

# When consumers get confused

**Perry Viscounty, Jennifer Barry, and Deborah Gubernick** of Latham & Watkins, LLP unpick the thorny issue of hearsay in consumer confusion infringement

**Y**our client is a manufacturer of a high-quality line of sporting goods, distributed only by certain retail stores, branded as Grizzly Bear sporting goods, with a distinctive growling bear logo on all products. Your client receives a phone call from one of its sales manager reporting that at least 10 customers have complained that Grizzly Bear products are on sale for a much lower price at a nearby unauthorised reseller.<sup>1</sup>

After some investigation, your client discovers that the lower-priced sporting goods are not Grizzly Bear products, but are Kodiak Bear sports products, made by your client's competitor, branded with an extremely similar growling bear logo. Obviously, your client wants to prevent its competitor from capitalising on the goodwill and high quality associated with Grizzly Bear and its well-known growling bear logo. The client wants you to put an end to what seems – to them – to be clear trademark infringement.

You contact your client's sales manager to find out exactly what the 10 confused customers said. Unfortunately, the sales manager is only able to tell you what the other sales employees heard from customers while on the sales floor. No one took any notes or logged the alleged confusion between the Grizzly Bear and Kodiak Bear products. Foreseeing a possible trademark infringement lawsuit, you worry that relying on statements of employees, retelling statements made by customers, may lead to a hearsay problem. But, what if these statements are the most probative evidence of consumer confusion in your case? Should this type of evidence be admissible? Will it be?

This article discusses the current state of the law on this crucial evidentiary issue in trademark cases, and addresses why and how this evidence may be admissible under the Federal Rules of Evidence in the United States.

## Background

When assessing trademark infringement claims under the Lanham Act, courts ask whether the mark at issue is likely to cause confusion as to the source of the goods or services.<sup>2</sup> Courts engage in a multi-factor test to determine whether a likelihood of confusion exists. One of the factors is

whether there is actual consumer confusion.

Evidence of actual consumer confusion is highly persuasive and can be the crux of a trademark infringement case.<sup>3</sup> Such evidence is often introduced through the testimony of an employee relating an encounter with one or more confused consumers. However, this applies if the consumer made the statement, ie the consumer, not the employee, is the 'declarant' as defined under FRE 801(b). Hence, the potential hearsay problem in Grizzly Bear's hypothetical case.

Of course, hearsay is a statement made out of court, offered for the truth of the matter asserted. Hearsay is not admissible unless it falls within the exception to the hearsay rule (or if it is deemed non-hearsay). A statement is not hearsay if, inter alia, the declarant testifies at trial and is subject to cross examination.<sup>4</sup> Ultimately, courts are tasked with determining whether instances of consumer confusion, when reported by testifying employees rather than a declarant consumer, should be admitted in trademark cases.<sup>5</sup>

## Majority and minority views

The majority of courts find that testimony of statements made by allegedly confused consumers is either not hearsay, or fits within a hearsay exception.<sup>6</sup> For example, a party may offer testimony that a customer asked why the company's brand was being sold at another store for less when in fact the cheaper brand was actually an infringing product.<sup>7</sup> Or, a sales associate may testify that a customer asked to buy a competitor's allegedly infringing product from the actual trademark holder.<sup>8</sup>

In these examples, courts ruled that the testimony was not offered for its truth, ie, not offered to prove that the product was sold at another store, or not offered to establish that the customer actually wanted to purchase the infringer's product. Rather, the testimony was put forth to show that the consumer was confused. In these cases, the statements were admitted.<sup>9</sup>

But in some instances the testimony contains an assertion that the consumer is confused, and the statement is being offered to show just that. For example, a witness may state that a customer mistook a competitor's knock-off for the trademark holder's product and later realised her mistake. There, the testimony is hearsay, but courts may admit it

under the state of mind exception,<sup>10</sup> or the present sense impression exception.<sup>11</sup>

Notably, in a minority of jurisdictions, courts reject employee testimony about confused consumers, deeming it unreliable hearsay. Those courts found that the testimony is self-serving and leaves open the potential for fraud.<sup>12</sup> However, at least one circuit stated that 'although [contrary cases conclude] that evidence similar to that offered here was inadmissible, none of the cases discuss the issue of whether the statements are offered for their truth or whether the state of mind exception to the hearsay rule applies.'<sup>13</sup> Thus, the minority may not have fully assessed the state of mind exception in similar cases. Other cases indicate minority courts have reviewed the hearsay question in similar contexts, but have not adopted a bright-line rule on the issue.<sup>14</sup>

## Additional considerations

### *Availability for Cross Examination*

Some would argue that employee testimony about statements made by confused consumers, as in the above hypothetical, should not be admitted because there would be no opportunity to cross-examine the original declarant-consumer. See F.R.E. 801(d). Theoretically, lack of an opportunity to cross-examine of the declarant-consumer may lead to fraud and false testimony.

While it is certainly possible that a witness could lie on the stand or invent tales of consumer confusion, the legal system has built-in safeguards, such as perjury penalties, opportunities to explore a witness's character, and other tools to address this concern. Moreover, the testifying witness may be cross-examined to expose witness bias or deceit. An unreliable testifying witness will typically be exposed through artful cross-examination.

Further, in cases involving likelihood of trademark confusion, it may be impossible to obtain the testimony of the original consumer-declarant. This is because consumer statements of confusion usually are not tracked, since companies often do not think about recording the names and details of allegedly confused consumers until it is too late. Without a pre-established requirement or policy to document the name and contact information for consumers who express what may or may not be confusion, this will continue to be a recurring dilemma.

*State of Mind Testimony*

Perhaps, in some cases, there is little harm in allowing statements regarding a consumer's state of mind in trademark infringement cases.<sup>15</sup> Even if the consumer were called to the stand, 'his own memory of his state of mind at a former time is no more likely to be clear and true than a bystander's recollection of what he then said.'<sup>16</sup> Some courts have said that there may be 'no better way . . . to prove [the state of mind] than through the statements of the individual whose condition is at issue,' whether or not that individual is available to testify.<sup>17</sup>

*De Minimis Evidence*

Where the testimony of the witness seems particularly self-serving or unbelievable, courts can deem the accounts de minimis and decline to afford the testimony substantial weight.<sup>18</sup> Cross-examination of the testifying witness and a fact-finder's weighing of evidence may help address the reliability concern without the need to find the testimony inadmissible.

*Mitigating the Problem*

Trademark holders can mitigate the potential reliability concerns and hearsay objections by producing documentary evidence to support the witness' testimony regarding consumer confusion. Courts have generally ruled that confusion logs (contemporaneous written accounts detailing the facts surrounding instances of consumer confusion) are directly admissible into evidence,<sup>19</sup> or that the drafter of the logs can testify regarding the logs' contents.<sup>20</sup> Other documentary evidence, such as e-mails or message board posts from consumers, may be helpful to the court, especially since metadata from electronic evidence can, at times, be used to track the origin to ensure the authenticity of reports of consumer confusion.

**Conclusion**

Ideally, trademark holders should consider documenting instances of consumer confusion when they occur. Until they do, courts must continue to carefully evaluate the admissibility of potential hearsay testimony in trademark infringement cases.

**Notes**

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 1. This scenario borrows from a similar hypothetical posed by Professor McCarthy. 4 J. Thomas McCarthy, McCarthy on

Trademarks & Unfair Competition § 23:15 (4th ed. 2009) ("McCarthy").

2. See generally *AMF Inc. v. Sleekcraft Boats*, 599 F.2d 341 (9th Cir. 1979).
3. See *Lyons P'ship, L.P. v. Morris Costumes, Inc.*, 243 F.3d 789, 804 (4th Cir. 2001).
4. See generally FED. R. EVID. 801.
5. The two exceptions most often utilised to overcome potential hearsay exclusions are cases are the present sense impression exception, FED. R. EVID. 803(1), and the state of mind exception, FED. R. EVID. 803(3).
6. E.g., *Gross v. Bare Escentuals Beauty, Inc.*, 90 U.S.P.Q. 2d 1448, 1455 (S.D.N.Y. 2008). See also McCarthy § 23:15.
7. See, e.g., *Fun-Damental Too, Ltd. v. Gemmy Indus. Corp.*, 111 F.3d 993 (2d Cir.1997).
8. See, e.g., *Constellation Brands, Inc. v. Arbor Hill Assoc., Inc.*, No. 02-CV-6498, 2008 WL 723784 at \*1 (W.D.N.Y. Mar. 14, 2008) (unpublished).
9. Courts have based at least part of their analysis on the fact that the statement offered is not hearsay within Rule 801. E.g., *Morris Costumes*, 243 F.3d at 804; *Fun-Damental*, 111 F.3d at 1003-04; *Armco, Inc. v. Armco Burglar Alarm Co.*, 693 F.2d 1155, 1160 n.10 (5th Cir. 1982); *Bare Escentuals*, 90 U.S.P.Q. 2d at 1455; *University of Kansas v. Sinks*, 565 F. Supp. 2d 1216, 1230 (D. Kan. 2008).
10. Otherwise-inadmissible hearsay is admissible as a 'statement of the declarant's then existing state of mind,' in this case, a state of confusion. FED. R. EVID. 803(3). For courts engaging in this analysis, see, e.g., *Fun-Damental*, 111 F.3d at 1004; *Armco*, 693 F.3d at 1160 n.10; *Sinks*, 565 F. Supp. 2d at 1230; *Angel Flight of Georgia, Inc. v. Angel Flight Am., Inc.*, 522 F.3d 1200, 1206 (11th Cir. 2008); *Mile High Upholstery Fabric Co., Inc. v. General Tire & Rubber Co.*, No. 83-C-3200, 1983 WL 51924 at \*5 (N.D. Ill. Aug. 5, 1983) (unpublished).
11. A hearsay statement may be admitted if it is a 'statement describing or explaining an event or condition made while the declarant was perceiving the event or condition, or immediately thereafter.' FED. R. EVID. 803(1). This is a less-widely-used approach than the state of mind exception, but has been applied by some courts, e.g., *Citizens Fin. Group, Inc. v. Citizens Nat'l Bank of Evans City*, 383 F.3d 110, 121 (3d Cir. 2004).
12. See, e.g., *Duluth News-Tribune v. Mesabi Publ'g Co.*, 84 F.3d 1093, 1098 (8th Cir. 1996); *Wild Willy's Holding Co. v. Palladino*, 463 F. Supp. 2d 65, 71 (D. Me. 2006).
13. *Conversive, Inc. v. Conversagent, Inc.*, 433 F. Supp. 2d 1079, 1092 (C.D. Cal. 2006).
14. See, e.g., *Leelanau Wine Cellars, Ltd. v. Black & Red, Inc.*, 502 F.3d 504, 519 (6th Cir. 2007); *Boston Duck Tours, L.P. v. Super Duck Tours, L.L.C.*, 514 F. Supp. 2d 119, 125 (D. Mass. 2007) rev'd on other grounds by, 531 F.3d 1 (1st Cir. 2008).
15. 2 McCormick on Evidence § 274 (Kenneth S. Broun ed., 6th ed. 2006).
16. *Id.* (citing *Mutual Life Ins. Co. v. Hillmon*, 145 U.S. 285, 295 (1892)).
17. McCormick § 274.
18. See, e.g., *Leelanau Wine Cellars*, 502 F.3d at 519.
19. See, e.g., *Bare Escentuals*, 90 U.S.P.Q. 2d at 1455; *Arbor Hill*, 2008 WL 723784 at \*1.
20. E.g. *Trouble v. Wet Seal, Inc.*, 179 F. Supp. 2d 291, 298-300 (S.D.N.Y. 2001).

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