



FUMING OVER TRADEMARK REGISTRATION

By: James B. Astrachan

Registration of a trademark with the Patent and Trademark Office is only the first step in enjoying the right to use the mark. The owner of the mark must be able to defend the registration as registrations are subject to cancellation for the first five years for a myriad of reasons, and after five years, for fraud.

How the application is filled out could easily provide the grounds for assertion of fraud and cancellation, so it must be carefully and truthfully completed. This is so because one of the statements an applicant is required to make is that "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, where applied to the goods and services of such other person, to cause confusion, or to cause mistake, or to deceive"

Last month the Tenth Circuit Court of Appeals affirmed a ruling of the United States District Court for the District of Kansas that a trademark registration must be cancelled due to the registrant's fraudulent trademark

application. Here's how defendants Midland Fumigant and Donald Fox stepped in the sticky stuff.

The Plaintiff, United Phosphorus, had asked its United States distributor to register its QUICK-PHOS brand fumigant with the Environmental Protection Agency in 1983 to comply with EPA regulations. In 1987 the distributor sold out to the defendants. By 1988 United and its new distributor, Midland and Fox, were on the rocks over a trade disagreement. Still, Midland continued to distribute United's QUICK-PHOS product. Then, Midland purchased a cheaper fumigant from another manufacturer, and when it had trouble selling this substitute product, Midland labeled it QUICK-PHOS.

United learned of this in mid 1988 and wrote to Fox claiming exclusive rights to the QUICK-PHOS name in the United States. United demanded that Midland and Fox stop all use of the QUICK-PHOS name on products sold in the United States.

In response, Fox registered QUICK-PHOS as a trademark with the United States Patent and Trademark Office. Chest beating followed for two years, and finally United sued for trademark infringement, false or fraudulent registration of a trademark and the ubiquitous unfair competition.

Fox and Midland had little stomach for the legal fight their actions started and within six months agreed to settle the case. As part of the settlement agreement, Midland promised to cancel its QUICK-PHOS trademark

registration and sell off existing QUICK-PHOS labeled stock within three months, after which it was to sell nothing associated with the QUICK -PHOS mark. This actually represented a reasonable settlement for both sides because while Midland was sure to lose, victory would have cost United time and money. And although United probably would have collected monetary damages, it stopped Midland's use of its mark sooner than if the case was tried.

United, however, failed to consider the duplicitous nature of the defendants, and it wasn't long before United learned that Midland had no intention to cancel its QUICK-PHOS trademark registration.

Terminally frustrated, United sued to set aside the settlement agreement on the grounds of Midland's repudiation. The case was tried and a jury awarded United a shade over \$2 million in damages and attorney's fees, which was reduced to \$1 million by the district court. The jury also decided that Midland had fraudulently registered the QUICK-PHOS trademark.

True to its prior disingenuous conduct, Midland claimed on appeal that the evidence was insufficient to support the jury's finding that Midland fraudulently procured the QUICK-PHOS trademark registration. Section 38 of the Lanham Act creates civil liability for anyone who

... shall procure registration in the Patent and Trademark Office of a mark by a false or fraudulent declaration or representation, oral or in writing, or by any false means.

Any person injured by such false or fraudulent declaration can sue civilly and recover damages sustained due to the registration.

The Lanham Act also provides that, United, to establish fraudulent procurement of a registration, had to prove (i) a false representation of material fact, (ii) the registrant's knowledge or belief that its representation was false, (iii) the intention to induce or refrain from action in reliance on the misrepresentation, (iv) reasonable reliance on the misrepresentation and (v) damage caused by the misrepresentation.

The sole issue relating to whether United should be able to prove fraudulent procurement of the QUICK-PHOS mark was whether Midland had knowledge or belief that the representation it made to the PTO was false.

The appellate court examined the statement signed by Midland's president which, in essence, attested his belief and knowledge that no one else had the right to use the QUICK-PHOS mark. To determine whether the statement was fraudulent, courts must focus on the declarant's subjective, honestly held, good faith belief. The burden of proving the falsity of the statement was United's, and that proof must be made by clear and convincing evidence. United was required to prove, therefore, that at the time Midland signed the application it knew United had the right to use QUICK-PHOS in commerce. In other words, United had to prove Midland's fraud.

Here are the factors on which the appellate court based its affirmation of the finding of fraud: When Midland applied for registration, its representatives knew United had been selling QUICK-PHOS in the United States for several

years, especially since Midland itself had bought QUICK-PHOS from United. United had notified Midland of its rights to the mark. Finally, Midland had purchased a cheaper product and labeled it QUICK-PHOS.

Although there was no confession of wrong-doing and no direct evidence of Midland's attempt to commit fraud, the jury's determination of fraud was entirely proper. And, Midland's conduct in relabelling an inferior product QUICK-PHOS established that its conduct was malicious and deliberate, allowing for the award of attorney's fees.

Too often company representatives are tempted to act as did Midland's. There is, however, a day of judicial recognition and that's what these officials should consider.

James B. Astrachan is a principal at the Baltimore firm of Astrachan, Gunst, Goldman & Thomas, P.C. Mr. Astrachan is a former chair of the Maryland Bar Association's Intellectual Property Law Committee.