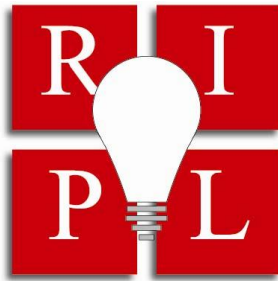


# THE JOHN MARSHALL REVIEW OF INTELLECTUAL PROPERTY LAW



## DOES RECKLESS INDIFFERENCE SUFFICE FOR A CANCELLATION PROCEEDING PREDICATED ON FRAUD?

TAL S. BENSCHAR & MILTON SPRINGUT

### ABSTRACT

The Lanham Act provides for cancellation of a trademark “registration [that] was obtained fraudulently.” 15 U.S.C. § 1064(3) (2012). The Federal Circuit has held that such requires a showing of a subjective intent to deceive the Trademark Office. *In re Bose Corp.*, 580 F.3d 1240, 1243, 91 U.S.P.Q.2d (BNA) 1938 (Fed. Cir. 2009). However, the *Bose* court left open whether reckless disregard for the truth suffices to make out a case of fraud. This article answers that question in the affirmative. We show that at common law, reckless disregard for the truth has long been recognized as sufficient to make out a case of fraud, and that has been carried over to several federal statutory contexts. Under the long-established rule that common law terms must be interpreted consistent with the common law absent some compelling statutory language to the contrary, the Lanham Act’s cancellation-for-fraud provision must be interpreted as extending to recklessness.

Recklessness at common law meant deliberately misleading someone about the state of one’s knowledge—“the pretense of knowledge when knowledge there is none.” However, when a representation is qualified to indicate that one’s knowledge may be limited, then the common law would not apply a recklessness standard. For example, a statement made “upon information and belief” would not support a fraud claim based on recklessness. We accordingly examine the formulas for verifications for various facts contained in both the Lanham Act and the Trademark Office electronic forms, some of which may qualify certain representations sufficiently to defeat a fraud cancellation petition based on recklessness. Finally, we suggest some changes the Trademark Office may want to consider making to its form verifications to clarify this issue.

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TAL S. BENSCHAR &amp; MILTON SPRINGUT\*

## I. INTRODUCTION

The Lanham Act provides that a party may petition to cancel a trademark registration on the grounds that the “registration was obtained fraudulently.”<sup>1</sup> “Fraud in procuring a trademark registration or renewal occurs when an applicant knowingly makes false, material representations of fact in connection with his application.”<sup>2</sup>

A cancellation petition requires more than a showing of falsity of the representation; a showing of some mental state regarding the falsity is also required.<sup>3</sup> Precisely *what* mental state is required to be shown has evolved in recent years.<sup>4</sup> In *Medinol Ltd v. NeuroVasx Inc.*, the TTAB held that a showing that a registrant or applicant “knew or should have known” that a material representation was being made to the Trademark Office suffices.<sup>5</sup> Six years later, in *Bose*, the Federal Circuit forcefully rejected that standard, holding that a *fraudulent* (as opposed to merely false) representation is one that is accompanied by a “subjective intent to deceive” the Trademark Office.<sup>6</sup> This standard is explicitly intended to exclude mere negligence or even gross negligence.<sup>7</sup>

However, *Bose* left unresolved whether proffering a submission to the Trademark Office “with reckless disregard of its truth or falsity” satisfies the requirement of intent to deceive.<sup>8</sup> Since *Bose*, the TTAB has twice observed that this issue is unresolved, but has not addressed its substance.<sup>9</sup>

This article examines the legal basis for whether a showing of recklessness (sometimes labeled “reckless indifference to the truth”) can satisfy the intent-to-deceive requirement for a cancellation petition predicated on fraud. It then examines whether the question might depend on the form in which particular representations are verified to the Trademark Office. Finally, it suggests some changes the Trademark Office may want to consider making to its form verifications to clarify this issue.

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<sup>1</sup> 15 U.S.C. § 1064(3) (2012).

<sup>2</sup> *In re Bose Corp.*, 580 F.3d 1240, 1243, 91 U.S.P.Q.2d (BNA) 1938 (Fed. Cir. 2009) (*citing* *Torres v. Cantine Torresella S.r.l.*, 808 F.2d 46, 48 (Fed. Cir. 1986)).

<sup>3</sup> Theodore H. Davis, Jr., John L. Welch, *The Sixty-Fourth Year of Administration of the U.S. Trademark (Lanham) Act of 1946*, 102 TRADEMARK REP. 1, 43 (2012).

<sup>4</sup> David G. Barker, *Culpable Mental States in Intellectual Property Cases an Emerging, Common Law-Like Uniformity*, 4 LANDSLIDE 14, 16–17 (2012).

<sup>5</sup> *Medinol Ltd v. NeuroVasx Inc.*, 67 U.S.P.Q.2d (BNA) 1205 (T.T.A.B. 2003)

<sup>6</sup> *Bose*, 580 F.3d at 1245.

<sup>7</sup> *Id.* “The ‘should know’ language, if it signifies a simple negligence or a gross negligence standard, is not only inconsistent with the framework set out elsewhere in *Torres*, but would also have no precedential force as it would have conflicted with the precedents from CCPA.” *Id.*

<sup>8</sup> *Bose*, 580 F.3d at 1246 n.2.

<sup>9</sup> *Intellogy Solutions, LLC v. Intelligolf, Inc.*, 2013 WL 4397053 \*5 n.6 (T.T.A.B. 2013); *DaimlerChrysler Corp. v. American Motors Corp.*, 94 U.S.P.Q.2d (BNA) 1086, 1089 n.5 (T.T.A.B. 2010).

## II. FRAUD INCLUDES RECKLESSNESS

### A. Common Law Meaning Controls Interpretation of Statute

The Trademark Act, as noted, permits a party to move to cancel a registered trademark on the grounds that the “registration was obtained fraudulently.”<sup>10</sup> This provision goes back to the original Trademark Act text passed in 1946 and has been retained since then.<sup>11</sup>

While the term “fraudulently” is not defined anywhere in the statute, “fraud” is a concept long familiar to the common law, and a well-developed body of law defining the elements of fraud was established long before passage of the Lanham Act.<sup>12</sup> The Supreme Court has repeatedly instructed that “it is [a] well-established rule of construction that where Congress uses terms that have accumulated settled meaning under the common law, a court *must* infer, unless the statute dictates otherwise, that Congress means to incorporate the established meaning of these terms.”<sup>13</sup> (emphasis added). This principle has a long pedigree, and has been followed many times both by the Supreme Court<sup>14</sup> as well as the Court of Appeals for the Federal Circuit.<sup>15</sup>

The presumption that Congress intended to import the common law meaning of a term is mandatory – absent an express statutory indication otherwise, the common-law meaning controls.<sup>16</sup> Particularly instructive is the Supreme Court’s decision in *Neder v. United States*, which construed the federal criminal mail, wire and bank fraud statutes.<sup>17</sup> Those statutes provide for criminal punishment for anyone who executes a “scheme or artifice to defraud” in various contexts (*i.e.*, by using the mail or wire communications to execute the scheme to defraud, or directing the scheme to defraud to a financial institution).<sup>18</sup> The issue in *Neder* was whether the representations which are the basis of the scheme have to be “material” to the transaction at issue.<sup>19</sup> In holding that they do, the *Neder* court noted that at the times Congress passed each of these statutes, actionable “fraud” had a well-settled meaning

<sup>10</sup> 15 U.S.C. § 1064(3) (2012).

<sup>11</sup> Pub.L. No. 79-489, 60 Stat. 433, § 14 (1946).

<sup>12</sup> William Prosser, *Law of Torts* § 105, at 685 (4th ed. 1971) (“The action of deceit is of very ancient origin. There was an old writ of deceit known as early as 1201.”)

<sup>13</sup> *Neder v. United States*, 527 U.S. 1, 23 (1999).

<sup>14</sup> *Standard Oil Co. of N.J. v. United States*, 221 U.S. 1, 59 (1911) (“Where words are employed in a statute which had at the time a well-known meaning at common law or in the law of this country, they are presumed to have been used in that sense.”); *See also* *Microsoft Corp. v. i4i Ltd. P’ship*, 131 S. Ct. 2238, 2246 (2011); *Nationwide Mut. Ins. Co. v. Darden*, 503 U.S. 318, 322 (1992); *Community for Creative Non-Violence v. Reid*, 490 U.S. 730, 739 (1989).

<sup>15</sup> *United States v. Trek Leather, Inc.*, 724 F.3d 1330, 1336–37 (Fed. Cir. 2013); *Robert Bosch, LLC v. Pylon Mfg. Corp.*, 719 F.3d 1305, 1309 (Fed. Cir. 2013); *O’Neill v. Dept. of HUD*, 220 F.3d 1354, 1360 (Fed. Cir. 2000).

<sup>16</sup> *Neder v. United States*, 527 U.S. at 23 (“[W]e must *presume* that Congress intended to incorporate [the common law understanding] unless the statute otherwise dictates.”) (emphasis in original, citation omitted); *Trek Leather*, 724 F.3d at 1336 (“[W]e must assume [the statutory term] carries its ordinary common law meaning . . .”).

<sup>17</sup> *Neder*, 527 U.S. at 23–35; *see also* 18 U.S.C. §§ 1341, 1342, 1344 (2012).

<sup>18</sup> 18 U.S.C. §§ 1341, 1342, 1344 (2012).

<sup>19</sup> *Neder*, 527 U.S. at 24.

at common law, which required that the misrepresentation or omission be material.<sup>20</sup> It accordingly held that in such cases, materiality is an element of the crime charged, which, of course, the Government has the burden of proving beyond a reasonable doubt.<sup>21</sup>

The *Neder* court acknowledged that it was clear that certain elements of common law fraud were indeed not incorporated into these criminal statutes.<sup>22</sup> At common law, a plaintiff must show justifiable reliance on the misrepresentation and damages resulting from the fraud.<sup>23</sup> The language of “scheme to defraud” clearly excludes these elements, but not materiality:

By prohibiting the “scheme to defraud,” rather than the completed fraud, the elements of reliance and damage would clearly be inconsistent with the statutes Congress enacted. But while the language of the fraud statutes is incompatible with these requirements, the Government has failed to show that this language is inconsistent with a materiality requirement.<sup>24</sup>

*Neder* shows just how strong the presumption of following the common law is - even though the statutory language does clearly exclude two common law elements of fraud (justifiable reliance and damages), since there is nothing in the language that would be inconsistent with a materiality requirement, that requirement remains in interpreting these statutes.<sup>25</sup> Thus, under *Neder*, the common law is to be followed in interpreting statutory language unless the common law rules are “inconsistent” with the statutory language.<sup>26</sup>

### *B. Recklessness at Common Law*

The common law of fraud has long included a state of mind which is something less than actual knowledge of falsity.<sup>27</sup> A leading American case is *Hadcock v. Osmer*.<sup>28</sup> The facts were straightforward. Two relatives named Deloss and Joseph Brown were indebted to one Luman Osmer (the defendant) in the amount of \$300, but lacked the funds to pay him.<sup>29</sup> The Browns tried to borrow funds sufficient to repay the loan from one Emmanuel Hadcock (the plaintiff).<sup>30</sup> To encourage this loan, Osmer wrote him a

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<sup>20</sup> *Id.* at 25.

<sup>21</sup> *Id.*

<sup>22</sup> *Id.* at 16.

<sup>23</sup> Michael D. Green, *Apportionment, Victim Reliance, and Fraud: A Comment*, 48 ARIZ. L. REV. 1027, 1029 (2006).

<sup>24</sup> *Neder*, 527 U.S. at 25.

<sup>25</sup> *Id.*

<sup>26</sup> *Id.*

<sup>27</sup> *See Bennett v. Judson*, 21 N.Y. 238, 240-41 (1860) (citing 1 Story Eq., § 193) (“Whether a party misrepresenting a material fact know it to be false, or make the assertion without knowing whether it were true or false, is wholly immaterial; for the affirmation of what one does not know or believe to be true is equally, in morals and law, as unjustifiable as the affirmation of what is known to be positively false.”)

<sup>28</sup> *Hadcock v. Osmer*, 47 N.E. 923, 153 N.Y. 604, 607 (1897).

<sup>29</sup> *Id.* at 606.

<sup>30</sup> *Id.*

short note: “Mr. Hadcock: The Browns are good for what money you lend them.<sup>31</sup> {Signed}, L. Osmer.” Hadcock did not know the Browns, but knew Osmer, and in reliance on that note lent them \$400.<sup>32</sup> In fact, the Browns were at the time insolvent, and “while the defendant may have believed they were good, he did not know whether they were good or not, and did not try to find out.”<sup>33</sup>

In affirming a judgment for fraud, the New York Court of Appeals held:

[W]hile there must be a furtive intent, it may exist when one asserts a thing to be true which he does not know to be true, as it is a fraud to affirm positive knowledge of that which one does not positively know. 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.<sup>34</sup>

The court then found that the record supported satisfaction of this standard: “[k]nowing that he [Osmer] did not know what he said he did, and what he intended to cause another to believe he did, he took the responsibility of its truth; and honesty of belief in the supposed fact, under such circumstances, cannot relieve him from the imputation of falsehood and fraud.”<sup>35</sup>

The *Hadcock* rule was thereafter accepted in many common law cases. In 1931, Benjamin Cardozo, then Chief Judge of the New York Court of Appeals, took it as established that “[f]raud includes the pretense of knowledge when knowledge there is none.”<sup>36</sup> Ten years later, the D.C. Circuit Court of Appeals affirmed a finding of fraud based on recklessness, and wrote: “[Defendants’] alleged statements were positive and unqualified. They purported, by clear implication, to know what they were talking about. Where knowledge is possible, one who represents a mere belief as knowledge misrepresents a fact [and is liable for fraud].”<sup>37</sup>

The First Restatement of Torts, published in 1938, only eight years prior to passage of the Trademark Act, states that it is fraudulent to make a false statement if the maker “knows that he has not the confidence in its existence or non-existence asserted by his statement of knowledge or belief.”<sup>38</sup> The Restatement comments explain:

In order that a misrepresentation may be fraudulent it is not necessary that the maker know the matter is not as represented. Indeed, it is not necessary that he should even believe this to be so. It is enough that being conscious that he has neither knowledge nor belief in the existence of the matter he

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<sup>31</sup> *Id.*

<sup>32</sup> *Id.*

<sup>33</sup> *Id.*

<sup>34</sup> *Hadcock v. Osmer*, 47 N.E. 923, 153 N.Y. 604, 607–8 (1897).

<sup>35</sup> *Id.* at 609.

<sup>36</sup> *Ultramares Corp. v. Touche*, 174 N.E. 441, 444 (N.Y. 1931).

<sup>37</sup> *Sovereign Pocohontas Co. v. Bond*, 120 F.2d 39, 40 (D.C. Cir. 1941).

<sup>38</sup> Restatement (First) of Torts, § 526(b) (1938).

chooses to assert it. Indeed, since knowledge implies a firm conviction, a misrepresentation of a fact so made as to assert that the maker knows it, is fraudulent if he is conscious that he has merely a belief in its existence and recognizes that there is a chance, more or less great, that the fact may not be as it is represented. This is often expressed by saying that fraud is proved if it is shown that a false representation has been made without belief in its truth or recklessly, careless whether it be true or false.<sup>39</sup>

Nearly identical language is incorporated in the Second Restatement of Torts,<sup>40</sup> § 526 and comment e, and that is the general understanding today: reckless indifference to the truth will make out a case for common law fraud.<sup>41</sup>

Notably, the state of mind described here is more than negligence or gross negligence.<sup>42</sup> Rather, it is a subjective awareness by the person representing something that he has no basis to know whether it is true or not.<sup>43</sup> The fraud lies not in misrepresenting the basic fact – as far as the person knows, that may or not be true – but in misrepresenting one’s own knowledge of the fact – “the pretense of knowledge when knowledge there is none.”<sup>44</sup>

### *C. Federal Circuit Applies Recklessness Standard to Fraud on the Patent Office*

Generally, a patent owner enjoys immunity from antitrust liability for enforcing its patent. However, in *Walker-Process Equip., Inc. v. Food Mach. & Chem. Corp.*, the Supreme Court held that where it is shown that the patent was obtained by fraud, the owner loses that immunity and others may bring a claim for monopolization under federal antitrust laws, notably the Clayton Act.<sup>45</sup> The Federal Circuit has held that *Walker-Process* fraud is “a variant of common law fraud” requiring proof of all elements of common law fraud.<sup>46</sup> The state-of-mind element for both common law and *Walker Process* fraud requires proof of “the intent to deceive or, at least, *a state of mind so reckless as to the consequences that it is held to be the equivalent of intent (scienter)*.”<sup>47</sup> Thus the Federal Circuit has *already* recognized not only that reckless disregard for

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<sup>39</sup> *Id.*, comment e.

<sup>40</sup> Restatement (Second) of Torts, § 526(b) (1977).

<sup>41</sup> *Bose Corp. v. Consumers Union*, 466 U.S. 485, 501 n.19 (1984) (fraud can be proved “when it is shown that a false representation has been made (1) knowingly, or (2) without belief in its truth, or (3) recklessly, careless whether it be true or false,” *quoting* *Derry v. Peek*, 14 App. Cas. 337, 374 (1889)).

<sup>42</sup> *See supra* n. 7; *see also Kingsdown Med. Consultants, Ltd. v. Hollister Inc.*, 863 F.2d 867, 876 (Fed.Cir.1988) (en banc) (“a finding that particular conduct amounts to ‘gross negligence’ does not of itself justify an inference of intent to deceive.”)

<sup>43</sup> *Ultramares Corp. v. Touche*, 174 N.E. 441, 444 (1931).

<sup>44</sup> *Id.*

<sup>45</sup> *Walker-Process Equip., Inc. v. Food Mach. & Chem. Corp.*, 382 U.S. 172 (1965).

<sup>46</sup> *Unitherm Food Systems, Inc. v. Swift-Eckrich, Inc.*, 375 F.3d 1341, 1358, 71 U.S.P.Q.2d (BNA) 1705 (Fed. Cir. 2004).

<sup>47</sup> *Unitherm*, 375 F.3d at 1358 (emphasis added); *In re Spalding Sports Worldwide, Inc.*, 203 F.3d 800, 807, 53 U.S.P.Q.2d (BNA) 1747 (Fed. Cir. 2000)(emphasis added).

the truth satisfies the scienter requirement for common-law fraud but has also applied that rule in the context of fraud on the Patent Office.<sup>48</sup>

That context is very similar to fraud on the Trademark Office in obtaining a trademark registration.<sup>49</sup> In fact, in *Bose*, the Federal Circuit made the same analogy. *Bose* cited cases dealing with inequitable conduct, a form of fraud on the Patent Office that renders a patent unenforceable.<sup>50</sup> Those cases held that negligence, even gross negligence is insufficient. Applying that to trademark cancellation proceedings, the *Bose* court reasoned: “[t]he principle that the standard for finding intent to deceive is stricter than the standard for negligence or gross negligence, even though announced in patent inequitable conduct cases, applies with equal force to trademark fraud cases.”<sup>51</sup>

Taking that analogy one step further, since a showing of reckless disregard for the truth is sufficient to show fraud on the Patent Office to make out a claim under *Walker Process*, there is no reason it should not also apply to a petition to cancel a trademark registration based on fraud.<sup>52</sup>

#### D. Other Federal Statutes

Federal courts have repeatedly held that recklessness satisfies the mental state needed to establish fraud in other federal statutory contexts as well.<sup>53</sup> In securities fraud cases, for example, “[e]very Court of Appeals that has considered the issue has held that a plaintiff may meet the scienter requirement by showing that the defendant acted intentionally or recklessly . . .”<sup>54</sup> Similarly, federal *criminal* fraud statutes (mail fraud, wire fraud) have generally been held to be violated where a person acts with “reckless indifference to the truth.”<sup>55</sup>

#### E. Application to Cancellation Proceedings

As demonstrated above, both at common law and in many federal statutory contexts, “fraud” includes acting with reckless indifference to the truth. Absent some compelling statutory language that indicates otherwise, the presumption that Congress intended to incorporate the common law standard is mandatory.<sup>56</sup>

The state of mind described here is more than negligence or gross negligence. Rather, it is a subjective awareness by the person representing something that he has

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<sup>48</sup> *See Id.*

<sup>49</sup> *Id.*

<sup>50</sup> *Bose*, *supra* note 2 at 1245.

<sup>51</sup> *Id.*

<sup>52</sup> 15 U.S.C. § 1064(3) (2012).

<sup>53</sup> Linda K. McLeod, *Knew or Should Have Known, Reckless Disregard for the Truth, and Fraud Before the Trademark Office*, 34 AIPLA Q.J. 287, 300 (2006).

<sup>54</sup> *Tellabs, Inc. v. Makor Issues & Rights, Ltd.*, 551 U.S. 308, 319 n.3 (2007).

<sup>55</sup> *United States v. Kennedy*, 714 F.3d 951, 958 (6th Cir. 2013) (mail and wire fraud); *United States v. DeRosier*, 501 F.3d 888, 897–98 (8th Cir. 2007) (wire fraud); *United States v. Munoz*, 233 F.3d 1117, 1136 (9th Cir. 2000) (mail fraud); *O'Malley v. New York City Transit Authority*, 896 F.2d 704, 707 (2d Cir. 1990) (mail fraud).

<sup>56</sup> *Supra* n. 16.



no basis to know whether it is true or not.<sup>57</sup> The fraud lies not in misrepresenting the basic fact – as far as the person knows, that may or not be true – but in misrepresenting one’s own knowledge of the fact – “the pretense of knowledge when knowledge there is none.” Such a pretense should satisfy the requirement in *Bose* to demonstrate a “subjective intent to deceive” the Trademark Office.<sup>58</sup>

This rule is very apt in cancellation proceedings. The Trademark Office relies on applicants and registrants to verify many facts about their applications and registrations – including especially, their own use of trademarks for various goods (the most commonly alleged form of fraud).<sup>59</sup> If an applicant verifies that “[a]pplicant is using the Mark in commerce for widgets,” then in the context of a trademark application or renewal, it seems that such implies knowledge of that fact. After all, who knows better than the applicant (or its representative) what marks are being used by the applicant for which goods or services? If in fact the verifier had no real basis for making that assertion, then his verification involved a “subjective intent to deceive.”<sup>60</sup>

### III. HOW THE VERIFICATION FORMS IMPACT ON WHETHER RECKLESSNESS MEETS THE FRAUD STANDARD

#### A. *Qualified Representations Treated Differently at Common Law*

Thus far the discussion has focused on unqualified factual representations where, in context, the speaker (or writer) of the representation at least implies knowledge of a fact, but is in fact ignorant, giving rise to the “pretense of knowledge” form of fraud.<sup>61</sup> The pretense need not be explicit – in the cases cited and discussed above, the representation of knowledge was implied by the overall context of the case.<sup>62</sup>

But what if the speaker *does* qualify what he says? If the speaker says, “I really don’t know whether X is true, I think it is, but check it out for yourself.” It seems clear then there cannot be a charge of recklessness, since there is no “pretense of knowledge.”<sup>63</sup> The common law courts long recognized this. In *Hadcock*, the court noted that the defendant “intended . . . that the lender should understand him as communicating his actual knowledge, and not as expressing his opinion, judgment, or belief,”<sup>64</sup> implying that the latter would be treated differently. The D.C. Circuit made a similar observation when it wrote:

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<sup>57</sup> *Bose*, *supra* note 2 at 1245.

<sup>58</sup> *Id.*

<sup>59</sup> *Bose Corp. v. Hexawave, Inc.*, 88 U.S.P.Q.2d (BNA) 1332 n. 9 (TTAB 2007) (“It is important to note that the United States Patent and Trademark Office relies on the thoroughness, accuracy and honesty of each applicant. In general, the Office does not inquire as to the use of the mark on each good listed in a single class and only requires specimens of use as to one of the listed goods, relying on applicant’s declaration with regard to use on the other listed goods.”), *rev’d*, 580 F.3d 1240, 91 U.S.P.Q.2d (BNA) 1938 (Fed.Cir. 2009).

<sup>60</sup> *Supra* n. 6.

<sup>61</sup> *Ultramares Corp. v. Touche*, 174 N.E. 441, 444 (1931).

<sup>62</sup> *Id.*

<sup>63</sup> *Hadcock supra* note 34 at 609.

<sup>64</sup> *Hadcock supra* note 34 at 609.

[T]he evidence would support an inference that the defendants knowingly made untrue statements of subjective fact. They did not say, “We are informed and believe that the company has been making money.” Had they done so, it is not likely that the plaintiff would have relied on what they said. Their alleged statements were positive and unqualified. They purported, by clear implication, to know what they were talking about. Where knowledge is possible, one who represents a mere belief as knowledge misrepresents a fact.<sup>65</sup>

One court went so far as to state that “[a]s a general rule, one who qualifies his representations by the use of language indicating that they are based on information and belief, and honestly believes the representations to be true, is not guilty of actionable fraud, although in fact they proved to be untrue.”<sup>66</sup> In some industries, notably the securities industries, the use of “hedge clauses” to avoid fraud liability are common, although their use is now regulated by Securities and Exchange Commission.<sup>67</sup>

As the quoted cases indicate, the phrase “upon information and belief” is generally understood to be a qualifying phrase indicating that the speaker or writer does not have personal knowledge of what is being represented.<sup>68</sup> Black’s Law Dictionary defines “information and belief” as “[a] standard legal term which is used to indicate that the allegation is not based on the firsthand knowledge of the person making the allegation, but that person nevertheless, in good faith, believes the allegation to be true.”<sup>69</sup> Thus a person who makes a representation on “information and belief” cannot be charged with fraud for having acted “recklessly,” since he has qualified his statement to indicate lack of knowledge. In such a situation, only actual knowledge of the falsity of the representation would suffice to make out a case of fraud.<sup>70</sup>

### *B. Verification Required by the Trademark Act*

Several sections of the Trademark Act require that certain facts submitted in filings with the Trademark Office be verified by the applicant or registrant. In an application for a use-based Section 1(a) registration, the Act provides:

The statement shall be verified by the applicant and specify that— (A) the person making the verification believes that he or she, or the juristic person in whose behalf he or she makes the verification, to be the owner of the mark sought to be registered; (B) to the best of the verifier’s knowledge and belief, the facts recited in the application are accurate; (C) the mark is in use in commerce; and (D) to the best of the verifier’s knowledge and belief, no other person has the right to use such mark in commerce either in the identical

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<sup>65</sup> United States v. Ekelman & Associates, Inc., 532 F.2d 545, 549 (6th Cir. 1976).

<sup>66</sup> Saupe v. St. Paul Trust Co., 170 Minn. 366, 369, 212 N.W. 892 (Minn. 1927).

<sup>67</sup> See, e.g., Readinger v. Rorick, 92 F.2d 140, 144–45 (6th Cir. 1937) (hedge clause in offering circular for municipal bonds avoided liability for common law fraud).

<sup>68</sup> *Id.*

<sup>69</sup> See *Information and Belief*, BLACK’S LAW DICTIONARY 537 (6th ed. 1991).

<sup>70</sup> *Id.*

form thereof or in such near resemblance thereto as to be likely, when used on or in connection with the goods of such other person, to cause confusion, or to cause mistake, or to deceive.<sup>71</sup>

Similarly, an intent-to-use application under Section 1(b) requires that:

The statement shall be verified by the applicant and specify— (A) that the person making the verification believes that he or she, or the juristic person in whose behalf he or she makes the verification, to be entitled to use the mark in commerce; (B) the applicant's bona fide intention to use the mark in commerce; (C) that, to the best of the verifier's knowledge and belief, the facts recited in the application are accurate; and (D) that, to the best of the verifier's knowledge and belief, no other person has the right to use such mark in commerce either in the identical form thereof or in such near resemblance thereto as to be likely, when used on or in connection with the goods of such other person, to cause confusion, or to cause mistake, or to deceive.<sup>72</sup>

In order to mature into a full registration, an intent-to-use application must be followed within six months (extendable up to a total of 36 months) by a specimen of use and a "a verified statement that the mark is in use in commerce and specifying the date of the applicant's first use of the mark in commerce and those goods or services specified in the notice of allowance on or in connection with which the mark is used in commerce."<sup>73</sup> A renewal under Section 8 requires submission of, *inter alia*, "an affidavit setting forth those goods or services recited in the registration on or in connection with which the mark is in use in commerce,"<sup>74</sup> which is also required for later renewals under Section 9.<sup>75</sup>

A review of these provisions indicates different standards for different factual affirmations:

1. Ownership of a mark under section 1(a), or that the applicant is entitled to use the mark under Section 1(b), require only a verification that the person "believes" that to be the case.
2. That no one else is entitled to use the mark in a manner likely to cause confusion must be verified "to the best of the verifier's knowledge and belief."

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<sup>71</sup> 15 U.S.C. § 1051(a)(3) (2012).

<sup>72</sup> *Id.* at § 1051(b).

<sup>73</sup> *Id.* at § 1051(d).

<sup>74</sup> 15 U.S.C. § 1058(b)(1) (2012)

<sup>75</sup> 15 U.S.C. § 1059(a) (2012).

3. Use of the mark in commerce by the applicant/registrant for the recited goods (in a Section 1(a) application, a Statement of Use or a renewal) require an unqualified verification.<sup>76</sup>

These differences are carried over in the Trademark Office's forms.

### *C. Trademark Office Regulations and Forms*

The Trademark Manual of Examination Procedure states:

Affirmative, Unequivocal Averments Based on Personal Knowledge Required. The verification must include affirmative, unequivocal averments that meet the requirements of the Act and the rules. Statements such as "the undersigned [person signing the declaration] has been informed that the applicant is using [or has a bona fide intention to use] the mark in commerce..." or wording that disavows the substance of the declaration, are unacceptable.<sup>77</sup>

But that same section permits use of the form verification contained in 37 CFR § 2.20, which reads:

Declarations in lieu of oaths.

Instead of an oath, affidavit, verification, or sworn statement, the language of 28 U.S.C. 1746, or the following language, may be used:

The undersigned being warned that willful false statements and the like are punishable by fine or imprisonment, or both, under 18 U.S.C. 1001, and that such willful false statements and the like may jeopardize the validity of the application or document or any registration resulting therefrom, declares that all statements made of his/her own knowledge are true; and all statements made on information and belief are believed to be true.<sup>78</sup>

This language is incorporated (with some elaboration) in the Trademark Office's own forms, which are now pre-programmed into the electronic filing system. Thus, an applicant (under both Sections 1(a) or 1(b)) must sign the following verification:

The undersigned, being hereby warned that willful false statements and the like so made are punishable by fine or imprisonment, or both, under 18 U.S.C. Section 1001, and that such willful false statements, and the like, may jeopardize the validity of the application or any resulting registration, declares that he/she is properly authorized to execute this application on

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<sup>76</sup> 15 U.S.C. § 1051(a-b) (2012).

<sup>77</sup> U.S. Pat. & Trademark Office, U.S. Dep't of Commerce, Trademark Manual of Examining Procedure § 804.02 (5th ed. 2007).

<sup>78</sup> Declarations in Lieu of Oaths, 37 C.F.R. § 2.20 (1999).

behalf of the applicant; he/she believes the applicant to be the owner of the trademark/service mark sought to be registered, or, if the application is being filed under 15 U.S.C. Section 1051(b), he/she believes applicant to be entitled to use such mark in commerce; to the best of his/her knowledge and belief no other person, firm, corporation, or association has the right to use the mark in commerce, either in the identical form thereof or in such near resemblance thereto as to be likely, when used on or in connection with the goods/services of such other person, to cause confusion, or to cause mistake, or to deceive; and that all statements made of his/her own knowledge are true; and that all statements made on information and belief are believed to be true.<sup>79</sup>

The form for a party seeking to file a Statement of Use under Section 1(d) contains the following verification:

The undersigned, being hereby warned that willful false statements and the like so made are punishable by fine or imprisonment, or both, under 18 U.S.C. Section 1001, and that such willful false statements may jeopardize the validity of the form or any resulting registration, declares that he/she is properly authorized to execute this form on behalf of the applicant; he/she believes the applicant to be the owner of the trademark/service mark sought to be registered; and that all statements made of his/her own knowledge are true; and that all statements made on information and belief are believed to be true.<sup>80</sup>

The form for renewal under Section 8 contains a verification that tracks 37 CFR § 2.20 verbatim.<sup>81</sup>

Thus, the Trademark Office forms incorporate the multi-tiered approach inherent in the Trademark Act itself – different facts pertinent to the application are verified with different verbal formulations.<sup>82</sup> We consider each of these formulations in the following sections, and discuss whether they might be considered a qualification of knowledge sufficient to qualify the representation to avoid a “pretense of knowledge.”

### *1. Belief and “Best of His/Her Knowledge and Belief”*

In the authors’ view, the portion of the form verification that provides that the applicant “believes” it is the owner of the mark (or is entitled to use the mark) cannot be the basis of fraud under a recklessness standard. The common law cases discussed above distinguish between knowledge and mere belief.<sup>83</sup> Stating that one “believes”

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<sup>79</sup> PTO Form 1478 (Rev 9/2006).

<sup>80</sup> *Id.*

<sup>81</sup> Declarations in Lieu of Oaths, 37 C.F.R. § 2.20 (1999).

<sup>82</sup> See generally PTO Form 1478 (Rev 9/2006); PTO Form 1583 (Rev/5/2006).

<sup>83</sup> *Sovereign Pocohontas Co.*, 120 F.2d at 40 (“Where knowledge is possible, one who represents a mere belief as knowledge misrepresents a fact [and is liable for fraud.]”); *Hadcock*, 47 N.E. at 923 (Applying the recklessness standard “[w]here a party represents a material fact to be true to his personal knowledge, as distinguished from belief or opinion . . .”).

something is not the same as representing positive knowledge, and it is the latter which is required to base fraud on reckless conduct.<sup>84</sup>

The same applies to a verification made by an applicant on the “best of his/her knowledge and belief.”<sup>85</sup> Although that phrase has not been interpreted in the context of the Lanham Act, it *has* been interpreted in numerous insurance coverage cases, the earliest and most widely cited of which was by the D.C. Circuit Court of Appeals in *Skinner v. Aetna Life & Casualty*.<sup>86</sup>

*Skinner* involved an applicant for a group life and health insurance who, in response to a question on an insurance application (“During the past 5 years, have you been treated for any sickness, disease or injury, or had any departures from good health not stated elsewhere on this application?”) answered “[n]o.”<sup>87</sup> His answer turned out to be blatantly false – the applicant had an extensive history of heart trouble and alcoholism.<sup>88</sup>

A statute allowed the insurance company to deny coverage where a material falsehood was contained in the application.<sup>89</sup> However, the form application used by the insurance company contained, at its end, the following qualification in bold letters:

THE FOREGOING STATEMENTS AND ANSWERS ARE TRUE AND COMPLETE TO THE BEST OF MY KNOWLEDGE AND BELIEF.<sup>90</sup>

The D.C. Circuit held that this qualification imposed a different, subjective standard on the statements in the application (and that this controlled notwithstanding the insurance statute, because the parties to an insurance contract may contract around its protection in most cases).<sup>91</sup> On the other hand, the *Skinner* court rejected the applicant’s contention “that by its very nature, a statement based on knowledge and belief is so subjective that it can never be found false as a matter of law.”<sup>92</sup>

The fallacy of his argument is reflected in [Skinner’s] attempt to equate “knowledge and belief” with “understanding and belief.” The latter might well support a standard in which the subjective understanding of an applicant for an insurance policy will prove conclusive. The language before us, however, refers to knowledge as well as belief. What an applicant knows can be determined, and the conclusions that knowledge compels can be assessed . . . [T]he use of the twin qualifiers requires that knowledge not defy belief. In our view, the test to be applied in this case is clear. What the applicant in fact believed to be true is the determining factor in judging the truth or falsity

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<sup>84</sup> *Hadcock supra* note 34.

<sup>85</sup> Michael Vincent Laurato, Sr., *True to the Best of My Knowledge and Belief: Contracting the Element of Intent into Section 627.409 of the Florida Statutes (Misrepresentations in Applications of Insurance)*, 5 FLA. COASTAL L.J. 1, 9-12 (2004).

<sup>86</sup> *Skinner v. Aetna Life and Casualty*, 804 F.2d 148 (D.C. Cir. 1986).

<sup>87</sup> *Id.*

<sup>88</sup> *Id.* at 149.

<sup>89</sup> *Id.* at 148.

<sup>90</sup> *Id.* at 150.

<sup>91</sup> *Id.* at 151.

<sup>92</sup> *Id.*

of his answer, but only so far as that belief is not clearly contradicted by the factual knowledge on which it is based. In such event, a court may properly find a statement false as a matter of law, however sincerely it may be believed. To conclude otherwise would be to place insurance companies at the mercy of those capable of the most invincible self-deception—persons who having witnessed the Apollo landings, still believe the moon is made of cheese.<sup>93</sup>

This formulation has generally been followed by courts interpreting insurance contracts that require a party to affirm something “to the best of the applicant’s knowledge and belief.”<sup>94</sup> We can call this a “qualified subjective” standard – the focus is on what the applicant believes, but this belief cannot be based on a flight of fancy, but must be grounded in factual knowledge. In *Skinner*, for example, the applicant’s extensive medical history and treatments for various medical problems in the years preceding the application (which he acknowledged he was aware of) meant that his application was indeed false, and the court affirmed summary judgment for the insurance company.<sup>95</sup>

In the authors’ view, given this qualified subjective standard, representations made “to the best of the applicant’s knowledge and belief” also cannot be the basis of a fraud claim based on reckless indifference. The language implies a subjective standard – qualified, to be true, by actual knowledge of the applicant.<sup>96</sup> But it seems that here, too, one cannot say that an applicant has “affirmed positive knowledge” of anything, and it thus cannot be charged that the person exhibited “the pretense of knowledge when knowledge there is none.”<sup>97</sup>

A leading trademark treatise has already recognized that the verification concerning others’ rights “is phrased in terms of a subjective *belief*, such that it is difficult, if not impossible, to prove objective falsity and fraud so long as the affiant or declarant has an honestly held, good faith belief.”<sup>98</sup> The TTAB has noted this, *Woodstock’s Enterprises, Inc. (California) v. Woodstock’s Enterprises, Inc. (Oregon)*, as have a number of federal courts.<sup>99</sup>

Thus a party petitioning to cancel for fraud based on representations verifying under one of these formulas would have to show what the person actually knew, and that this actual knowledge is different from what was represented.<sup>100</sup> As *Skinner* itself held, such a verification could still be shown false where the person’s belief was “clearly contradicted by the factual knowledge on which it is based.”<sup>101</sup> Thus, where the

<sup>93</sup> *Id.* at 151 (emphasis in original).

<sup>94</sup> *William Penn Life Ins. Co. of N.Y. v. Sands*, 912 F.2d 1359, 1364–65 (11<sup>th</sup> Cir. 1990); *Golden Rule Ins. Co. v. Schwartz*, 203 Ill.2d 456, 466–67, 786 N.E.2d 1010, 1017 (Ill. 2003); *Casamassina v. U.S. Life Ins. Co. in City of New York*, 958 So.2d 1093 (Fla. Dist. Ct. App. 2007).

<sup>95</sup> *Skinner*, *supra* n. 86 at 152.

<sup>96</sup> *Id.* at 151.

<sup>97</sup> *Ultramares Corp. v. Touche*, 174 N.E. 441, 444 (N.Y. 1931).

<sup>98</sup> J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION, § 31:76 (4<sup>th</sup> ed. updated 2013) (emphasis in original) [hereinafter *McCarthy on Trademarks*].

<sup>99</sup> *Woodstock’s Enterprises, Inc. (California) v. Woodstock’s Enterprises, Inc. (Oregon)*, 43 U.S.P.Q.2d (BNA) 1440 (T.T.A.B. 1996); *See McCarthy on Trademarks*, § 31:76 n. 4 and 5 (collecting cases).

<sup>100</sup> *Skinner v. Aetna Life & Cas.*, 804 F.2d 148, 149 (D.C. Cir. 1986).

<sup>101</sup> *Id.*

allegedly fraudulent representation was made by an applicant on the “best of his/her knowledge and belief,” fraud could still be made out where, as in *Skinner*, it was clear that the person had actual knowledge contrary to what was represented. But this is a more stringent showing than recklessness.<sup>102</sup>

## 2. Representations as to Use of the Mark in Commerce

Representations regarding use in commerce in a Section 1(a) application, Section 1(b) Statement of Use, or a Renewal application seem to stand on a different footing.<sup>103</sup> As discussed, neither the statutory language nor the form verifications contain the same qualifiers.<sup>104</sup> Indeed, the forms state in plain language that the applicant “is using the mark in commerce” or similar unqualified statements. Further, the form electronic application contains this warning:

### WARNING: Registration Subject To Cancellation for Fraudulent Statements

You must ensure that statements made in filings to the USPTO are accurate, as inaccuracies may result in the cancellation of a trademark registration. The lack of a bona fide intention to use the mark with all goods and/or services included in an application, or the lack of use on all goods or services for which you claim use, could jeopardize the validity of the registration and result in its cancellation.<sup>105</sup>

It would appear that the drafters of these forms contemplated a straightforward representation on the verifier’s own knowledge – which as shown above, is required by statute.<sup>106</sup> This, in turn, would permit a charge of fraud based on reckless conduct, since there arguably could be the “pretense of knowledge.”<sup>107</sup>

However, as quoted, the form verifications all contain this language: “that all statements made of his/her own knowledge are true; and that all statements made on information and belief are believed to be true.”<sup>108</sup> This language incorporates a two-tiered verification: some facts are verified on the verifier’s “own knowledge,” others “on information and belief.” The problem is identifying which are which.

In federal pleading practice, the default presumption is that allegations are made on the pleader’s personal knowledge; only where the pleader specifically alleges a fact “on information and belief” will a court presume otherwise.<sup>109</sup> This is set forth in Rule 11 of the Federal Rules of Civil Procedure, which provides that a party or attorney signing a pleading verifies that “the factual contentions have evidentiary support or, *if specifically so identified*, will likely have evidentiary support after a reasonable

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<sup>102</sup> *Id.*

<sup>103</sup> See Filing Statement of Use After Notice of Allowance, 37 C.F.R. § 2.88 (2003).

<sup>104</sup> *Id.*

<sup>105</sup> PTO Form 1553 (Rev 9/2005).

<sup>106</sup> *Supra* n. 76.

<sup>107</sup> *Id.*

<sup>108</sup> PTO Form 1553 (Rev 9/2005).

<sup>109</sup> FED. R. CIV. P. 11(b)(3).



opportunity for further investigation or discovery,”<sup>110</sup> thus providing for a default higher standard, with the lower standard limited to contentions “specifically so identified.”<sup>111</sup> State law pleading practices are similar.<sup>112</sup>

It appears that the drafters of the form verifications in the Trademark Office assumed that the same would apply in submissions to the Trademark Office.<sup>113</sup> Indeed, the verification could be understood that way. But they are not free of ambiguity.<sup>114</sup> The form verification differentiates between “statements made of his/her own knowledge” and “statements made on information and belief,” implying that each has to be specifically identified, leaving undetermined the status of representations with no level of knowledge specified in the verification.<sup>115</sup> Thus, while it appears that the drafters intended that, for example, a representation about use in commerce is one made on the person’s “own knowledge” (which is required by the statute), it is not completely clear whether the verification supports that reading.<sup>116</sup> For the reasons discussed above, this would also call into question whether a fraud charge based on a representation of use in commerce could be made out by proving reckless indifference, since, arguably, the representation could be read to have been made only “on information and belief.”

The authors accordingly suggest that the form verification in 37 CFR § 2.20, and the parallel language incorporated in the Trademark Office’s electronic forms, be modified. We suggest the following language, which incorporates Rule 11’s treatment of the two-tiered language:

[The undersigned verifies] . . . that all statements made herein are made of his/her own knowledge and are true, except that those statements specifically so identified as made on information and belief are believed to be true.

This would make as the default that representations in the application are made on the verifier’s own knowledge, with only specified exceptions made on information and belief, consistent with federal pleading practice.

#### IV. CONCLUSION

When the Lanham Act was passed in 1946, it was long-established at common-law that making a representation that implies knowledge of the facts when the person actually has no idea what he or she is talking about constitutes fraud. Under Supreme Court precedent, that common law rule – that reckless indifference to the truth satisfies the intent to deceive element of fraud – controls interpretation of the statutory

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<sup>110</sup> *Id.* (emphasis added).

<sup>111</sup> *Id.*

<sup>112</sup> N.Y. C.P.L.R. 3020(a) (MCKINNEY 2014) (“A verification [for a pleading] is a statement under oath that the pleading is true to the knowledge of the deponent, except as to matters alleged on information and belief, and that as to those matters he believes it to be true.”)

<sup>113</sup> PTO Form 1553 (Rev 9/2005).

<sup>114</sup> *Id.*

<sup>115</sup> *Id.*

<sup>116</sup> *Id.*

basis for cancellation that a “registration was obtained fraudulently.”<sup>117</sup> Thus a showing of reckless indifference to the truth should suffice to make out a petition to cancel a registration, at least where the representation to the Trademark Office was unqualified.

However, the formulas for verifications for various facts contained in both the Lanham Act and the Trademark Office electronic forms may qualify certain representations sufficiently to defeat a fraud cancellation petition based on recklessness. Thus the required verification that the applicant “believes” it is the owner of the mark (or is entitled to use the mark), or that “to the best of his/her knowledge and belief” no other person, firm, corporation, or association has the right to use the mark in commerce, are sufficiently qualified to obviate any fraud claim based on recklessness.

Representations regarding use of the mark in commerce for the goods listed in the application, on the other hand, are required to be made on the applicant’s personal knowledge.<sup>118</sup> However, there is an ambiguity in the form verification used by the Trademark Office as to whether the representations regarding use in commerce in fact are being verified “of his/her own knowledge” or merely “on information and belief.” We accordingly suggest that the Trademark Office amend the forms to be consistent with federal pleading practice, such that all representations made are by the applicant are “of his/her own knowledge” unless specifically identified.

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<sup>117</sup> 15 U.S.C. § 1064(3) (2012).

<sup>118</sup> See note 76.