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RECENT NOTEWORTHY TRADEMARK DECISIONS

Second Circuit Holds Settlement Conversations Are Admissible to Support Estoppel Defense

In the latest ruling in a long-running trademark dispute between PRL USA Holdings (“PRL”), the owner of the Polo Ralph Lauren trademarks, and the United States Polo Association (“USPA”), the Second Circuit Court of Appeals provides a clear warning that statements made in settlement discussions are not *per se* inadmissible, and can be introduced into evidence for a variety of reasons, including to support a defense of estoppel by acquiescence.

In *PRL USA Holdings v. U.S. Polo Ass’n, Inc.*, 2008 U.S. App. LEXIS 4539 (2d Cir. Mar. 4, 2008) (Leval, J.), the district court had admitted testimony that, during settlement discussions in a prior lawsuit, plaintiff PRL USA Holdings had indicated that it would not object to one version of a polo-player mark being considered for use by USPA. Although PRL argued that the statement at issue was inadmissible under Fed. R. Evid. 408, under which statements made during compromise negotiations are inadmissible “to prove liability for or invalidity of [a] claim,” the Court of Appeals agreed with USPA that the statement was admissible to support an estoppel defense. The court relied upon the express exemption in Rule 408 that permits introduction of statements made in settlement negotiations when “offered for another purpose” other than liability, and held that that exemption applied to “evidence focused on issues different from the elements of the primary claim in dispute.”

Because USPA’s evidence went to its affirmative defense of estoppel by acquiescence, “which depended on issues distinct from the elements of the claim of infringement,” the court held that the statement was properly admitted, and affirmed the judgment for USPA with respect to the version of the trademark discussed in settlement talks. (At the same time, the Court of Appeals affirmed the judgment of infringement with respect to another logo used by USPA.)

Whether the logic of the Second Circuit’s decision will be followed elsewhere is questionable. Given that estoppel is an affirmative defense, a strong argument can be made that a statement that provides the basis for an estoppel defense does go directly to the issue of liability or invalidity of a claim within the meaning of Rule 408. In any event, the decision serves as a reminder to trademark owners and their counsel that even statements in settlement discussions can come into evidence, including to support a defense to a claim of infringement.

Fifth Circuit Affirms Extraterritorial Application of Lanham Act

A recent decision by the Fifth Circuit Court of Appeals upheld the application of the Lanham Act to a claim of trademark infringement arising from sales in a foreign country. Confirming the applicability of U.S. law to certain acts of infringement that take place on foreign soil, the court affirmed a judgment against a defendant who sold – in Saudi Arabia – goods bearing a mark that infringed plaintiff’s United States trademark registration.

In *American Rice, Inc. v. Producers Rice Mill, Inc.*, 2008 U.S. App. LEXIS 3817 (5th Cir. Feb. 22, 2008), the plaintiff complained that its federally registered trademark, which it applied to packaged rice that it distributed to Saudi Arabia, was infringed by a competitor that used a similar logo in Saudi Arabia. The Court of Appeals applied its standard for application of the Lanham Act to infringing conduct abroad, which takes into consideration the sufficiency of contacts with the United States, the citizenship of the defendant, the effect on United States commerce and the existence of a conflict with foreign law.

Noting that the defendant was a United States company and had also undertaken processing and distribution activities in the United States, the Court of Appeals held that the infringing conduct had “an effect” on interstate commerce and that sufficient contacts with the United States existed for U.S. law to apply, even to sales in Saudi

Arabia.¹ The court also found that the application of U.S. law would not be an affront to Saudi sovereignty, although it noted that it might be precluded where, for instance, a foreign court already had ruled on the trademark rights at issue.

The Fifth Circuit's decision is a reminder that even potentially infringing sales outside the United States can subject a party to liability under U.S. law, if there is a sufficient connection between the sales and conduct in the United States.

Court Rejects Private Label Manufacturer's Functionality Defense, But Declines to Hold as a Matter of Law that Color Combination in NEOSPORIN® Packaging is Protectable Trade Dress

A recent Southern District of New York decision rejects the argument that a private label manufacturer is entitled to use color to signal the similarity of its product to a well-known brand.

In *Johnson & Johnson v. Actavis Group hf*, 2008 U.S. Dist. LEXIS 5242 (S.D.N.Y. Feb. 21, 2008), the maker of NEOSPORIN® ointment sued the manufacturer of a competing private label ointment, alleging that the defendant's packaging infringed J&J's claimed trade dress consisting of a gold/yellow background color. The defendant asserted a functionality defense, under which color is not afforded Lanham Act protection if it is essential to the use or purpose of the goods or affects the cost or quality of the goods.

On summary judgment, the court rejected defendant's argument that mimicking J&J's color scheme was necessary to help consumers compare the parties' products. The court relied on evidence of numerous other antibiotic ointments on the market that did not use the gold/yellow package background color, and found no evidence that "protection of the gold/yellow color would significantly hinder competition in antibiotic creams." At the same time, however, the court denied J&J's motion for summary judgment on its infringement claim, finding disputed issues of fact as to whether J&J's unregistered trade dress had acquired secondary meaning and whether there was a likelihood of confusion.

The decision in *Johnson & Johnson*, if followed by other courts, removes one defense by private label manufacturers to claims of trade dress infringement. The decision also confirms that private label packaging remains a hotly contested issue in trademark law.

Prospective Licensor Has No Trademark Rights Absent Actual Use of Mark as Trademark

Another recent Second Circuit decision reiterates the fundamental rule that trademark rights do not accrue unless the putative owner of a mark uses it to identify the origin of the user's goods or services. In *American Express Co. v. Goetz*, 2008 U.S. App. LEXIS 2421 (2d Cir. Feb. 4, 2008) (per curiam), Goetz had sought to license his proprietary software to American Express Company and had used the slogan "My Life, My Card" in presentations to American Express, claimed trademark infringement after American Express began using the slogan "My Card. My Life." The Court of Appeals affirmed summary judgment in favor of American Express, holding that Goetz's use of his slogan in the context of a business proposal, rather than as "a mark designating the origin of any goods or services he offered," provided no trademark rights.

The Second Circuit's decision is a reminder to would-be trademark owners that the technical requirements of trademark use continue to apply and cannot be taken lightly.

Opinion of Counsel Held Inadequate to Refute Claim of Willful Infringement

A recent opinion from the District of Oregon addresses the reasonableness of a reliance on advice of counsel defense to a claim of willful trademark infringement. At issue in *adidas Am., Inc. v. Payless Shoesource, Inc.*, 2008 U.S. Dist. LEXIS 14063 (D. Or. Feb. 22, 2008), were allegations that defendant sold shoes bearing two or four serrated stripes that infringed plaintiffs' "Three-Stripe" trademarks. Defendant sought dismissal of plaintiffs' "willful infringement" allegations on the grounds that, *inter alia*, defendant relied on the advice of counsel that use of the two/four stripe pattern was permissible.

¹ It should be noted that some other Circuits arguably apply a higher standard than the Fifth Circuit for the extraterritorial application of the Lanham Act. See, e.g., *Totalplan Corp. v. Colborne*, 14 F.3d 824, 830 (2d Cir. 1994) (holding that the Fifth Circuit standard is "more lenient" than the Second Circuit's requirement of a "substantial effect" on U.S. commerce).

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The court noted that while an alleged infringer's reliance on the advice of counsel may negate a finding of willful infringement, the advice must be "competent such that the client was reasonable in relying upon it." Reviewing the substance of the advice that counsel had provided to defendant, the court held that summary judgment was inappropriate because there were issues of fact regarding the reasonableness of defendant's reliance on counsel's advice.

To begin with, defendant failed to seek legal advice as to the potential infringement of the majority of its shoe designs in dispute, and, the court held, advice of counsel was irrelevant as to shoe designs that counsel had not seen. Furthermore, there were questions of fact as to whether counsel made any effort to determine the existence of consumer confusion, or considered any of the likelihood of confusion factors. Finally, with respect to many shoe designs, "the entire substance of Payless' counsel's 'detailed' advice consists of a single phrase or sentence." Under these circumstances, the court could not hold as a matter of law that reliance on the advice of counsel was reasonable.

The *adidas* decision confirms that, in order to be of substantial use in refuting a charge of willful infringement, a trademark non-infringement opinion should be rigorously developed, with detailed and objective legal and factual analysis and a thorough review of all relevant facts.

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