

Second Circuit Addresses Evidentiary Issues in Trademark Infringement Litigation

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I. Introduction

In *PRL USA Holdings, Inc. v. U.S. Polo Ass'n, Inc.*, the Second Circuit rejected the attempt by PRL USA Holdings, Inc., the owner of the Polo [HYPERLINK "http://www.rahphlauren.com/home/index.jsp?direct"](http://www.rahphlauren.com/home/index.jsp?direct) Ralph Lauren brand, to overturn a district court finding that three out of four PRL trademarks were not infringed by the [HYPERLINK "http://www.us-polo.org/"](http://www.us-polo.org/) United States Polo Association (“USPA”) or its licensee Jordache. The court held that the district court did not err by allowing into evidence statements made by PRL during settlement negotiations that the defendants used at trial to establish that PRL had affirmatively consented to the USPA’s use of one of the logos. The court also held that it was not erroneous for the district court to refuse to instruct the jury that the USPA, as a repeat infringer, was required to maintain a “safe distance” from RPL’s mark. Finally, the court held that the district court did not err in refusing to admit as hearsay and unduly prejudicial a document in which an advertising contractor retained by Jordache wrote “Everyone knows we’re ripping off Ralph.

Including us.”

PRL offers guidance to trademark litigators particularly in dealing with the admissibility of both potentially damaging statements made during settlement negotiations that bear upon both the merits of the claim and an estoppel defense and potentially damaging statements made by independent contractors.

II. Factual Background

PRL produces various clothing, accessories, and fragrances under the name Ralph Lauren. Since 1972, PRL has been selling clothing using the familiar logo depicting a silhouette of a mounted polo player wielding a raised polo mallet. Defendant USPA, founded in 1980, is the governing body for the sport of polo in the United States. The USPA licenses the right to produce clothing bearing its trademarks to Jordache, a clothing manufacturer.

The conflict between PRL and the USPA dates back to the 1980s, when the USPA first began selling clothing. In 1984, PRL obtained a judgment enjoining the USPA from using certain marks that were found to infringe PRL's trademarks, but the judgment explicitly provided that USPA was free to conduct a retail licensing program utilizing a mark featuring "a mounted polo player or equestrian or equine symbol" so long as it was distinctive from PRL's polo player symbol.

In March 2000, PRL filed a trademark infringement action against the USPA, Jordache, and related defendants in the Southern District of New York. The four disputed marks included: (1) a solid silhouette of the two horsemen; (2) the same solid silhouette with the letters "USPA" added underneath; (3) an outline of the two horsemen; and (4) the same outline with "USPA" added underneath. Although by September 2003 the parties had settled many of the disputes arising from the 2000 action, the settlement

agreement did not resolve whether the four double horsemen marks infringed PRL's trademarks. The parties agreed to have this remaining issue resolved by a jury trial, which took place in 2005. At trial, USPA, in addition to presenting evidence to contradict PRL's evidence of likelihood of confusion, also argued the affirmative defense of estoppel by acquiescence, claiming that while PRL and USPA were engaged in settlement discussions in 1996, PRL made statements assuring the USPA that it would not object to its use of a version of the double horsemen mark. USPA contended that such assurances prompted it to develop and license a version of the double horsemen mark for use and led Jordache to spend over \$41 million developing a clothing line bearing the mark. PRL denied that it had consented to the USPA's use of a double horsemen mark or that it in any way implied that the mark was not "offensive" to PRL.

PRL objected that the admission of this evidence was barred by Federal Rule of Evidence 408 because the statements were made during settlement negotiations, but the district court overruled the objection on the ground that it was admissible to prove estoppel. The jury ultimately rejected the estoppel defense and found that only one of defendants' four double horsemen mark (a solid silhouette of the two horsemen) infringed PRL's registered trademarks. PRL appealed, arguing, among other things, that the district court committed reversible error by allowing the admission of the aforementioned evidence from the parties' settlement negotiations.

III. Evidence of Compromise Negotiations

Under Federal Rule of Evidence 408 (the version in effect in 2005),

evidence of conduct or statements made in “compromise negotiations” is “not admissible to prove liability for or invalidity of [a] claim or its amount.” An exception applies, however, where the evidence is offered for another purpose, such as to prove bias or prejudice of a witness, to negate a contention of undue delay, or to establish an estoppel defense. The district court ruled that the USPA’s evidence of PRL’s statements during negotiations to the effect that PRL would not object to the association’s use of the mark with the solid silhouette of the two horsemen was admissible to prove the USPA’s estoppel defense. RPL argued on appeal that USPA was using the defense of estoppel as a pretext for introducing the statements for the purpose of suggesting to the jury that if PRL did not object to the USPA’s use of a double horseman logo, it must have been because PRL did not believe the mark was confusingly similar to its own.

In an opinion by Judge Pierre N. Leval, the Second Circuit acknowledged that PRL’s statements could be used to suggest to a jury that it did not believe USPA’s marks were likely to cause confusion, but it found that evidence of PRL’s assurances to USPA regarding its double horsemen mark was necessary for USPA to prove its estoppel defense. The court stated:

[I]t is well established that if a trademark owner tells a potential defendant that it will not assert a claim of infringement based on the use of a particular mark, and the recipient of that assurance relies on the assurance to its substantial detriment, as by spending substantial sums in the development of the mark on which it received the assurance, estoppel will bar the trademark owner from subsequently claiming infringement.

The court further suggested that had PRL really been concerned about the evidence improperly influencing the jury in deciding likelihood of confusion, it could have asked

the court to bifurcate the trial, putting the estoppel issue to the jury only after it had decided the likelihood of confusion issue. “If the trial is bifurcated in this fashion,” the court stated, “the jury will not hear the evidence of the plaintiff’s acquiescence while considering the question of confusing similarity of the marks.”

PRL also advanced the “clever” argument that evidence of statements made in compromise negotiations is barred by the very language of Rule 408 when admitted to prove estoppel because estoppel would establish the “invalidity” of PRL’s claim, and Rule 408 provides that “conduct or statements made in compromise negotiations” are “not admissible to prove liability for or invalidity of a claim.” The court rejected this argument on the ground that it would rob the Rule 408 exception of meaning:

All of the evidence a party offers at trial is intended to help establish its own position and defeat the adversary’s position. In a sense, all evidence offered seeks either to “prove liability for or invalidity of [a] claim or its amount.” If we accepted PRL’s contention of the meaning of the Rule, there would be no evidence falling within the category whose exclusion is “not require[d]” because it is “offered for another purpose.” The exception would be meaningless.

The court noted that the intent of the Rule 408 exception is to admit evidence arising from compromise negotiations when such evidence focuses on issues different from the elements of the primary claim in dispute. In this case, the court found, the USPA’s affirmative defense of estoppel by acquiescence raised issues distinct from the elements of a claim of trademark infringement. The court also noted that “to prevent USPA from proving an estoppel by acquiescence that arose during settlement negotiations

would unfairly curtail a defendant's ability to rely on that defense . . . even when well substantiated.”

PRL also argued that admitting the settlement-discussion evidence caused “spillover” prejudice resulting from the jury’s impermissible use of the evidence to support the inference that PRL did not believe the USPA’s marks would likely cause confusion. But the court of appeals held that any “spillover” prejudice to PRL from this evidence was insufficient to require retrial. It noted that the alleged consent given by PRL upon which the USPA relied to make its case for estoppel related to only one of the USPA logos at issue – the one logo the jury found to be infringing. Furthermore, the court noted, the jury rejected the equitable estoppel defense. While the court agreed that the USPA’s counsel made reference during opening and closing arguments to the evidence that PRL believed the USPA’s marks were “distinct and non-infringing,” the court found that the USPA primarily used the settlement evidence for its estoppel defense, not as proof of PRL’s purported belief that the marks were distinct and noninfringing.

Finally, the court rejected PRL’s argument that the district court erred by refusing to give a limiting instruction sought by PRL which would have “required the jury to ignore any evidence that it concluded was made in the context of settlement negotiations, regardless of whether the settlement evidence was received for a purpose authorized by Rule 408.” Because such an instruction would have been contrary to the plain language of Rule 408, the court held that the district court did not err in refusing to

give it. The court further held that because PRL never requested a limiting instruction telling the jury for what purpose they could, and could not, consider the settlement evidence, PRL “cannot now complain about the lack of such limiting instruction.”

IV. “Safe Distance” Jury Instruction

PRL’s next major argument on appeal was that the district court erred in refusing to instruct the jury that the USPA, as a previously adjudicated infringer, was required to keep a “safe distance” from PRL’s mark. PRL argued that as a prior adjudicated infringer of PRL’s marks, the USPA, must be held to a higher standard of conduct with respect to the adoption of a new mark and that the jury should have been required to determine whether the USPA satisfied a “safe distance” obligation with respect to PRL’s marks when it adopted its double horsemen logos.

The court noted that the obligation of a previously adjudicated infringer to maintain a safe distance from infringing a plaintiff’s marks is most useful for courts in fashioning injunctions based on findings of infringement as well as in contempt proceedings in order to determine if an enjoined infringer has violated an injunction. But PRL did not cite any authority that would require such an instruction in a civil infringement action alleging a new infringement by a party previously found to have infringed the plaintiff’s mark. The court noted that adding the concept of “safe distance” to the liability standard for trademark infringement would amount to changing the basic likelihood of confusion standard for trademark infringement: “If the ‘safe distance’ instruction were used, the jury would be invited to find liability based on a mark which

was not likely to cause confusion, leaving unclear to the jurors which standard should govern.”

The court added that such an instruction would be even more confusing to a jury given the express provisions of the earlier injunction, which expressly allowed the USPA to continue to use marks with “a mounted polo player or equestrian or equine symbol which is distinctive from” PRL’s polo player logo. Instructing the jury that the USPA was required to “keep a safe distance” without explaining the USPA’s rights under the prior infringement action could result in a jury finding liability based on the use of a mark that the earlier injunction expressly allowed. The court therefore concluded that the district court did not err in refusing to give the instruction.

V. Exclusion of “Rip-Off” Document

PRL’s final argument was that the district court erred in refusing to admit a document PRL called the “Ralph Rip-Off.” The document, created by an advertising contractor occasionally retained by Jordache, stated: “Everyone knows we’re ripping off Ralph. Including us. It is the mission of our advertising to deny it by appearing to be true to the sport. After all, Ralph did rip-off the sport.” PRL argued that because this document was created by Jordache’s agent within the scope of the agency, the document was attributable to Jordache and was relevant because it disclosed Jordache’s bad faith intent to free-ride on PRL’s marks. The Second Circuit, however, agreed with the district court’s conclusion that the document had little or no proper probative value as to

Jordache's intentions but did have an obvious capacity to cause prejudice and thus was not admissible under Rule 403. The appellate court noted that the author of the document was not involved in the creation of the double horsemen marks; as such, he was not Jordache's authorized representative on the issue of the creation of the double horsemen marks, and his state of mind could not be attributable to Jordache.

VI. Conclusion

PRL offers instructive trial-tactic guidance for trademark litigators. First, it counsels requesting a bifurcated trial in cases where the defendant seeks to introduce evidence of settlement discussions that might improperly influence the jury on the issue of likelihood of confusion; only if the jury first determines that the defendant's mark is confusingly similar to the plaintiff's would the settlement-discussion evidence relevant to the estoppel defense be presented to the jury. Second, parties should seek to mitigate the effect of potentially prejudicial settlement-discussion evidence by requesting appropriate limiting jury instructions. In *PRL* such an instruction would have told the jury for what purpose it could and could not consider the settlement-discussion evidence. (It should be noted in this regard that had the jury found the USPA logo to which the estoppel-by-acquiescence evidence related to be noninfringing, the court of appeals might have given more weight to *PRL*'s argument that it suffered "spillover" prejudice. Thus, one should not necessarily read the decision to suggest that statements made in settlement negotiations are always admissible to prove estoppel by acquiescence.) Third, the

decision counsels using Rule 403 to seek the exclusion of third-party statements with a high potential to cause prejudice but little or no relevance to the defendant's intent in adopting a mark.

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Endnotes

Case No. 06-3691-cv (2nd Cir. Mar. 4, 2008).
Slip op. at 17.

Id. at 4.

Id.

Id. at 6.

Id. at 9.

Id. at 7.

Id. at 8.

Id. at 9.

Id.

Id. at 9-10.

Id. at 10.

Id. at 11.

Id. at 13-14.

Id. at 14.

Id.

Id. at 15-16.

Id. at 16.

Id. at 17.

Id.

Id.

Id. at 18.

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