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PERSPECTIVE

## We haven't heard the last on trade dress precedent

By Brian M. Wheeler

In its highly anticipated decision in *adidas v. Skechers*, the 9th U.S. Circuit Court of Appeals provided some guidance to practitioners of how to establish irreparable harm beyond mere evidence of likelihood of confusion, but dueling opinions suggest more may be yet to come for the impact of overlapping evidence of confusion and inferred irreparable harm. 2018 DJDAR 4293 (May 10, 2018).

Following the U.S. Supreme Court's rejection of the presumption of irreparable harm for patent infringement in *eBay v. MercExchange*, 547 U.S. 388 (2006), and its rejection of the 9th Circuit's "possibility" of irreparable harm standard for preliminary injunctions in *Winter v. Natural Res. Def. Counsel, Inc.*, 555 U.S. 7 (2008), courts and practitioners wrestled with the impact of these decisions for preliminary injunctions in Lanham Act cases.

Then, as a matter of first impression in *Herb Reed Enterprises LLC v. Florida Entm't*, 736 F.3d 1239 (2013), the 9th Circuit applied *eBay* and *Winter* to reverse a preliminary injunction in a trademark case, ruling the district court erred by relying on conclusory allegations of possible harm and effectively applying "the now-rejected presumption of irreparable harm based solely on a strong case of trademark infringement" by "collaps[ing] the likelihood of success and the irreparable harm factors."

In the wake of *Herb Reed* and its watershed for preliminary injunctive relief in Lanham Act cases, one aching source of confusion and angst for trademark



A pair of adidas Stan Smiths.

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litigators remained: How does a mark holder establish likelihood of irreparable harm if a strong showing of likelihood of confusion is not enough? What additional evidence of irreparable harm must a plaintiff show to warrant imposition of a preliminary injunction in a Lanham Act case?

Enter *adidas v. Skechers*. In September 2015, adidas sued Skechers over two shoe designs — one for trade dress infringement of its popular Stan Smith shoe and the other for infringement of its Three-Stripe trademark. The district court granted adidas a preliminary injunction against both shoes in a decision Skechers argued on appeal was tantamount to reviving the presumption of irreparable harm rejected in *Herb Reed* by relying on overlapping evidence of infringement as support for an inference of likely irreparable harm. Practitioners have since waited with bated breath for guidance from the 9th Circuit of *how* a mark holder must show likelihood of

irreparable harm beyond its evidence of likelihood of confusion and the long-presumed harm to the associated goodwill.

Last week, the 9th Circuit issued its long-anticipated decision. While the court upheld the preliminary injunction against Skecher's Onix shoe for infringement and dilution of adidas' Stan Smith trade dress, it reversed the preliminary injunction against Skechers' Cross Court shoe, ruling adidas did not establish likely irreparable harm despite finding adidas established a likelihood of success on the merits for infringement and dilution of its Three-Stripe trademark.

The 9th Circuit observed that adidas "advanced only a narrow argument of irreparable harm" related to its Three-Stripe trademark — i.e., that adidas' ability to control its brand image was harmed because consumers who observe others wearing the Cross Court would associate the lesser-quality shoe with adidas and its Three-Stripe mark. The court rejected this "narrow argument,"

finding adidas failed to produce concrete evidence to show the general consuming public viewed Skechers as an inferior brand with a less favorable reputation than adidas. The evidence that adidas *did* present consisted of testimony from its own employees that Skechers sells its shoes at lower prices than adidas and that Skechers is viewed as an inferior brand within adidas and among adidas employees. The court reasoned there are many possible reasons for lower prices unrelated to quality and that testimony from adidas' employees was not necessarily indicative of the view of the general consumer.

While Circuit Judge Richard Clifton concluded in his dissenting opinion that adidas' argument was "actually not so narrow" and could encompass a theory of post-sale confusion sufficient to show likely irreparable harm in the form of diverted potential customers who can obtain the prestige of its goods without paying its normal prices, the majority disagreed. The majority did not question the validity of a post-sale confusion theory to establish likelihood of irreparable harm — e.g., that "the senior user suffers a loss of sales diverted to the junior user, the same as if the actual buyer were confused" where "consumers could acquire the prestige value of the senior user's product by buying the copier's cheap imitation" — but it observed adidas neither made that argument nor presented evidence of the factual underpinnings to support the theory. According to the majority, even if Skechers was a lesser-quality product (or if consumers viewed it as such) adidas provided no

evidence that would cause consumers to associate lesser-quality products with adidas. For example, the court reasoned that a consumer who viewed someone wearing the shoe from afar, even if confused, would be unable to reasonably assess the quality of the shoe and therefore no harm would be attributable to adidas' reputation regardless.

In contrast, the 9th Circuit found there was enough evidence of irreparable harm to uphold the preliminary injunction against Skechers' Onix shoe. The 9th Circuit relied on testimony and evidence of adidas' significant efforts to promote the Stan Smith trade dress through "specific and controlled avenues such as social media campaigns and product placement." The court also found that adidas' evidence of its efforts to carefully control the supply of the Stan Smith shoe and its concern over damage to its reputation if the marketplace was flooded with other, similar shoes supported a likelihood of irreparable harm from customer confusion. As further evidence of this nexus

between confusion and irreparable injury, the court cited adidas' confusion survey showing twenty percent of customers incorrectly believed the Onix was made by, approved by, or affiliated with adidas, as well as Skechers' intent to capitalize on this confusion by using the terms "adidas" and "Stan Smith" in its meta tags for the Onix shoe webpage.

Ultimately, the difference in the 9th Circuit's treatment of the two injunctions came down to the specific arguments adidas made in support of each and the evidence it provided to support those arguments. Accordingly, practitioners seeking to obtain a preliminary injunction in Lanham Act cases based on a market control and management theory must be prepared to provide evidence that sale of the infringing product would flood the market or undermine a company's efforts to carefully control supply of its products. Meanwhile, practitioners seeking preliminary injunctive relief based on a theory of post-sale confusion or customer diversion should produce evi-

dence of inferiority of the junior user's product's quality or consumer perception, coupled with evidence of confusion, such as survey evidence, or evidence of a company's intentional efforts to cause confusion.

Of course, much of this evidence still overlaps with the evidence a mark holder may offer to satisfy the *Sleekcraft* factors in support of a likelihood of success on the merits of an infringement claim or in support of a dilution claim. The linchpin for obtaining a preliminary injunction therefore is to demonstrate a nexus between this evidence and the specific theory of irreparable harm advanced by the Lanham Act plaintiff.

Thus, although adidas provided practitioners with some guidance on how to show irreparable harm, the dueling majority and dissenting opinions suggest that we may have not heard the last word on the impact of *Herb Reed* and to what extent evidence of likelihood of confusion will support an inference of likelihood of irreparable harm. Although the courts no longer apply a legal presump-

tion of irreparable harm, according to Judge Clifton's dissent "the logic underling the presumption can, and does, inform how we exercise our equitable discretion in a particular case.... Our decision in *Herb Reed* did not change that."

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