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INTELLECTUAL PROPERTY

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The Federal Circuit Raises the Bar for Finding Fraud in Trademark Registrations

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When filing a trademark application or a verification for renewal of a trademark registration, an affirmative statement must be made that the trademark is in use in commerce with each of the listed goods and services. In recent years, if the trademark was not in use with only one of the listed goods, then the registration was subject to cancellation for fraud. For example, the U.S. Patent and Trademark Office (USPTO) previously found fraud and cancelled a registration where a trademark owner erroneously thought a trademark was used in commerce when it was repairing its products but no longer selling them. Such recent harsh rulings by the USPTO created quite a difficult situation for trademark holders.

On August 31, 2009, the U.S. Court of Appeals for the Federal Circuit (CAFC) issued a long-awaited decision in *In re Bose Corporation*, Appeal No. 2008-1448 (Fed. Cir., Aug. 31, 2009) reversing the Trademark Trial and Appeal Board's (Board) finding of fraud in *Bose Corp. v. Hexawave, Inc.*, 88 USPQ2d 1332 (TTAB 2007). The decision is notable in that it reverses the Board's strict policy on fraud for the past six years and revokes the "knew or should have known" standard articulated by the Board in *Medinol Ltd. v. Neuro Vasx*, 67 U.S.P.Q.2d 1205 (T.T.A.B. 2003).

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The Board's Finding of Fraud

In *Bose Corp. v. Hexawave, Inc.*, the Board found that Bose committed fraud on the USPTO when it renewed its registration in 2001 for the trademark WAVE because Bose signed a declaration stating that it was using the WAVE mark in commerce in connection with, *inter alia*, audio tape recorders and players when, in fact, it had stopped manufacturing and selling audio tape recorders and players in 1996-97. During the Board proceeding, Bose's general counsel and signatory on the renewal



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“The Board erroneously lowered the fraud standard to a simple negligence standard... There is no fraud if a false misrepresentation is occasioned by an honest misunderstanding or inadvertence without a willful intent to deceive.”

verification testified that he knew that Bose had stopped manufacturing and selling audio tape recorders and players at the time the renewal verification was signed and filed. Nevertheless, he explained that in his belief, Bose’s repair of damaged, previously-sold WAVE audio tape recorders and players and delivery of such repaired goods to customers met the “use in commerce” requirement for purposes of renewal of the trademark registration. Bose’s general counsel also testified under oath that he believed the statement was true at the time he signed the renewal application.

The Board, however, found Bose’s statement that the WAVE mark was in use in commerce on all of the goods identified in its registration, including audio tape recorders and players, false. The Board found Bose’s suggestion that it believed that its repair services constituted continuing use in commerce to be unreasonable, and the Board cancelled the federal registration for the WAVE mark. In canceling the WAVE registration, the Board followed the fraud standard it established in *Medinol*, namely, that a registrant commits fraud where it “knew or should have known” at the time it submitted its verification of use that the mark was not in use on all of the goods. Because, in its view, Bose knew or should have known that its use on repaired goods that were no longer being manufactured and sold by Bose was not sufficient to constitute use in commerce, the Board found that Bose had committed fraud in renewing its registration.

The CAFC’s Reversal and Restatement of Fraud Standard

Bose appealed the Board’s decision to the CAFC. Bose argued that the Board erroneously found fraud where there was no evidence before it that Bose intended to deceive the USPTO with respect to the submission of the renewal application. The CAFC agreed and reversed the Board’s decision and remanded.

In reversing *Bose Corp. v. Hexawave, Inc.*, the CAFC directly addressed and overturned the seminal fraud ruling of *Medinol Ltd. v. Neuro Vasx*. The CAFC stated that, despite the long line of precedents from the Board itself, from the CAFC, and from other circuit courts, the Board has applied too strict a standard in finding that, “[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.” The CAFC went on to reason that “[b]y equating ‘should have known’ of the falsity with a subjective intent, the Board erroneously lowered the fraud standard to a simple negligence standard.” Such a standard is inconsistent with relevant precedent. Accordingly, the CAFC held that “deception must be willful to constitute fraud.”

Although the Board reasoned that repairing and transporting the goods did not

constitute sufficient use to maintain a trademark registration, the CAFC concluded that there was no fraud because the false misrepresentation was occasioned by an honest misunderstanding or inadvertence without a willful intent to deceive. The CAFC reasoned that “[u]nless 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.”

The CAFC further clarified that subjective intent to deceive, even if difficult to prove, is an indispensable element in the analysis of whether a declarant committed fraud. Thus, following *In re Bose Corporation*, 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 USPTO. Accordingly, there is no fraud if a false misrepresentation is occasioned by an honest misunderstanding or inadvertence without a willful intent to deceive.

The CAFC, nevertheless, did acknowledge the difficulty of proving the subjective intent of an individual by noting that “because direct evidence of deceptive intent is rarely available, such intent can be inferred from indirect and circumstantial evidence. But such evidence must still be clear and convincing, and inferences drawn from lesser evidence cannot satisfy the deceptive intent requirement.”

Although the CAFC’s decision left open the possibility to prove fraud claims through clear and convincing circumstantial evidence, it appears that the CAFC has set the bar quite high. In summary, trademark holders should be able to breathe a little easier now that a simple mistake in verifying use of a trademark will not automatically result in cancellation should the registration be challenged.

Swearing Behind a Reference with a 1.131 Affidavit Requires a Showing of Facts, not Mere Pleadings

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Patent applicants routinely use affidavits under 37 C.F.R. 1.131 to prove an earlier date of invention than the date of a cited reference. On May 20, 2009, the United States Board of Patent Appeals and Interferences decided *Ex parte* Tim Daniels, Doug Hinzie and David Spatz, Appeal 2008-0568, Application 09/932,571, and concluded that 131 affidavits require a showing of facts sufficient to establish reduction to practice or conception prior to the effective date, not merely bald assertions. The Appellants did not challenge the substance of the Examiner's rejections but only contested the Examiner's conclusion that the '131 affidavit failed to provide sufficient evidence to antedate two cited references.

The Board stated that “[t]o swear behind Navani and Dabbierree, the Appellants must establish invention of the subject matter of the rejected claims prior to the effective date of each reference by showing facts sufficient to establish reduction to practice prior to each effective date or conception of the invention prior to each effective date coupled with due diligence from prior to each effective date to a subsequent reduction to practice or to the filing of the application.” The '131 affidavit stated that the invention of claims 1-13 “was reduced to practice on a date prior to May 22, 2000 or conceived on a date prior to May 22, 2000 and diligently reduced to practice thereafter” and further stated that the attached project documents “have a date prior to May 22, 2000 and/or existed in draft form prior to May 22, 2000.” The '131 affidavit only included attachments of “project documents used in planning, commercial design, and/or implementation of the invention.”

“37 CFR 1.131 requires a showing of facts sufficient to establish reduction to practice or conception prior to the effective date, not merely bald assertions.”

In its analysis, the Board analyzed two similar cases, *In re Borokowski*, 505 F.2d 7613 (CCPA 1974) and *In re Harry*, 333 F.2d 920, 921 (CCPA 1964), and concluded that “the ‘131 affidavit consists only of a bald assertion in the broadest terms that the invention of claims 1-13 was either reduced to practice prior to the effective date or conceived of prior to the effective date and thereafter diligently reduced to practice.” The Board stated that “the Appellants have failed to point to specific information on these identified pages on which they rely to show conception of the invention.” The Board also stated that because the documents may have only been in draft form prior to May 22, 2000, the Board has no way of knowing what portion of information existed prior to the effective date. In addition, the Board stated that the ‘131 affidavit failed to “sufficiently explain the content of the project documents” or how the information in the documents showed a reduction to practice. As such, the Board concluded that “the attached project documents are of little assistance in enabling the Patent Office to judge whether there was conception of the invention prior to the effective date”

The Appellants challenged the Examiner’s rejection of the ‘131 affidavit by arguing that the Examiner improperly rejected the ‘131 affidavit because the dates on the accompanying exhibits were redacted. The Board stated that the Examiner only mentioned the redacted dates in the context of finding “[t]he applications have failed to meet their burden of providing explicit facts and supporting evidence which would demonstrate diligence in reducing the invention to practice over the critical period” Thus, the Board concluded that the Examiner’s conclusion was not based upon redacted dates.

Apparently, the Appellants merely submitted a ‘131 affidavit to the Patent Office that included only “project documents used in planning, commercial design, and/or implementation of the invention.” The attachments did not clearly show the invention and the affidavit did not provide any clarity whatsoever. Thus, when faced with poor supporting evidence in support of a ‘131 affidavit, it is prudent to describe the supporting evidence to the utmost extent practicable to fend off a rejection of the affidavit.

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