

## Federal Circuit Rejects *Medinol* and Confirms High Threshold for Establishing Fraud on the PTO in Trademark Filings

Addressing the Trademark Trial and Appeal Board's 2003 *Medinol* decision for the first time, the United States Court of Appeals for the Federal Circuit recently held that a claim of fraud on the Patent & Trademark Office ("PTO") in connection with a trademark registration or renewal requires proof that the registrant knowingly made a false statement to the PTO. *In re Bose Corp.*, 2009 WL 2709312 (Fed. Cir. Aug. 31, 2009). In holding that subjective intent to deceive is an indispensable element of a fraud on the PTO claim, the Federal Circuit expressly rejected *Medinol*, in which the Trademark Trial and Appeal Board ("TTAB") had held that fraud could be established by showing that a registrant made a false statement in a declaration of use that it knows or "should know" is false.

In *Medinol v. Neuro Vasx, Inc.*, 67 USPQ2d 1205, 1209 (T.T.A.B.2003), the TTAB considered whether a registrant had engaged in fraud on the PTO in obtaining its trademark registration. In finding that the registrant had engaged in fraud, the TTAB held 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." *Id.* (emphasis added). The TTAB has applied this "knows or should know" standard to find fraud in several cases since *Medinol*, leading to a renewed attention of trademark lawyers on fraud on the PTO and the risk of making potentially false statements in declarations of use.

In *Bose*, Bose Corporation — the owner of a registration for the trademark Wave® — had opposed an application by Hexawave, Inc. to register the mark Hexawave, and Hexawave had counterclaimed for cancellation of Bose's Wave® registration, alleging fraud by Bose in connection with its 2001 renewal of the registration. According to Hexawave, Bose had engaged in fraud on the PTO when it renewed the Wave® registration because it stated in an affidavit of continued use that the mark was in use in connection with all the goods covered by the registration, including audio tape recorders and players. In fact, Bose had stopped manufacturing and selling audio tape recorders and players in the late 1990s. Bose's general counsel, who had signed the affidavit of continued use, had testified that he believed the affidavit was true because, in 2001, Bose continued to repair tape recorders and players, and the general counsel believed that the shipment of such repaired units constituted use. Applying *Medinol*, the TTAB held that the general counsel's belief that shipment of repaired units was use was not reasonable — in effect, that he *should have known* that such shipments did not constitute use. Accordingly, the TTAB found fraud on the PTO and cancelled the Wave® registration in its entirety. *Bose*, 88 USPQ2d at 1334.

Reversing, the Federal Circuit held that the TTAB, in *Medinol* and in *Bose*, had erroneously lowered the fraud standard to a simple negligence standard, in contravention of precedent requiring clear and convincing evidence that an applicant for registration "knowingly" made a false, material representation of fact. *See, e.g., Torres v. Cantine Torresella S.r.l.*, 808 F.2d 46, 48 (Fed. Cir. 1986); *Bart Schwartz Int'l Textiles, Ltd. v. Fed. Trade Comm'n*, 289 F.2d 665, 669 (CCPA 1961). Under its prior decisions, the Federal Circuit held, "deception must be willful to constitute fraud," and, accordingly, "[s]ubjective intent to deceive, however difficult it may be to prove, is an indispensable element in the analysis." 2009 WL 2709312, at \*2, 4.

Applying the correct standard to the facts of Bose's renewal of its Wave<sup>®</sup> registration, the Federal Circuit held that Bose's general counsel did make a false statement in the affidavit of continued use, because the Wave<sup>®</sup> mark was not in use on audio tape equipment in 2001 (implicitly holding that shipment of repaired units was not use of the mark). However, the court held, it was simply irrelevant whether it was reasonable for Bose's general counsel to believe that shipment of repaired units constituted use, because the reasonableness of that belief "is not part of the analysis"; in the absence of a "willful intent to deceive," there is no fraud. 2009 WL 2709312, at \*5. The general counsel had testified that he believed the statement of use was true at the time he signed it, and, the Federal Circuit held, there was no evidence in the record to support an inference of deceptive intent. On that record, there was no clear and convincing evidence of fraud.

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What does the *Bose* decision mean for fraud on the PTO claims? Without a doubt, *Medinol* has been a substantial issue among trademark practitioners since the case was decided in 2003, and has led to an upsurge in allegations of fraud in obtaining trademark registrations. Indeed, since *Medinol*, cancellation counterclaims based on fraud have become almost routine in trademark opposition and cancellation proceedings and in civil litigation, and the threat of a future fraud claim has been a major concern in trademark registration practice. *Bose* makes clear that fraud claims entail not only a high standard of proof, but also, as an essential element, proof of subjective intent to defraud. Evidence of such intent is, as the Federal Circuit acknowledges, hard to come by. It remains to be seen whether *Bose* will result in fewer fraud claims being asserted, but it is certainly true that it will be significantly harder to prove such claims under *Bose* than under the *Medinol* standard. Nonetheless, of course, trademark applicants and registrants are cautioned to treat statements and affidavits of use with the same care as they did under *Medinol*, and to make every effort to ensure that those statements and affidavits are truthful.

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