

## Outside Counsel

# Fraud Doctrine on Trademark Applications Remains Minefield

## Expert Analysis

Since *Medinol Ltd. v. Neuro Vasx, Inc.*, 67 U.S.P.Q.2d 1205 (TTAB 2003), the Trademark Trial and Appeal Board (TTAB) has taken a particularly hard line on misrepresentations in trademark applications. In *Medinol*, the TTAB construed as fraud any false statement that the applicant “knew or should have known” was false. Recent decisions have somewhat narrowed the application of this doctrine, yet it remains a potential minefield for trademark owners.

*Medinol* was a cancellation proceeding brought to cancel a registration for the trademark NEUROVASX for “medical devices, namely, neurological stents and catheters” on the grounds of fraud. The underlying application had been filed as an intent-to-use and then matured into a full registration with a filing of a Statement of Use. But that Statement was false: the applicant had in fact never used the mark on stents, but only on catheters.

The TTAB rejected the registrant’s attempt to avoid cancellation by amending its registration to delete the statement of goods as to stents. Instead, it found that the entire registration was fraudulently procured and should be canceled. Critically, it rejected the argument that the registrant’s inclusion of stents in the application was an inadvertent mistake:

The undisputed facts in this case clearly establish that respondent knew or should have known at the time it submitted its statement of use that the mark was not in use on all of the goods. Neither the identification of goods nor the statement of use itself were lengthy, highly technical, or otherwise confusing, and the President/CEO who signed the document was clearly in a position to know (or to inquire) as to the truth of the statements therein.

*Medinol*, 67 U.S.P.Q.2d at 1209-10. Further, if “fraud can be shown in the procurement of a registration the entire resulting registration is void.” 67 U.S.P.Q.2d at 1208. Thus the entire NEUROVASX registration was canceled.

Since *Medinol*, the TTAB has firmly adhered to this position. See, e.g., *Grand Canyon West Ranch, LLC v. Hualapai Tribe*, 88 U.S.P.Q.2d 1501 (TTAB 2008); *Standard Knitting Ltd. v. Toyota Jidosha*



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*Kabushiki Kaisha*, 77 U.S.P.Q.2d 1917 (TTAB 2006). More recently, however, the TTAB has begun to create exceptions and limitations to application of the *Medinol* standard.

### ‘G&W Laboratories’

In January, the TTAB issued *G&W Laboratories, Inc. v. GW Pharma, Ltd.*, 89 U.S.P.Q.2d 1571 (TTAB 2009). The registrant-opposer, G&W Laboratories, Inc. (*G&W Labs*), was the owner of two trademark registrations for marks in two classes: in class 5, for various forms of medicines and pharmaceutical products, and in class 35, for distributorships of various pharmaceutical products.

GW Pharma, Ltd. (*GW Pharma*), the applicant, filed counterclaims seeking to cancel *G&W Labs’*

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registrations on grounds of fraud. The claimed fraud, however, was limited to class 35; no fraud was alleged or shown with respect to class 5. In an issue of first impression, the TTAB held that while the registration would be canceled for fraud as to class 35, that cancellation would not extend to class 5. *G&W Labs.*, 89 U.S.P.Q.2d 1571.

The TTAB noted that *Medinol* and its progeny all dealt with goods or services within a single class. The TTAB then observed that an applicant may file a single application for registration of a mark in more than one class. Such an application requires payment of the application filing fee for each class, as well as submission of a first-use date and a specimen of use for each class. “[A] multiple class application can be

viewed as a series of applications for registration of a mark in connection with goods or services in each class, combined into one application.” *Id.*

The inclusion of multiple classes in a single application is thus merely a convenience and is the legal equivalent of multiple applications for multiple registrations in multiple classes. Fraud in one registration, of course, cannot be used to cancel a different, untainted registration. The same result should apply, reasoned the TTAB, to multi-class registrations.

### ‘Hiraga v. Arena’

In March 2009, in *Hiraga v. Arena*, 2009 TTAB Lexis 73 (2009), the TTAB again limited the reach of the *Medinol* fraud doctrine. The alleged fraud involved the date of first use, i.e., the date which the applicant claims was its first use in commerce. This date, however, the TTAB held was immaterial and thus could not be the basis of a charge of fraud.

Materiality of a false application is determined “in the context of whether the false statement is critical to the trademark examining attorney’s decision to approve a mark for publication.” *Id.* at 14. In evaluating an application, however, all that is relevant is that the mark was in use in commerce as of the filing date, not before. Thus, if the registrant can show use beginning at least as early as the date of the application, then any proofs as to use prior to that date are simply immaterial and cannot lead to a charge of fraud.

### Correcting Fraud

Another area where the TTAB’s position on fraud is evolving is that of the correction of “fraudulent” registrations. At one point, the TTAB took a hard line on this question: “Fraud cannot be cured merely by deleting from the registration those goods on which the mark was not used at the time of the signing of a use-based application or a Section 8 affidavit.” *Turbo Sportswear Inc. v. Marmot Mountain, Ltd.*, 77 U.S.P.Q.2d 1152, 1155 (TTAB 2005). More recent cases have softened this approach.

In May 2008, the Board decided *University Games Corp. v. 20Q.net Inc.*, 87 U.S.P.Q.2d 1465 (TTAB 2008). The applicant had amended its identification of goods during the initial ex parte review by the Trademark Office, omitting those goods which were later claimed not to have been used. Such an amendment during ex parte prosecution, creates “a rebuttable presumption that opposer lacked the willful intent to deceive the office.”

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*University Games*, by itself, is not particularly surprising—amendments, including listing of goods, are routinely tolerated in prosecution, and it would be odd to hold such amendments against the applicant. However, in October 2008, the board went much further in *Zanella, Ltd. v. Nordstrom, Inc.*, Opp. No. 91177858 (TTAB)—a non-precedential decision. The registrant admitted that it had never used its registered mark on nine out of 20 types of clothing originally listed in its registration. However, five years after the registration issued, the registrant filed an affidavit of continuing use and incontestability under Sections 8 and 15 and voluntarily omitted those nine types of goods. This was sufficient to avoid any charge of fraud:

[O]pposer's action in correcting any false statements prior to any actual or threatened challenge to the registration creates a rebuttable presumption that opposer did not intend to deceive the Office. See *University Games Corp. v. 20Q.net Inc.*, 87 U.S.P.Q.2d 1465, 1468 (TTAB 2008).

*Zanella*, slip op. at 9-10. Despite its citation to *University Games*, the *Zanella* opinion actually goes far beyond that holding. *University Games* tolerated only amendments made during prosecution; *Zanella* allows mistakes to registrations to be cured even years after registration, so long as no one has yet challenged or threatened to challenge the registration.

The exact contours of *Zanella* have yet to be explored. The critical point is to initiate the amendment prior to anyone challenging the registration. What about asserting the registration offensively, e.g., in an opposition proceeding or in litigation? One might argue that assertion of a registration against another implies that the registration is valid. Suppose it turns out to be based on false information—but no one has yet challenged it? Does the registrant still have time to correct any mistakes, or does assertion of the registration end the ability to amend any mistakes and avoid a “fraud” charge?

If future decisions follow *Zanella*, then registrants would be well served to conduct a thorough and early review of their registrations to make sure none are tainted by potential “fraud”—and file appropriate amendments as early as possible.

### Standard Challenged

The *Medinol* standard is currently under review in *Bose Corp. v. Hexawave, Inc.*, Fed. Cir. No. 2008-1448. That appeal has been reported extensively elsewhere, so the details will not be repeated here. The critical issue there is that the registrant had an arguable basis to claim that in fact it had used its mark in connection with the goods at issue. The claim that Bose “should have known” that its use was insufficient is really one of negligence, not fraud. Fraud traditionally implies a deliberate intent to deceive. Bose relied on a legally debatable “use” to validate its registration. That is hardly fraud.

The more common situation is where an applicant simply “overlooks” the fact that it is not using the mark on all the goods claimed in the application or renewal. Cases of fraud commonly include not only deliberate falsehoods but also “reckless disregard for the truth.” A party, like the registrant in *Medinol*, who claims use of two types of goods when it has never used the mark on one type at all, seems to have gone beyond negligence and into the realm of reckless disregard—and hence fraud. Thus even if the Federal Circuit cuts back on

the standard enunciated in *Medinol*, the prospect of a claim of “reckless disregard” as a type of fraud is likely to remain.

One must remember that applications for trademark registration contain positive representations to the Trademark Office, upon which it is expected to rely. Furthermore, a party applying for a registration is in the best position to know the truth about its own business and use of its marks on certain types of goods, and would be expected to have done some due diligence to determine that its representations have some basis in the realities of its own business. After all, who better than Neuro Vaxx would know that its mark was being used only on catheters and not on stents as claimed in its registration.

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A representation of fact made knowing there is no real basis for such representation has long been held to constitute fraud. A seminal New York Court of Appeals held:

Where a party represents a material fact to be true to his personal knowledge, as distinguished from belief or opinion, when he does not know whether it is true or not, and it is actually untrue, he is guilty of falsehood, even if he believes it to be true; and if the statement is thus made with the intention that it shall be acted upon by another, who does so act upon it, to his injury, the result is actionable fraud.

*Hadcock v. Osmer*; 47 N.E. 923-24 (N.Y. 1897). The *Hadcock* rule is generally accepted in American jurisdictions. Under the Restatement (Second) of Torts (1977), “[a] misrepresentation is fraudulent if the maker...knows that he does not have the basis for his representation that he states or implies.” Id. §526(c). The comment elaborates:

A representation of fact may be expressly stated to be based upon the maker's personal knowledge of the fact in question or even upon his personal investigation of the matter. So, too, though not expressly so stated, the representation may be made in a form or under such circumstances as to imply that this is the case. A misrepresentation so made is fraudulent even though the maker is honestly convinced of its truth from hearsay or other sources that he believes to be reliable.

Id. cmt. f (emphasis added). Under this law, a false statement by a company CEO that the company is using a trademark on two types of goods made with little or no due diligence (roughly the factual scenario in *Medinol*) would likely be found fraudulent at common law.

Many of the reported cases after *Medinol* have a strong flavor of representations made with no real basis in fact—and that is likely to remain, no

matter what the Federal Circuit decides in the *Bose* appeal.

### Potential Land Mine

As of this writing, *Medinol* remains good law. But as discussed, recent opinions show that the application of the fraud doctrine is not boundless. Nevertheless, *Medinol* can have a devastating affect on registrations. A registrant who inadvertently allows extra goods in the same class to be listed in a Statement of Use in an application or in a renewal risks losing the registration, at least as to an entire class of goods.

In our experience, such problems frequently arise where foreign trademark owners seek to register their marks in the United States. The trademark system in many foreign countries differs somewhat from the United States. First, in many countries rights are acquired primarily through registration, not use, as they are in the U.S. Moreover, many foreign trademark owners are used to registering their mark in an entire class (usually the standard international class) of goods, without worrying about actual usage of the mark for particular types of goods or services. While such a registration may pass muster abroad, that often does not translate well into the United States trademark system. A broad registration covering 20 types of goods in a single class would simply not pass muster in the United States if the applicant in fact only uses the mark on a few of the goods in the class.

This difficulty is compounded by the fact that a Statement of Use is not required with the original U.S. application when based on certain foreign registrations, but only with a later affidavit of use and renewal. Section 44(e) of the Lanham Act, 15 U.S.C. 1126(e), allows a registrant for a mark in certain foreign countries to obtain a parallel registration in the United States without filing a Statement of Use. However, after five years a Statement of Use is required. Often at that point a party will sign the Statement of Use with scant attention as to whether the mark is actually being used in the United States for all the specific goods and/or services listed in the registration. That is where a possible fraud claim may arise.

### Conclusion

*Medinol*'s fraud standard, while limited somewhat by recent cases, continues to be a potent weapon for those who seek to oppose or cancel registrations and a potential land mine for applicants at all levels of the application cycle. And while the Federal Circuit may restrict the *Medinol* standard in its upcoming *Bose* decision, it is likely that fraud issues will continue to be potential problems for trademark registrants.

It therefore behooves trademark registrants to audit or review their trademark portfolios on a periodic basis to verify whether there are any lurking issues of fraud—and then move to correct these problems well-before the registrations are challenged.