MORRISON | FOERSTER

Legal Updates & News

Legal Updates

Federal Circuit Requires Proof of Subjective Intent to Cancel Trademark Registrations Based on Fraud

August 2009
by Jennifer Lee Taylor, Cathleen E. Stadecker

Earlier today, the Court of Appeals for Federal Circuit issued a long-awaited decision in *In re Bose Corp.*, No. 2008-1448, which had challenged the Trademark Trial and Appeal Board's use of the "knew or should have known" standard in Board proceedings where fraud is alleged. In 2007, the Board cancelled Bose's registration for the WAVE trademark on the grounds that Bose had committed fraud in the maintenance of the registration. *Bose Corp. v. Hexawave Inc.*, 88 U.S.P.Q.2d 1322 (T.T.A.B. 2007). Bose appealed and today the Federal Circuit reversed that decision. In its opinion, the Federal Circuit expressly held that fraud exists only if an applicant or registrant knowingly makes a false, material representation with the intent to deceive the Trademark Office.

Related Practices:

- Appellate and Supreme Court
- Intellectual Property Litigation

Background: Bose initially opposed Hexawave's application to register HEXAWAVE as a trademark on the basis that it was likely to be confused with Bose's prior registration for the WAVE mark. Hexawave counterclaimed, seeking to cancel Bose's WAVE registration because Bose had allegedly defrauded the Trademark Office when it filed its renewal affidavit. Hexawave alleged that Bose committed fraud by claiming that it was using the WAVE mark on audio tape recorders and players when it knew that it no longer manufactured or sold those goods. Although Bose had stopped manufacturing and selling the goods before the renewal affidavit was filed, it contended that it had continued to use the WAVE mark "in commerce" on such goods because it continued to repair them and would ship the repaired goods, bearing the WAVE trademark, back to their owners.

In the opposition proceeding, the Board rejected Bose's theory that "transporting" a repaired product back to the owner constituted "use in commerce" and focused on the fraud issue. Based upon past precedent, the Board held that "proof of specific intent to commit fraud is not required, rather, fraud occurs when an applicant or registrant makes a false material representation that the applicant or registrant knew or should have known was false," a standard that the Board established in *Medinol Ltd v. Neuro Vasx Inc.*, 67 U.S.P.Q.2d 1205 (T.T.A.B. 2003). Applying this standard, the Board concluded that Bose "knew or should have known" that it was not using the mark "in commerce," held that Bose's submission of the false renewal affidavit constituted fraud, and ordered the WAVE registration cancelled in its entirety. Bose appealed this decision, arguing both that the Board erred in its conclusion that the shipment of repaired goods did not constitute use of the trademark in commerce, and, alternatively, that

Bose's belief that it did was reasonable and did not constitute fraud.

Hexawave chose not to participate in the appeal, leaving the PTO toparticipate in the case as the appellee.

Federal Circuit Decision. In today's decision, the Federal Circuit analyzed the *Medinol* case and the Board's reasoning for adopting the "knew or should have known" standard. While it agreed with the Board that it can be difficult to prove a subjective intent to defraud, and even that it might be necessary to focus on objective manifestations of intent in fraud cases, the court expressly rejected the "knew or should have known" standard that the Board had adopted to address the difficulty of proving a subjective intent to defraud. The Federal Circuit found that this "knew or should have known" standard had "erroneously lowered the fraud standard to a simple negligence standard," and that this was inappropriate for "an indispensable element in the [fraud] analysis."

Applying this standard to the *Bose* case, the Federal Circuit held that Bose did not commit fraud and that the Board erred in cancelling the WAVE registration in its entirely. The Federal Circuit ruling was based upon the fact that the person who signed the renewal affidavit had testified under oath that he believed the statement was true at the time that he signed the document. In challenging this evidence, the PTO argued that his belief was not reasonable, but the Federal Circuit rejected this argument because "reasonableness" is not part of the fraud analysis. Instead, the court found that the declarant's testimony was sufficient to establish that he did not have the subjective intent to defraud the Trademark Office.

As a result of the Federal Circuit's decision, proof of fraud in trademark cases will be held to the same high standard as inequitable conduct in patent cases, which, the court noted, is "stricter than the standard for negligence or gross negligence." Accordingly, going forward, it is clear that in trademark cases fraud exists only if an applicant or registrant knowingly makes a false, material representation *with the intent to deceive the Trademark Office*.
