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Use In Commerce: The Bose Problem

Law360, New York (June 16, 2009) -- On May 6, 2009, the Court of Appeals for the Federal Circuit heard oral arguments in a case^[1] in which the underlying issues were whether Bose Corp. was correct in its interpretation of “use in commerce” as defined in 15 U.S.C. § 1127 (Section 45 of the Trademark Act)^[2] or, if Bose was not correct, did it have a reasonable and honest belief that its interpretation was correct^[3].

Bose was the owner of Registration Number 1,633,789 for the trademark WAVE for a list of goods which included “audio tape recorders and players.”

Bose stopped manufacturing and selling audio tape recorders and players at some time in 1996 and had completely phased out sales of the product by early 1997.

Bose filed a Section 8 Declaration of Use [15 U.S.C. § 1058] and Section 9 Renewal Application [15 U.S.C. § 1059] on Jan. 6, 2001. In the Declaration of Use, Bose included “audio tape recorders and players” despite knowing that it had ceased manufacturing and selling those goods.

The explanation given by Bose for the inclusion of audio tape recorders and players in the Declaration of Use was that the tape recorders and players were being returned by customers to Bose for repair and, after being repaired, were transported back to the customers.

Thus, under Bose’s interpretation, the requirements of use as specified in Section 45 of the Trademark Act were literally complied with.^[4] Goods bearing the mark were transported in commerce.

Hexawave, applicant/counterclaimant in the opposition proceeding at the board, argued that the contention by Bose that the shipment of repaired goods was a use of the WAVE mark in commerce was fallacious.

The board concluded that the scenario presented by Bose “does not constitute use sufficient to maintain a registration for goods. Thus, the only question is whether it was reasonable for opposer to believe that it did.”[5]

The board found “[W]e do not find it reasonable to believe that an application of a mark at some point in the past to goods which have been sold, still serves to constitute use when those goods, now owned by another, are subsequently shipped again in connection with a repair service.”[6]

The board therefore found that the inclusion of “audio tape recorders and players” in the Sections 8/9 Declaration of Use/Renewal was a false material representation. Therefore Bose committed fraud on the USPTO in maintaining Registration No. 1,633,789.[7]

Nowhere in the board’s opinion or in the oral argument by Bose or by the Solicitors Office of the USPTO at the Federal Circuit was any reference made to the doctrine of exhaustion of trademark rights.

The exhaustion of rights doctrine is part of the common law of trademarks, created by decisions of courts and of the Trademark Trial and Appeal Board, which is a critical component of the law of trademarks and works in conjunction with the Trademark Act by filling the interstices of the statute.[8]

One doctrine in the judge-made law of trademarks is the exhaustion doctrine.[9]

McCarthy cites Restatement Third, Unfair Competition, Section 24, Comment b (1995), “Thus, the trademark owner cannot ordinarily prevent or control the sale of goods bearing the mark once the owner has permitted those goods to enter commerce. It can be said the rights of the trademark owner are exhausted once the owner authorizes the initial sale of the product under the trademark or that the owner implicitly licenses others to further market the goods under the mark.”[10]

The Ninth Circuit, in *Sebastien International Inc. v. Longs Drug Stores Corp.*, 53 F. 3d 1073, 34 USPQ2d 1720 (9th Cir 1995), held that ever since *Prestonettes Inc. v. Coty* 264 U.S. 359 (1924) the right of a producer to control the distribution of its trademarked product, with certain well-defined exceptions, does not extend beyond the first sale of the product.

Thus, the doctrine of exhaustion was established in trademark law long prior to 2001, when Bose filed its Sections 8/9 Declaration/Renewal Application for Registration Number 1,633,789.

The signatory of the document was Mark E. Sullivan, Bose’s general counsel and associate secretary, who described himself as being responsible for all legal issues in the company, intellectual property issues, contract issues, litigation issues in Europe, Asia, the United States. Presumably, therefore, Sullivan was acquainted with the doctrine of exhaustion of trademark rights.

Under the doctrine, a manufacturer's right to control the further disposition of goods bearing the manufacturer's marks which the manufacturer has sold to customers terminates with the first sale.

Was it reasonable for Sullivan to believe that the rights of Bose in its trademark WAVE were revived because the goods were returned to Bose for repair and were then shipped back to the customers who had requested repairs?

On Bose's construction of Section 45 of the Trademark Act [15 U.S.C. § 1127], any entity, whether or not affiliated with Bose Corporation, that did any repair work on any of the tape recorders or players and then shipped those repaired articles, all bearing the mark WAVE, back to the persons who had requested repairs made use of the mark, and if the shipments were across state lines, made use of the mark in commerce.

Each of the repairs and shipments of a tape recorder/player on which the WAVE mark was visible (and probably also the BOSE mark) would have literally fulfilled the requirements of Section 45 of the Trademark Act exactly as Bose rationalized that its repair service and shipments of repaired WAVE tape recorders/players constituted use sufficient for a Sections 8/9 Declaration of Use and Renewal.

Since Bose was the registrant of the WAVE mark, any trademark use resulting from repair and shipment by an unrelated entity would, by definition, be either infringement or licensed use.

No one has mentioned, in the board's opinion or in the oral argument before the Federal Circuit, that Bose either licensed or charged with infringement any third parties which did repair work and then shipped the goods.

It would have been absurd for Bose to try to compel people to take licenses or to charge people with infringement because the appearance of a mark on an article that is sent to a repair facility, whether or not related to the original manufacturer, and the reshipment of the article back to the customer after the repair is completed has never been regarded as a "use" of the mark.

The right to dispose of the article, at that stage of its existence, belongs to the owner, which is the party that requested the repair.

Were the rule otherwise, every repair of any tangible article in the United States and the reshipment of the repaired article to its owner would constitute a use of every mark appearing on that article.

The repairing and returning of an article which bears a mark is no more a "use" of the mark than is the sale by a retail store of a product bearing a mark.

The Restatement[11] states, “It can be said that the rights of the trademark owner are exhausted once the owner authorizes the initial sale of the product under the trademark or that the owner implicitly licenses others to further market the goods under the mark.”

Even an implicit license requires some measure of quality control to avoid abandonment of rights in the mark. Wholesalers and retailers of goods in trade are normally not licensed to use the marks that appear on those goods.

It is understood that, in the ordinary course of trade, the “use” of a mark on a particular tangible product has been completed when the tangible product is sold to the manufacturer’s first customer.

Its trademark rights in WAVE having been exhausted by the first sale of the tape recorders and players, it was not reasonable for Bose to believe that the fact it was repairing and returning broken merchandise would revive its rights and justify the inclusion of those articles in a Section 8/9 Declaration/Renewal Application.

What Bose did was not a bona fide trademark use in the ordinary course of trade. No customer was using the WAVE mark to ascertain the manufacturer of the tape recorders/players. That information was already known from the date of purchase.

The goods were sent to Bose (not WAVE) for repairs, were fixed and were sent back to their owners. WAVE was not serving any function at all in the selection of the goods or in identifying for a prospective customer the manufacturer.

A trademark has served its purpose when the article on which it is shown has passed through the channels of distribution and sale to the customer who purchases the article for use.

The construction of Section 45 of the Trademark Act by Bose to justify its Sections 8/9 Declaration/Renewal Application was not reasonable.

The definition of use in commerce in Section 45 of the act states:

“For purposes of this act, a mark shall be deemed to be in use in commerce –

(i) on goods when –

(A) it is placed in any manner on the goods or their containers ... or on tags or labels affixed thereto ... and

(B) the goods are sold or transported in commerce ...

A correct reading of the definition demonstrates that use requires two actions — the placement of the mark and the sale or transportation of the goods.

Bose rationalized its claim to have used WAVE on repaired articles by citing the second physical act while ignoring the requirement to perform the first physical act.

Bose could not fulfill the requirement of placing the mark on the goods or packages, labels or tags because that had already been done prior to the first shipments of the goods in commerce.

Those steps having been completed in the past, the shipment of repaired tape recorders and players did not require the performance of the two physical acts which together constitute use of a trademark in commerce.

There is no temporal requirement or limit for the first shipment after the first placement of a mark on the goods. It is the performance of the placement of the mark and the shipment of the goods which constitute the use of the mark.

The only necessity is that there be no intervening exercise of dominion over the goods by any third party which is not related to the claimant of ownership of the mark.

If Bose chose to rely on statutory interpretation to justify its claim of use, the signatory of the document, the company's general counsel, should have interpreted the entire definition, not just the part which served its purpose.

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The views expressed herein are the author's and do not necessarily represent the views of Oblon Spivak, its attorneys, or Portfolio Media, publisher of Law360.

[1] In re Bose Corporation, Appeal No. 2008-1448, in which the USPTO argued, as an Intervenor, for affirmance of the decision of the Trademark Trial and Appeal Board, Bose Corporation v. Hexawave Inc., 88 USPQ2d 1332 (TTAB 2007) and in which the losing applicant in the opposition declined to participate as appellee on the issue on which it had prevailed at the board.

[2] "The term 'use in commerce' means the bona fide use of a mark in the ordinary course of trade, and not made merely to reserve a right in the mark. For purposes of this act, a mark shall be deemed to be used in commerce — (1) on goods when — (A) it is placed in any manner on the goods or their containers or the displays associated therewith or on the tags or labels affixed thereto ... and (B) the goods are sold or transported in commerce ..."

[3] 88 USPQ2d at page 1334.

[4] 88 USPQ2d at page 1335.

[5] 88 USPQ2d at page 1337.

[6] 88 USPQ2d at page 1338.

[7] 88 USPQ2d at page 1338.

[8] Other examples of the common law of trademarks are the doctrine of abandonment of a mark through uncontrolled licensing, J.T.McCarthy, McCarthy on Trademarks and Unfair Competition Sections 17:6, 18:42 — 18:48 (2009); loss of rights resulting from an assignment without the goodwill connected with the mark, McCarthy on Trademarks and Unfair Competition Section 18:17 (2007); the ineligibility for registration of a mutilated mark, Trademark Manual of Examining Procedure (5th ed., September 2007) Section 807.12, In re Chemical Dynamics Inc., 839 F. 2d. 1569, 5 USPQ2d 1828 (Fed. Cir. 1988); services for which service marks are registrable, TMEP (5th ed. 2007) Section 1301.01, In re Dr. Pepper Co., 836 F. 2d. 508, 5 USPQ2d 1207 (Fed. Cir. 1987); and what is protectable and registrable trade dress, Two Pesos Inc. v. Taco Cabana Inc., 505 US 763, 23 USPQ2d 1081 (1992); Seabrook Foods Inc. v. Bar-Well Food Limited, 568 F. 2d 1342, 196 USPQ 289 (CCPA 1977).

[9] McCarthy on Trademarks and Unfair Competition Section 25:41 (2009).

[10] McCarthy, Section 25:41 Note 10.

[11] Op cite supra, at note 10