Briefing a Case: Calvin Klein vs. Wachner

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The Case

CALVIN KLEIN TRADEMARK TRUST and Calvin Klein, Inc., Plaintiffs, v. Linda WACHNER, the Warnaco Group, Inc., Warnaco Inc., Designer Holdings Ltd., CKJ Holdings, Inc., Jeanswear Holdings, Inc., Calvin Klein Jeanswear Co. and Outlet Holdings, Inc., Defendants

198 F.R.D. 53 United States District Court, S.D. New York, Dec. 5, 2000

123 F.Supp.2d 731 United States District Court, S.D. New York, Dec. 5, 2000

124 F.Supp.2d 207 United States District Court, S.D. New York, Dec. 20, 2000

129 F.Supp.2d 248 United States District Court, S.D. New York, Jan. 5, 2001

Findings: A settlement between both parties was reached. While terms of the settlement were not made public, Warnaco agreed to limit the percentage of jeans-wear sales to warehouse clubs in exchange for Klein removing litigations (Kaufman, THE MARKETS: Market Place; Calvin Klein Suit Against Warnaco Is Settled, 2001).

Procedural History

This case was brought to trial several times. Linda Wachner is the chief executive of Warnaco Group which is the company that produces Calvin Klein jeans (Kaufman, Calvin Klein-Warnaco License Trial Finally Set to Begin, 2001).

The defendants (Linda Wachner and Warnaco Group) had challenged the plaintiff's (Calvin Klein Trust) statement of attorney and client privileges as well as work-product protection. All of this was held in respect to documents and testimonies sought by the defendants from a public relations firm—Robinson Lerer & Montgomery—that was hired by the plaintiff's counsel (Calvin Klein Trademark Trust v. Wachner, 2000). The assertion of privilege was sustained in part and denied in part by District Court Judge Rakoff.

Next, the licensors of trademarks that govern clothing sued the licensees. They alleged that there was "a breach of fiduciary duty, imposition of constructive trust, claiming misrepresentation, and alleging violation of New York deceptive acts and practices statute" (Calvin Klein Trademark Trust v. Wachner, 2006). The motion was granted in part and denied in part by District Court Judge Rakoff.

The plaintiff sued entities with whom it had contractual relations and "asserted claims for breach of contract and trademark infringement" (Calvin Klein Trademark Trust v. Wachner, 2011). The District Court Judge Rakoff resolved discovery issues. The motion was ordered accordingly.

Lastly, the "licensors of trademarks governing clothing sued licensees, who counterclaimed for breach of fiduciary duty, defamation and tortious interference" (Calvin Klein Trademark Trust v. Wachner, 2009). The motion was granted in part and denied in part by District Court Judge Rakoff.

The Facts

Calvin Klein, Inc. originally filed suit against Linda Wachner and the Warnaco Group for breaching its jeans-wear licensing and distribution contract. Part of the issue is that Warnaco Group had distributed clothing to warehouse clubs—Walmart, Costco, etc. Warnaco then countered with its own suit which denied the allegations and justified its distribution as acceptable business practice, as well as claiming that Calvin Klein, Inc. had breached the license and that its own practices had caused damage to the brand.

This was the first time a licensed manufacturer had been charged with dilution of brand equity and that a designer was held accountable for poor brand advertising.

Calvin Klein sued on the grounds for breach of contract while Warnaco countered that Calvin Klein had breached its license. The Court reviewed in camera the documents withheld from defendants and denied the plaintiff's assertion of attorney-client privilege and was sustained in part and denied in part.

The defendants contended that Boies, Schiller Flexner LLC (BSF) retained Robinson Lerer & Montgomery (RLM) to "wage a press war against the defendant" (Calvin Klein Trademark Trust v. Wachner, 2015).

Issues

The primary issue in this case was that of trademark infringement and breach of contract. Over the course of two months (December 2000 to January 2001), this case had four trial dates and ended with a private settlement: Do businesses have the right to distribute to other sellers if not confirmed by the original brand?

A secondary issue of equal importance is whether or not the defendant is considered to be a public figure who must prove actual malice of the plaintiff: Are there public figures involved that must prove actual malice?

Applicable Rule of Law

One issue of this case was that trademark infringement defendants challenged plaintiff's assertion. Calvin Klein, Inc. alleged Warnaco infringed and diluted its trademark by selling items that had not been approved and had distributed it without approval. Because of this, Warnaco ould not claim ignorance and CKI can legally sue in court as well as seek financial damages. However, this case determined that Warnaco did not infringe and was within rights to distribute to warehouse clubs.

The Holdings

District Court, Judge Jed Rakoff of the U.S. District Court held that:

1. Documents were not protected by attorney client privilege
2. Documents were protected work-product only to extent it revealed firm's strategy about conduct of litigation itself

The documents presented in court did not reveal any confidential communications between Calvin Klein, Inc and Robinson Lerer & Montgomery (RLM). There was only ordinary public relations advice given, extending anywhere from reviewing previous press coverage to making calls to media outlets and commenting on the litigation developments. (Calvin Klein Trademark Trust v. Wachner, 2015).

District Court, Judge Jed Rakoff of the U.S. District Court held that:

1. Licensees did not owe any fiduciary obligations to licensors
2. No liability arose from fact that Delaware business trust was used to transfer interest in trademarks
3. No constructive trust would be imposed over profits of licensees
4. Misrepresentation claim would be stayed
5. There was no violation of deceptive acts and practices statute

Arguments presented in court are governed by New York Law and under this law, "parties in a commercial contract do not ordinarily bear a fiduciary relationship to one another unless they specifically so agree" (Calvin Klein Trademark Trust v. Wachner, 2006). Under Delaware law, a business trust is an alternative form of business organization and does not provide fiduciary obligations to the beneficial owners (CKI and Warnaco).

District Court, Judge Jed Rakoff of the U.S. District Court held that:

1. Inclusion of investment banking firm in discussions between a corporation and counsel did not waive the attorney-client privilege
2. Draft press release and accompanying memorandum requesting comments from counsel was discoverable
3. Attorney-client privilege did not bar discovery of statements actually made by a clothing corporation's counsel to prospective purchasers of the corporation

Documents produced in court showed discussions between CKI, Lazard and Wachtell (privilege logs) about what CKI was legally required to disclose. Other documents provided did not disclose confidential client communications or attorney work product (Calvin Klein Trademark Trust v. Wachner, 2011).

District Court, Judge Jed Rakoff of the U.S. District Court held that:

1. Licensor owed no fiduciary duties under parties' trust servicing agreement
2. Licensees were not public figures, for purpose of ruling on defamation allegations
3. Licensor's allegedly defamatory remarks were not protected as fair and true reports of judicial proceedings
4. Counterclaims stated claims for both defamation and tortious interference with existing and prospective business relations
5. Fact issue existed as to whether licensor tortiously interfered with licensee's relations

The Court argued that Calvin Klein, Inc. is a separate entity from Calvin Klein the person, and therefore, could not be ruled as a defamation case because the business is not a public figure. They are, however, considered to be a “limited purpose” public figure due to *253

terms, in which CKI would be considered one that has “thrust themselves to the forefront of particular public controversies in order to influence the resolution of the issues involved.” Under the terms of the Servicing Agreement, CKI was not required to give Warnaco a notice of the lawsuit and Counterclaim Eight must be dismissed under the grounds that a fiduciary relationship did not exist (Calvin Klein Trademark Trust v. Wachner, 2009).

Analyzing the Court's Decision

In the first trial, the Court could not find brand equity dilution and held that there was no infringement. It's important to keep in mind that none of the documents presented revealed confidential information and communications from Calvin Klein, Inc. This is the only information that attorney-client privilege would protect, "the attorney-client privilege *921 may include a communication to a nonlawyer by the lawyer's client is the resultant of two conflicting forces" (in reference to (U.S. v. Kovel, 1999)). There is a lack of sufficient evidence that would be needed to implicate the privilege. However, it should be noted that there were small amounts of confidential communication that were originally for seeking legal advice, although the public relations firm in question, Robinson Lerer & Montgomery (RLM), only provided ordinary public relations advice that could be seen in the documents provided in court (Calvin Klein Trademark Trust v. Wachner, 2015). RLM did not provide any service different from that of an ordinary public relations firm. It was viewed by the Court that none of the documents provided would be protected under attorney-client privilege. In this decision, it is clear that none of the documents could reveal infringement and brand equity dilution. Public relations advice could not be protected because it is a general matter and does not strategize litigation effects on client customers, the media, or the general public.

Secondly, many counterclaims were dismissed due to agreements that had previously existed and covered prospective litigation issues. Part of the plaintiff's argument assumes controversy due to a default rule that imposes fiduciary duties on owners of a Delaware trust (in reference to (§ 3801. Definitions, 2020)). There was much confusion in this second trial, mostly focusing on consumers. Consumers may have been confused about whether or not sales and designs had been previously approved by Calvin Klein, Inc. and this is where the importance of

trademarks come into play. There was no injury to the general public or consumer because they believed CKI had approved the items being sold for much lower prices. It's clear that there were no deceptive acts being performed in regard to the consumer because the assumption could have been made that CKI had in fact approved the clothing to be sold at warehouse clubs.

In the third trial, attorney-client privilege must be sustained because Lazard and Wachtell, two of the involved parties, would not have been able to successfully resolve fact and law without an assessment from an investment banker. Lazard was only serving as determined by provided documents. Additionally, Warnaco had looked for further information regarding disclosures of CKI and found that privilege logs of Lazard (investment firm) and Wachtell (law firm) could be withheld because they do not disclose confidential client communications for the purpose of seeking legal counsel, nor do they disclose attorney work product. This case involved quite a few discovery issues and contract relations, and this trial focuses mainly on document discovery.

Lastly, the issue of whether or not licensees were public figures came into play during this trial. The Court held that the licensees were not public figures, and therefore, must have had to prove actual malice, (in reference to (Gertz v. Robert Welch, Inc., 1996)). The plaintiff was a public figure of "limited purpose," not as a full public figure. Essentially, this means that the public figure in question has "(1) successfully invited public attention to his views in an effort to influence others prior to the incident that is the subject of the litigation; (2) voluntarily injected himself into a public controversy related to the subject of the litigation; (3) assumed a position of prominence in the public controversy; and (4) maintained regular and continuing access to the media" (in reference to (Lerman v. Flynt Distributing Co., Inc., 1997)).

Implications for the Practice of Advertising and Public Relations

It's important for public relations professionals to learn from this case. Any involvement with an organization means that you could be part of a lawsuit, whether or not you did anything against what a professional was hired to do. Based on court documents, the public relations firm, Robinson Lerer & Montgomery (RLM), had only performed ordinary public relations services.

One takeaway I received from this case is that public relations professionals should be aware of trademark infringements and what is being required of them. The communications between RLM and the plaintiff (Calvin Klein, Inc.) were not protected by attorney client privilege, although, even if confidential client communications had been present they would still not have been protected (Calvin Klein Trademark Trust v. Wachner, 2015).

It does appear as though Warnaco infringed by producing clothing in order to sell them and in the case of public relations, professionals should be wary and do research into whether or not certain trademarks extend to the production companies. CKI had not approved these sales or designs, and they were sold at warehouse clubs without knowledge and approval. On the other hand, brand image would have increased because consumers would be able to purchase clothing goods at a reduced price, which is exactly what Warnaco had done.

Although CKI and Warnaco settled out of court, public relations professionals should keep in mind that the firm in these cases, RLM, was retained as a defense purpose. To help the plaintiff's law firm, RLM held a crisis communications positions in which to help the law firm respond appropriately, as any hired firm should do in this kind of situation. Such things that the PR firm had helped with was making calls to media outlets in order to comment on the litigation and reviewing past press coverage to learn from previous statements.

There is something to be learned from this case. The public relations firm had been heavily involved within the actual trials because they had to produce documents, although the plaintiff waived attorney-client privilege due to their disclosure to RLM. Public relations professionals should learn that trademark infringement may only apply to the companies that design, not the companies that produce said designs. It should be noteworthy that this was the first case in which a fashion brand was held accountable for poor brand advertising techniques. Perhaps another public relations firm that managed the actual brand would have been more helpful instead of retaining a firm for law advice and handling the ongoing crisis. Revising the contracts that CKI and Warnaco had signed in previous years would save both companies millions of dollars. Yearly visitations to these contracts may also have cleared up confusion and introduced the possibility that Calvin Klein could benefit from selling in warehouse clubs. Brand image would increase as well as sales. Consumers often find that fashion designer prices are too extreme for them to budget and the selling of clothing goods in warehouse clubs would allow them to purchase goods at reduced prices. Hence, another reason why another public relations firm should have been brought in to manage the brand.

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