

Earning Your Stripes (or Injunction): The Ninth Circuit Reiterates the Burden of Proving Irreparable Harm in Trademark Cases

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We previously posted about an Oregon federal district court's summary judgment rulings, favorable to Adidas, in the storied battle between heavyweights Adidas and Skechers. (*Adidas America, Inc. v. Skechers USA, Inc.* (D. Or. 2017)). Earlier in the case, the district court entered a preliminary injunction prohibiting the sale and marketing of Skechers' Onix and Cross Court shoes, based on claims that the Onix infringes on the trade dress of Adidas' Stan Smith shoe, and the Cross Court infringes and dilutes

Adidas' Three-Stripe trademark. This month, the Ninth Circuit reversed, in part, the preliminary injunction order, holding that the district court abused its discretion in issuing a preliminary injunction with respect to the Cross Court because Adidas did not show it would be irreparably harmed from the sale of this model shoe. In contrast, the Ninth Circuit affirmed the district court's ruling with respect to the Stan Smith, holding that the district court did not clearly err in finding a likelihood of irreparable harm based on the record evidence. The Ninth Circuit's ruling underscores that the presumption of irreparable harm in trademark infringement cases is long gone, even where likelihood of success on the merits is established; instead, a party must submit credible evidence to show that irreparable harm is likely.

The district court's preliminary injunction order entered in February 2016 found that Adidas had produced sufficient evidence of irreparable harm to warrant injunctive relief. It reasoned that: (a) Skechers' infringement undermines Adidas' substantial investment in

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building its brand and reputation of its trademarks and trade dress; and (b) Skechers' attempt to "piggy back" off of Adidas' efforts by copying or closely imitating Adidas' marks means Adidas loses control over its trademarks, reputation, and goodwill—"a quintessential irreparable injury." The district court order relied on evidence presented by Adidas that: (1) it had spent tens of millions promoting the Stan Smith, and nearly forty million annually on goods bearing the Three-Stripe mark; (2) it spent significant time and money in building and maintaining its perception among consumers as a premium sports brand, whereas consumers perceive Skechers as a "lower end value brand", based on testimony from its marketing executive; and (3) consumer survey evidence that approximately 20% of surveyed consumers believed that Onix was made by, approved by, or affiliated with Adidas, indicating that Adidas' carefully constructed brand image is likely to be confused with or associated with Skechers' value brand. The district court thus concluded that "Adidas had produced evidence that Skechers' continued sale of its Onix and other contested shoes will harm Adidas' reputation and goodwill—harm that is not compensable by money damages."

The district court also found that Adidas had produced evidence that Skechers' infringing footwear will diminish Adidas' ability to create scarcity and drive demand for the Stan Smith -- a strategy Adidas had employed in 2013 in advance of its "reintroduction campaign." Finally, the district court noted that Adidas' Director of Sports Style Brand Marketing testified that the Stan Smith is one of Adidas' most coveted shoes, and it works to control every aspect of the shoe that it can (materials, price, seller, who is seen wearing it, etc.). The district court reasoned that Skechers' infringing shoes are likely to irreparably harm Adidas' ability to control the quality of goods bearing Adidas marks or trade dress.

In affirming in part, and reversing in part, the Ninth Circuit's likelihood of irreparable harm analysis largely hinged on its prior decision in *Herb Reed Enterprises, LLC v. Florida Entertainment Management, Inc.*, 736 F.3d 1239, 1250 (9th Cir. 2013), in which the Court held that "[e]vidence of loss of control over business reputation and damage to goodwill [can] constitute irreparable harm," so long as there is concrete evidence in the record of those things. With respect to the Stan Smith, the Ninth Circuit was persuaded that there was sufficient evidence from which the district court could conclude that Adidas was likely to suffer irreparable harm to its brand reputation and goodwill if the preliminary injunction did not issue. The Court relied on evidence in the record of significant investment in promoting the Stan Smith through specified and controlled avenues, significant media from various sources that was not initiated by Adidas, and evidence of Adidas' efforts to carefully control the supply of Stan Smith and the damage that would occur if the market were flooded, in addition to the above-discussed consumer survey. In finding that the district court's irreparable harm ruling was not clearly erroneous, the Ninth Circuit reasoned that "[t]he extensive and targeted advertising and unsolicited media, along with tight control of the supply of Stan Smiths, demonstrate that [A]didas has built a specific reputation. And, the customer surveys demonstrate that intangible benefits will be harmed if the Onix stays on the market because consumers will be confused about the source of the shoes."

In contrast, the Court found that there was no evidence in the record that could support a finding of irreparable harm with respect to the allegedly-infringing Cross Court. The Court noted that Adidas advanced a narrow argument of irreparable harm as to the Cross Court: that Skechers harmed Adidas' ability to control its brand image because consumers who see others wearing Cross Court shoes will associate the allegedly lesser-quality Cross Courts with Adidas and its Three-Stripe Mark (i.e. post-sale confusion). The Court first reasoned that Adidas' theory relies on the notion that Adidas is viewed by consumers as a premium brand, while Skechers is viewed as a lower-quality, discount brand; and that Adidas did not set forth probative evidence of Skechers' less favorable reputation. According to the Court, the only evidence in the record on this point was from Adidas employees, and Adidas did not provide sufficient specificity regarding consumer perception. The Court thus concluded that the district court's ruling that Skechers is viewed as a "value brand" is unsupported and conclusory, not grounded in evidence offered by Adidas.

The Court also found that Adidas' theory of post-sale confusion conflicted with its theory on the merits, and counterintuitive, begging the question: "[h]ow would consumers who confused Cross Courts for Adidas shoes be able to surmise, from afar, that those shoes were of low quality? If the 'misled' consumers could not assess the quality of the shoe from afar, why would they think any different about Adidas' products? In which case, how could Adidas' premium brand possibly be hurt by any confusion?" Accordingly, the Court found that even if Skechers does make inferior products (or even if consumers tend to think so), there is no evidence that Adidas' theory of post-sale confusion would cause consumers to associate such lesser-quality products with Adidas. And, even if consumers were likely to be confused as to the maker of the shoe, the Court cannot simply assume that such confusion will cause irreparable harm, where Adidas failed to provide concrete evidence that it will. The Court contrasted the more specific evidence presented by Adidas that its reputation and goodwill were likely to be irreparably harmed by the Onix based on Adidas' extensive marketing efforts of the Stan Smith and its careful control of the supply.

Circuit Judge Clifton wrote a strongly-worded dissent chiding the majority's Cross Court ruling on irreparable harm. Judge Clifton argued that the theory of post-sale confusion proffered by Adidas was not as narrow as the majority made it out to be, and quite consistent with a common theory of post-sale confusion in the trademark context. He explained that post-sale confusion could divert potential customers who believe they can obtain the prestige of Adidas' goods without paying its normal prices. He mentioned his time in private practice thirty years ago defending Louis Vuitton against the sale of cheaper imitations. He was persuaded in those cases of the harm that could be caused (as Professor McCarthy described it) "if the prestige of carrying a bag with the Louis Vuitton trademark could be obtained at a fraction of the price, and if viewers could not tell the difference, the value of the trademark would be in jeopardy. And, if someone did confuse the cheap imitation for the real thing, the lesser quality of the imitator could further imperil the perceived value of the Louis Vuitton products and trademark." He argued that a similar harm would occur to Adidas as a result of Skechers' shoes imitating the Three Stripes mark.

Judge Clifton also vehemently disagreed with the majority's ruling that there was no evidence in the record to support Adidas' claim of irreparable injury. He argued that Adidas provided ample evidence of harm, including sworn declarations and live testimony by several Adidas employees supporting Adidas' contention that it has established a reputation as a premium sports brand, whereas Skechers' brand perception is a "value brand" or "lower-end brand." Judge Clifton argued that the majority improperly elected to discount that evidence, by applying its own skepticism toward employee testimony, despite the fact that the district court found the evidence to be credible. He contended that the notion that the appellate court can decide for itself that evidence relied upon by the district court should be ignored because it was provided by an employee of a party is unsupported and badly misguided. Judge Clifton concluded that the district court was well within its discretion to infer that confusion between Skechers' "lower-end" footwear and Adidas' footwear was likely to harm Adidas' reputation and goodwill as a premium shoe brand—which is precisely the type of harm that is "irreparable."

Judge Clifton also reasoned that the district court's determination did not even depend on establishing Skechers' reputation as a lower quality brand; instead, the loss by Adidas of its control over its mark was by itself irreparably harmful. He argued that there was substantial evidence in the record regarding the value of Adidas' mark and its management of the mark through investment and quality control over its product, evidence which the majority ignored.

The Ninth Circuit's decision highlights the significant burden now imposed on parties seeking a preliminary injunction in trademark cases, a substantial departure from the presumption of irreparable harm that was applied once-upon-a-time ago. It also highlights a hurdle for the senior user that wants to obtain injunctive relief for infringement without delay, but now may be required to support its contention of irreparable harm with evidence extending beyond its own ranks, such as by commissioning a consumer survey, an undertaking that can delay the ability to seek immediate injunctive relief. In short, a trademark holder seeking to fully protect its mark from infringement must not only act quickly, it must also make a significant showing of irreparable harm at the preliminary injunction stage.