

Managing Intellectual Property

The Global IP Resource

Published in *Managing IP Magazine*, March 1, 2011

Prove Your Fraud Case Post-Bose

**Carole F Barrett and Elizabeth Wang survey lessons learned from
TTAB fraud decisions since the landmark Bose decision**

ONE-MINUTE READ

The golden age of proving that an opponent has committed fraud in US trade mark disputes has passed. Although once a powerful line of attack in contesting trade marks, this approach has been sharply curtailed in evolving case law by the Trademark Trial and Appeal Board (TTAB) as it has applied the new standard imposed by the Court of Appeals for the Federal Circuit in its landmark August 2009 decision, *In re Bose Corp.* That ruling – in a case involving audio equipment manufacturer Bose – replaced the brighter-line standard embraced by the Board several years earlier with the far murkier intent to deceive standard. Since then, the Board has shown a strong reluctance to delve into fraud at all. Some general guidelines can be discerned from the Board's more recent decisions discussed here.

Companies once relied on the ability to accuse their opponents of having committed fraud on the USPTO as an easy way of knocking out an entire trade mark registration. However, since *In re Bose*, a 2009 case that changed the standard for proving fraud claims, that path has become much more difficult. It remains to be seen just what combination of evidence and pleading will suffice to prove fraud to the Board. In this new environment, companies seeking to protect their own trade marks or to challenge others should proceed with a higher degree of caution and diligence than before in bringing and defending fraud claims.

Clear and convincing

Fraud reached its high water mark in the Board's May 13 2003 decision in *Medinol Ltd v Neuro Vasx Inc.* In *Medinol*, the Board embraced a standard which said that fraud occurs in procuring a trade mark registration when the applicant makes a material representation that it knows or should know to be false or misleading. The Board wrote: "The appropriate inquiry is therefore not into the registrant's subjective intent, but rather into the objective manifestation of that intent." More simply, the inquiry was entirely dependent on the documentation submitted to the USPTO, rather than the applicant's state of mind.

Six years later in *Bose*, the Federal Circuit rejected that standard, and said that an applicant's intention to deceive the Office is most relevant where fraud is concerned. "By equating 'should have known' of the falsity with a subjective intent, the Board [in *Medinol*] erroneously lowered the fraud standard to a simple negligence standard," the court said in its August 31 2009 decision. While noting that subjective intent to deceive may be difficult to prove, the court said it was indispensable and must be proven by clear and convincing evidence for a finding of fraud. "There is no fraud if false representation is occasioned by honest misunderstanding or inadvertence without willful intent to deceive," said the court.

Since *Bose*, the Board has been applying that guidance strictly, repeatedly rejecting fraud claims for being insufficient to meet the new standard. A variety of cases since *Bose* show the Board's still-developing approach to fraud and also offer guidance to parties on both sides of an opposition or cancellation proceeding.

An honest mistake

Two months after the *Bose* decision, in *Enbridge v Excelerate Energy*, the Board applied the new standard and denied a motion for summary judgment in an opposition proceeding based upon a claim of fraud. In the case, involving two energy companies, applicant Excelerate admitted that it had not used its Energy Bridge mark for "transmission of oil" or "production of energy" as it had stated in its application, but argued that this was an inadvertent and honest mistake that it later corrected (after the opposition was filed) in good faith. In its October 6 2009 opinion, the Board held that because the applicant had argued that its statements were "an inadvertent, honest mistake" the opposer Enbridge had failed to establish there was no genuine issue that the applicant had the necessary intent to deceive the USPTO. The Board also found that there were genuine issues of material fact as to the applicant's use of the mark in connection with the "production of energy", as described in the application. Because the record was "unclear with respect to the meaning of 'production of energy', a genuine issue exists . . . as to whether applicant's statement that it was using its mark in connection with 'production of energy' was, in fact, false".

As the Board's first ruling post-*Bose*, this case illustrated the new environment in which fraud claims are now evaluated and proved that obtaining summary judgment on a fraud claim will be far more difficult. A party bringing a motion for summary judgment must be able to show there is no genuine issue of material fact that the applicant knowingly made a representation of use with intent to deceive the USPTO. Counsel must carefully weigh the strength of the evidence and the case prior to investing in a motion for summary judgment.

The practical takeaway for applicants and registrants is that claiming an "honest mistake" has become a powerful defence. In addition, any applicant should remember that the meaning of the goods and services described in a registration may become issues of material fact in an opposition or cancellation proceeding. Counsel must carefully review the list of goods and services to ensure that their client was providing each of the goods and services listed in the application at the relevant time. Where the description of goods or services is particular to an industry or "fuzzy", and subject to several interpretations, counsel should be particularly diligent in collecting examples of use for potential future disputes.

PROVEN TO THE HILT

As new cases emerge, the Board is likely to provide more guidance on fraud. A number of post-*Bose* decisions discussed involved cases that had already been plead under the older *Medinol* standard, and so it is not surprising that they failed. But it is safe to say that the bar has been raised drastically. The Board has shown that it will apply *Bose* very strictly. Some general lessons, however, can be gleaned from the Board's decisions since *Bose*:

- Fraud must be "proven to the hilt" with clear and convincing evidence as the Board noted in *MCI Foods*.
- A challenge that seeks to apply the "should have known" *Medinol* standard will fail for lack of both particularity and intent. Indeed, in *DaimlerChrysler*, the Board indicated that it is unlikely to welcome even a reference to *Medinol*.
- A motion for summary judgment on a fraud claim will face resistance, as the Board has stated that questions of intent to deceive are typically unsuited to resolution by summary judgment.
- An applicant's reliance on advice of counsel may be sufficient to disprove a fraud claim.
- The timely correction of errors may serve as a rebuttable presumption that there was no intent to deceive the USPTO.
- In its reluctance to find fraud, the Board seems to be indicating that opponents would be better placed to find alternate challenges, whether it be lack of bona fide intent, abandonment, dilution, likelihood of confusion, descriptiveness or other claims.

Information and belief

Soon after *Enbridge*, in *Asian and Western Classics BV v Lynne Selkow*, the Board rejected a motion for summary judgment in a cancellation proceeding because the allegations of fraud upon which the motion was based had not been pleaded with sufficient particularity. The Board ruled on October 22 2009 that allegations based solely on information and belief and unsupported by any statement of underlying fact failed to meet the particularity requirement of Rule 9(b) of the Federal Rules of Civil Procedure, and that allegations that the respondent knew or should have known its statements to be false or misleading implied mere negligence.

This decision elaborated on the requirements for pleading a claim of fraud under the *Bose* standard. First, a party bringing an opposition or petition for cancellation should note that allegations based on information and belief must be accompanied by a specific statement of facts upon which the belief is based. The pleading should assert that the statement in question was false and made wilfully in bad faith "with the intent to obtain that to which the party making the statements would not have otherwise been entitled". Specific allegations of the applicant or registrant's intent to deceive the USPTO are now essential to a pleading of fraud. Because of this requirement, it may be crucial to conduct discovery and then amend the pleadings prior to filing for summary judgment.

For applicants and respondents, the case reinforces the need to thoroughly investigate each statement being challenged in a proceeding. If the statement is true, then counsel should work with their client to collect as much evidence of the truth of the statement as possible – usually evidence of use. The best practice is to collect specimens for as many of the goods and services as possible as use occurs and to keep a record of each specimen. If the statements at issue are false, then counsel should investigate why the statement was made, whether it was on the belief it was true, on a misunderstanding of the goods or services involved, or upon advice of counsel.

Should have known

A November 19 2009 Board decision in *Ayush Herbs Inc v Hindustan Lever Ltd Co* demonstrates new lessons to be learned about counterclaims for fraud. Opposer Ayush Herbs challenged Hindustan Lever's application to register the mark Ayush for a variety of medical uses. Applicant Hindustan then filed a counterclaim against Ayush Herbs for fraud, alleging that Ayush Herbs had not used its mark Ayush Herbs for some of the goods described in the registration, such as candy products. The Board rejected the counterclaim as an insufficiently pled because it used the should have known language instead of wilful intent to deceive the USPTO. The applicant has since moved to amend the counterclaims to address the deficiencies highlighted in the Board's decision.

While not precedential, the case offers a few important lessons. Among them, before bringing an opposition or cancellation proceeding, counsel should investigate its client's marks to make sure that they can survive a counterclaim for cancellation based on non-use, abandonment, fraud or priority of use. If on the other side, and faced with a potential opposition or cancellation proceeding, counsel should investigate the uses of all goods and services and make any needed amendments as soon as possible. Prior to answering a notice of opposition or petition to cancel, counsel should also investigate the use of the marks asserted by the other side with an eye toward bringing a counterclaim to cancel.

Bona fide intent

Although the Board has not granted any motions for summary judgment based on fraud, the Board has shown some willingness to provide guidance to opposers and petitioners. In *E & J Gallo Winery v Quala SA*, opposer Gallo, which has registered the mark Frutézia for wines, moved to amend its notice of opposition, arguing that South American firm Quala SA had committed fraud in that there was no evidence that it had a bona fide intent to use its Frutiño mark on any of the goods it specified in its application. The Board denied Gallo's motion to amend its notice of opposition to include a charge of fraud because it lacked the requisite particularity and allegation of intent to deceive.

The Board, however, suggested in a footnote in its December 7 2009 decision that if Gallo believed it could show Quala's lack of a bona fide intent to use, then Gallo could bring a separate claim for lack of bona fide

intent to use its mark in commerce, rendering a fraud claim unnecessary. The following month, Gallo moved to include a claim of lack of bona fide intent to its notice of opposition. The deadline for Quala to respond to Gallo's amended complaint had passed in early 2011, making it likely that Gallo will bring and win a motion for default judgment.

The Board's comments in *Gallo* suggest that if the intent to deceive standard is too high a hurdle, claiming lack of bona fide intent to use may achieve the same result. For applicants, counsel should ascertain whether a client has a bona fide intent to use the mark with all goods and services described in the application because that will likely become a point of attack.

This case also highlights special issues regarding discovery of a foreign party. Although Quala's application was based on its registration in Colombia, the direction that the Board has taken will make it more difficult to prevail in a proceeding based on a fraud claim where the application was filed under the Madrid Protocol. As described above, the particularity requirements of pleading fraud now almost necessitate conducting discovery and then amending the pleadings with specific factual support. However, in proceedings involving applications filed under the Madrid Protocol, the original pleading cannot be amended. Therefore, an opposer should include a claim for lack of bona fide intent in a notice of opposition and, if pleading fraud, conduct investigation prior to filing in order to provide as much particular factual support as possible. If investigation is not possible at that time, counsel may need to defer filing until after the registration for the mark issues and file a petition to cancel instead.

Unsuited to summary judgment

In *DaimlerChrysler Corporation and Chrysler, LLC v American Motors Corporation* (January 14 2010), although the Board ultimately denied the petitioner's motion for summary judgment, the amended petition for cancellation upon which the motion was based serves as a blueprint for a well-pled fraud petition. The amended cancellation petition in *DaimlerChrysler* addressed various aspects of fraud pleading in the post-*Bose* environment. In order to obtain necessary information for pleading, the petitioner had conducted discovery prior to amending the pleading. The petition referred to details such as specific dates and admissions by the respondent and made reference to "material misrepresentations" "knowingly made" "to procure" a registration.

The motion was denied because – as seen in the various other summary judgment decisions – the petitioner had failed to prove there was no issue of material fact that the respondent had an intent to deceive the USPTO. Furthermore, the Board resolutely stated in the decision that "questions of intent are typically unsuited to resolution by summary judgment". The TTAB has strongly signalled that fraud claims are no longer appropriate for summary judgment.

Advice of counsel

The Board's September 13 2010 decision in *MCI Foods, Inc v Brady Bunte* added advice of counsel to the list of defences that may be used in a case involving fraud claims. MCI Foods, which owns the Cabo Primo marks for Mexican-style food, was seeking to cancel Bunte's trade mark registration for Cabo Chips, alleging priority of use and likelihood of confusion. Bunte brought a counterclaim to cancel MCI's Cabo Primo registration, alleging fraud because MCI had never used the mark for tortilla chips as listed in the registration. MCI admitted that it had only used the mark for burritos, but said it had acted on advice of counsel. The Board ruled that because MCI acted with the advice of counsel, its "overly expansive" description of goods, while false, did not constitute fraud because it lacked the requisite intent to deceive.

This case suggest new issues to address in discovery – specifically, what opposing counsel knew and what advice they gave as to the description of goods and services and intent, as well as use and non-use. If counsel signed the application or other declarations, then counsel's basis of belief is discoverable. Opposers should probe for evidence that the applicant or registrant was advised that it could not or should not apply for certain goods or services and should expect to face the advice of counsel defence along with innocence, inadvertence and ignorance of law.

For applicants, the message is clear: get advice of counsel. Counsel, of course, should be prepared to have their advice questioned in discovery. Counsel who sign applications and other declarations should do so only

if they have the requisite knowledge, because it will be subject to discovery. Evidence that counsel advised against registration of goods or services will be sought, so care must be taken with regard to that advice.

Timely corrections

In a December 17 2010 Board decision, *Factory Mutual Insurance Company and FM Approvals LLC v Fullco Industries, Inc*, the Board held that correcting a misstatement when it comes to light can help to rebut a charge of fraud. Petitioner Factory Mutual Insurance Co, whose business includes product safety and testing services, sought to cancel a trade mark for metal fasteners owned by respondent Fullco. When Fullco filed a Section 15 Declaration stating there were no proceedings involving any rights in the registration, Factory Mutual added a fraud claim to its petition to cancel because the cancellation proceeding between the parties was pending at the time the Section 15 Declaration was filed. Fullco immediately filed a request to withdraw the filing and argued that it was an "innocent mistake" and it did not intend to make a fraudulent representation. The Board denied Factory Mutual's motion for partial summary judgment on the fraud claim, based in part on that fact that the timely correction of the error "serves as a rebuttable presumption" that there was no fraudulent intent to mislead the USPTO. In January 2011, Factory Mutual filed a motion for reconsideration, arguing that the USPTO's acknowledgement of the Section 15 Declaration or lack thereof had no legal relevance because the Declaration is effective upon filing. Thus, the fact that Fullco withdrew and corrected the filing should not be considered. Factory Mutual further argues that the Section 15 Declaration was filed with "reckless disregard for its falsity", which is sufficient for a fraud claim. If Factory Mutual prevails on its motion for reconsideration, this will be the first finding of fraud in the TTAB post-Bose.

That motion notwithstanding, the lesson drawn from *Factory Mutual* for applicants and respondents is to correct and amend any errors in filings with the USPTO as soon as possible. Best practises for counsel include working closely with clients to obtain information that will help ensure that statements are correct when filing applications, Section 8 and 15 Declarations and applications for renewal.

Remain vigilant

This doesn't mean that either side can safely ignore the risks of a fraud claim. A fraud claim challenge may yet prevail in the TTAB. Both sides will want to ensure the accuracy of their statements and filings to protect against these or any other potential claims. This includes adhering to best practices such as collecting specimens for claimed goods and services.

Medinol provided a very convenient line of attack. A fraud claim could once easily cancel an entire registration, but now other challenges are moving to the forefront. The fraud pendulum has clearly swung to the other side in US trade mark law.



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