BOSE MAKES WAVES IN TRADEMARK FRAUD

by Brian P. Gregg

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Alleging fraudulent procurement of a trademark has become a formidable offensive weapon, and defensive tactic, in many trademark disputes since the Trademark Trial and Appeal Board's controversial decision in Med*inol v. Neuro Vasx Inc.* In M*edinol*, the Board stated "[f]raud occurs when an applicant or registrant makes a false material representation that the applicant or registrant knew or should have known was false." *Medinol Ltd. v. Neuro Vasx Inc.* In assessing claims of fraud, the Board went on to say that it would not look to the subjective intent of the applicant but the objective manifestations of that intent. Since adoption of the near strict liability standard announced in *Medinol*, the TTAB has seen a sharp increase in allegations that a party's trademark was fraudulently obtained. Post-*Medinol*, the Board had found fraud in nearly every case in which it was alleged, until Bose Corporation recently appealed such a decision and the Federal Circuit torpedoed the *Medinol* standard.

The Bose Fraud Rule

Bose initiated an opposition against Hexawave Inc.'s. application for the mark HEXAWAVE alleging likelihood of confusion with its WAVE mark. Hexawave counterclaimed, alleging Bose committed fraud when it filed its Section 8 affidavit of continued use and Section 9 renewal application which claimed, among other things, that the WAVE mark was in use on audio tape recorders and players. In fact, Bose had stopped manufacturing tape players but continued to repair those devices. The Board held such repair services were not a "use in commerce," that Bose's claim of use was material, and that it constituted fraud. Consequently, the Board ordered cancellation of Bose's entire WAVE registration. Bose appealed.

On appeal, the Court of Appeals for the Federal Circuit stated that by equating "should have known" with subjective intent, the Board in *Medinol* "erroneously lowered the fraud standard to a simple negligence standard." After citing a mountain of authority which characterized the standard for "fraud" as one higher than even gross negligence, the court held 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." Rejecting the Board's position in *Medinol*, the *Bose* court noted that despite the difficulty in proving subjective intent, it is an indispensable element of the fraud analysis. However, the *Bose* court focused only on intent in its decision and neither addressed the "materiality" element of fraud nor did it consider whether an applicant's reckless disregard of the truth would satisfy the intent element. The court found Bose's explanation for its claim to the WAVE mark on tape players – that it still repaired those goods – sufficient to avoid fraud because it determined Bose did not *intend to deceive* the PTO. As a result, the court found no fraud but did order the tape players be deleted from the goods claimed on the WAVE registration.

From Black and White to Gray

Say what you will about the strict standard and harsh result of the *Medinol* fraud rule, at least it was predictable. The bottom line during the *Medinol* era of fraud jurisprudence was that if an applicant signed an application or statement of use and thereby claimed use of the mark on a particular good, he or she committed fraud if the mark was not in use on that good. The *Medinol* rule was scuttled by a case whose unusual facts made its application particularly harsh. In *Bose*, there was no issue with whether WAVE was in use; it was. The question in *Bose* was whether use of the mark for repair services was a use in commerce; it was not. Now it seems the Board will have to deal with whether an applicant had the subjective intent to deceive the Trademark Office, whether he or she made a false representation, and whether that representation

was material. The relatively black and white rule of *Medinol* has been replaced with one which will require a multi-step analysis and which will likely turn on individual facts, making it unpredictable. For example, the Board has yet to identify how subjective intent to deceive the Trademark Office can be shown. In addition, it is not clear what level of materiality will be required to rise to the level of fraud. For example, if an applicant claims tape measures, rulers and yardsticks but the applicant fails to use the mark on rulers, how material is that oversight to the applicant's rights which flow from the resulting registration? These unanswered questions leave open the possibility that fraud may remain a popular way to challenge a trademark registration and defend against a challenge.

Management Practices to Avoid Fraud

In light of the growing use by trademark owners of fraud claims as both an offensive and defensive tactic, trademark owners should carefully evaluate their current registrations to ensure the marks are used on all of the goods/services associated with the registration. Attorneys preparing trademark applications should explain the concept of fraud to clients who have a "claim it all and sort it out later" approach to their goods descriptions. Applications which claim a broad range of goods on which the mark is not used may satisfy the Bose fraud standard. Though specimens of use are only required for a single good in each International Class of goods claimed, it is a good practice for attorneys to request specimens for every good claimed on an application to ensure the mark is being used and that such use is actually a use in commerce. For intent to use applications, clients should be counseled to produce and retain documentary evidence of their intent to use a mark on all of the goods claimed on an application. In light of the fact specific analysis inherent in the Bose fraud standard, the more facts an applicant can produce to show it did not intend to deceive the Trademark Office, the better its prospects of avoiding problems with fraud.

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