use of the mark for audiotope players, the court found that misstatements did not represent a conscious effort to obtain for Bose a registration to which Bose’s general counsel knew it was not entitled. At the time of the signature of the statement, the general counsel stated in a deposition that he believed the statement to be true and simply did not know Bose had discontinued the product.

The Federal Circuit deleted a portion of the goods on the registration certificate and tried to explain some of the policy considerations that are unique to trademarks, namely, that the purpose of Section 8/9 renewals (statements of continuous use) is “to remove from the register automatically marks which are no longer in use. When a trademark registrant fulfills the obligation to refrain from knowingly making material misrepresentations, it is in the public interest to maintain registrations of technically good trademarks on the register so long as they are still in use. Nothing is to be gained from and no public purpose is served by cancelling the registration of this trademark.”

Currently, the docket of the TTAB is filled with petitions for cancellation based on claims of fraud, and the authors do not believe that the TTAB can take a hard line and require uncontested proof of intent, as this would have disastrous effects on the capacity of trademark owners to police the registry. There is no doubt that *In re Bose* is the end of baseless fraud claims before the TTAB.

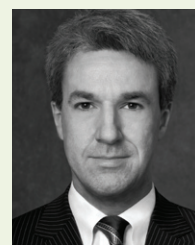
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