Federal Circuit Oral Argument
Bose v. Hexawave: Have the Trademark Trial and Appeal Board's *Medinol* Fraud Cases "Crossed a Very Fundamental Line"?

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On May 5, 2009, the Federal Circuit heard oral argument in *Bose v. Hexawave*, Opposition No. 91157315. This case has been closely watched for its impact on the U.S. Patent and Trademark Office ("PTO") standard for finding fraud based on false claims of use. The presiding judges' comments during oral argument indicate that the Court may adopt a higher standard of proof of intent to deceive than the Board currently uses in fraud cases.

In 2003, the Board decided *Medinol v. Neuro Vasx, Inc.*, 67 U.S.P.Q.2d 1205 (T.T.A.B. 2003), where it appeared to apply a strict liability/negligence standard to find fraud on the PTO. In *Medinol,* the registrant, Neuro Vasx, signed a Statement of Use, in which it alleged that it was using its mark in connection with "medical devices, namely neurological stents and catheters." Medinol petitioned to cancel Neuro Vasx's registration for fraud because Neuro Vasx was not using its mark on stents when it filed its Statement of Use. Neuro Vasx responded that it had made the misstatement that it was using the mark on stents unintentionally, rather than fraudulently, and tried to amend its registration to delete "stents." The Board accepted Neuro Vasx's explanation that it had "overlooked" inclusion of stents, but stated: "Respondent's explanation for the misstatement (which we accept as true) – that the inclusion of stents in the notice of allowance was 'apparently overlooked' – does nothing....Respondent's knowledge that its mark was not in use on stents – or its reckless disregard for the truth – is all that is required to establish intent to commit fraud in the procurement of a registration." Hence the Board found that even a careless error was enough to create a fraud on the PTO.

In *Bose v. Hexawave, Inc.*, 2007 TTAB LEXIS 91 (Nov. 6, 2007) (non-precedential), the Board cancelled Bose's registration for WAVE for fraud, finding that Bose had not used the mark on all of the goods in the registration when Bose filed for renewal. The Board cited the same standard from

Medinol, and stated: "[P]roof 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 that was false." (citations omitted).

While Bose acknowledged that it stopped selling audio tape recorders, (the goods as to which Hexawave alleged fraud) it argued that it continued to repair purchasers' recorders which were transported to and from Bose. Bose claimed that "transportation of goods" fell within the definition of use in Section 1127 of the Lanham Act.

The Board rejected Bose's interpretation of the use requirements, finding that Bose's statement in its Section 8/9 declaration that it was using its mark on audio tape recorders was false. The Board then found that Bose had made the statement "knowingly." Since Bose's transportation of goods "does not constitute use sufficient to maintain a registration for goods...the only question is whether it was reasonable for opposer to believe that it did." The Board found that the belief was not reasonable, and therefore found fraud.

Bose appealed and the Federal Circuit heard oral argument on May 5, 2009. AIPLA filed an *amicus* brief and also argued before the Court. Hexawave did not appear on the appeal and the Court granted leave for the Director of the PTO to participate as appellee.

Bose argued that its repair of audio tape recorders constituted use in commerce and that Hexawave offered no evidence of fraud. AIPLA attacked the Board's standard for fraud, stating that the Board misapplied the "knew or should have known" language to find fraud on strict liability or negligence, when fraud actually requires intentional deception or at the least reckless conduct. It also argued that the Board's test for materiality (essentially that all use statements in Section 8/9 renewals are material) was wrong. The PTO disputed those claims.

During the oral argument, the Court criticized what it described as the TTAB's application of negligence standards to a fraud finding. For example, one judge stated "It seems to me that the PTO has crossed a very fundamental line in using negligence phraseology [i.e. "should have known" or "reasonable']... in a regime that all will have to agree involves civil fraud."

While the government argued that to "blow off your statutory duty to fill out your affidavit correctly is tantamount to intent," the Court later noted that there did not appear to be a balance between the punishment for such carelessness (cancellation) and the offense. "Of course you want to have maximum accuracy in the submissions to the Patent Office. On the other hand you don't want to cancel registered marks unless something pretty bad has happened and that's why Congress chose fraud rather than negligence or some lesser showing."

Moreover, the Court questioned whether the Board's finding that Bose was unreasonable to believe that transportation of its goods was enough to find that it "knowingly" misled the PTO: "I don't see any analysis of intent. All they say is [Bose' general counsel's] view of the law wasn't reasonable. I

don't see how you get from there to saying therefore they must have also concluded, although they didn't say, that he intended to deceive."

Another fraud case based on a false claim of use, *Grand Canyon West Ranch LLC v. Hualapai Tribe; Grand Canyon West Ranch LLC v. Hualapai Tribe*, 88 USPQ2d 1501 (TTAB 2008), was scheduled to be argued before the Federal Circuit in the same week as *Bose*, but has been postponed. A new date does not yet appear on the Federal Circuit's calendar.

The *Bose* opinion may provide to the trademark bar the guidance it needs to determine how to handle applications containing a mistake in the description of goods, and whether it is possible to correct a flawed description of goods so as to preclude a finding of fraud.

Bose v. Hexawave, Inc., 2007 TTAB LEXIS 91 (Nov. 6, 2007)

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