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PERSPECTIVE

Unravel the 'confusion' over hearsay in trademark litigation

By James Hardin and Tyler Woods

A key issue in most trademark cases is whether a trade name or trade dress is confusingly similar to another. To prove "confusion," litigants generally present two types of evidence: (1) one or more consumer surveys; and (2) direct evidence of actual consumer confusion. Although survey evidence can be powerful, it has many drawbacks including being expensive, easily manipulable (and therefore attackable on cross-examination), complex (and therefore often not jury-friendly), and unpredictable (i.e., the outcome of a validly designed survey is inherently uncertain). By contrast, direct evidence of consumer confusion has none of these problems. But it is not easy to find bona fide "confused" consumers who are willing to appear at trial to testify as lay witnesses without any compensation — in fact, a confused person does not necessarily realize his or her own confusion.

In lieu of that, trademark litigants often seek to present testimony from their own employees attesting to statements of purported confusion from actual or potential customers, the identities of which may or may not be known. For instance, an employee of the plaintiff-trade dress claimant may testify that on several occasions different people approached her and expressed the mistaken belief that the defendant's new product (e.g., shampoo) was a new product of the plaintiff's (a hair care product company).

The salient evidentiary question is whether such statements by party witnesses recounting "confusion" by customers are admissible evidence or not. The general rule in the 9th U.S. Circuit Court of Appeals is customers' statements offered for the truth of the matter asserted are permissible under the "state of mind" exception to the hearsay rule. See, e.g., *Lahoti v. Vericheck, Inc.,* 636 F. 3d 501, 509 (9th Cir. 2011) (finding that customers' statements regarding confusion are admissible under the "state of mind" exception and sufficient evidence of actual confusion).

Are statements of actual confusion by customers admissible evidence of confusion or inadmissible hearsay?

The party challenging this evidence will argue that it is not reliable direct evidence of confusion, but instead only second-hand vague and self-serving hearsay made by employees of another party. Such statements are often challenged on many grounds, including the failure to identify customers or incidents in Federal Rule of Civil Procedure 26 disclosures, interrogatory responses, and trial witness lists if customer identities are known. But assuming the appropriate disclosures have been made, and a sufficient foundation has been laid, the primary challenge to such evidence is that it constitutes inadmissible hearsay.

Hearsay statements are inadmissible

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unless they fall within a specific exception. Some courts have found that such "second-hand" statements are inadmissible hearsay. See, e.g., *Global Mfg. Grp., LLC v. Gadget Universe.Com*, 417 F. Supp. 2d 1161 (S.D. Cal. 2006) (manufacturer of upright electric scooter failed to establish consumer confusion element of its trade dress infringement claim against competitor, though asserted and accused scooters were visually similar, where only evidence of actual confusion was hearsay statement from dealer whose customers were allegedly confused); *Rainforest Cafe, Inc. v. Amazon, Inc.,* 86 F. Supp. 2d 886 (D. Minn. 1999) (affidavit listing customer statements and questions made to witness that demonstrated confusion as to affiliation between restaurants was nonhearsay, admissible at summary judgment stage of trade dress infringement suit; statements made by customers to witness' staff, however, were inadmissible hearsay).

The 9th Circuit and the majority rule

However, within the 9th Circuit, courts have found such evidence admissible if it is offered prove the confused state of mind of the customer. In L*ahoti*, the 9th Circuit held that the testimony of the plaintiff's employees relating alleged instances of "significant confusion," including "a substantial number of telephone calls from confused customers," was admissible under the state of mind exception to the hearsay rule. Specifically, the *Lahoti* court reasoned that "[t]hough the customers' statements were clearly offered for the truth of the matter, they are permissible under the 'state of mind' exception to the hearsay rule." See also *Conversive Inc. v. Conversagent, Inc.*, 433 F.Supp.2d 1079, 1091 (C.D. Cal. 2006) (court admitted into evidence "declarations ... [and] deposition testimony of plaintiff's sales personnel regarding conversations they had with potential purchasers" as probative of declarants' states of mind); *CytoSport, Inc. v. Vital Pharms, Inc.,* 617 F.Supp.2d 1051, 1074 (E.D. Cal. 2009) (court admitted into evidence testimony from the plaintiff's employees regarding customers' purported confused states of mind); *Sinhdarella, Inc. v. Vu, 2008 U.S. Dist. LEXIS* 14742, at *10-*12 (N.D. Cal. 2008) (same).

In other words, the statements are *not* being offered to prove the "false" connection in the confused person's mind between the product and a manufacturer, but merely to show that the person was "confused" when making the statement and therefore reflecting on her state of mind. See Federal Rule of Evidence 803(3) ("a statement of the declarants then-existing state of mind" is not excluded as hearsay).

These cases from the 9th Circuit accord with the majority rule adhered to in the 2nd, 3rd, 4th, 5th, 6th, 7th and 10th Circuits, which find that such statements are either nonhearsay or admissible under the state of mind exception. See, e.g., *Fun-Damental Too, Ltd. v. Gemmy Industries Corp.*, 111 F.3d 993 (2d Cir. 1997) (finding "there is no hearsay problem" because the testimony was not offered to prove the truth of the customer's assertion that there is a connection or affiliation between the parties, but only to prove the confused state of mind of the customer); *Citizens Financial Group, Inc. v. Citizens Nat. Bank of Evans City*, 383 F.3d 110 (3d Cir. 2004) (employees' testimony about their experience with confused customers was not hearsay and was admissible under FRE 803(3) permitting statements of existing state of mind); *Lyons Partnership, L.P. v. Morris Costumes, Inc.*, 243 F.3d 789 (4th Cir. 2001) (same); *Armco, Inc. v. Armco Burglar Alarm Co., Inc.*, 693 F.2d 1155, n.10 (5th Cir. 1982) (same); *Innovation Ventures, LLC v. N.V.E., Inc.*, 694 F.3d 723, 738 (6th Cir.2012) (same); *International Kennel Club of Chicago, Inc. v. Mighty Star, Inc.,* 846 F.2d 1079 (7th Cir. 1988)(same); *Jordache Enterprises, Inc. v. Hogg Wyld, Ltd.*, 828 F.2d 1482, 1487 (10th Cir. 1987) (same).

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Although the law is not settled, the majority rule and case law from the 9th Circuit indicates that such statements will be deemed nonhearsay evidence establishing the "confused" state of mind of the speaker/customer. To optimize the chance of admitting such evidence, attorneys should: (1) specifically disclose all such communications and whatever information they possess regarding the employee/customer names, dates and content of the statements (i.e., by providing them in initial disclosures, interrogatories, any other appropriate discovery responses, etc.); and (2) frame the evidence as consisting of false statements, made contemporaneously by the third parties at the time of their "confusion," which cannot be hearsay by definition because they are being offered to show a manifestly false statement to illustrate or underscore consumer confusion.

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