

THE LATEST ON PRELIMINARY INJUNCTIONS IN TRADEMARK CASES

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On Oct. 6, 2014, the U.S. Supreme Court denied cert (13-1271) in *Herb Reed v. Florida Entertainment*, 736 F3d 1239 (9th Cir 2011), a case already slowly working a revolution in preliminary injunction motions practice in trademark infringement cases. For many years, PIs have been the standard remedy of choice to challenge and stop trademark infringements at an early stage. That long tradition may be in for a big change.

Like the lethal inducement of a Colt revolver, the trademark PI motion was a “peacemaker.” In a trademark case, the possibility of a PI imperils the rollout of a defendant’s new product and brand. In many courts, the PI motion is briefed, heard, and decided in a matter of weeks or a few months. The sudden issuance of a PI can padlock warehouses full of branded product and advertisements, with potentially disastrous economic effects on defendants. Thus a strong inducement to settle, e.g., by promising to phase out the challenged brand, redesign it, buy the plaintiff, or the like.

Since the first element of an injunction is “likelihood of success on the merits,” the loser on the PI motion has little to look forward to

by exercising its right to go to trial, even if it manages to avoid summary judgment in between. The judge’s mind is already made up. Nor does appeal hold much hope: the standard of review is very narrow — abuse of discretion. Therefore, PI decisions generally end trademark litigations as a practical matter by putting the PI loser out of its misery. Furthermore, the other requirements of a PI motion — irreparable injury, balance of harms and the public interest — generally fell like dominoes once likely success on the merits was established. Whatever the outcome, the PI decision curtailed the time and expense of pretrial proceedings and trial.

Irreparable injury, in particular, was automatically presumed upon a finding of “likelihood of confusion” — the test for likelihood of success on the trademark infringement claim. The presumption was rebuttable, but rarely rebutted. The theory was that customer confusion by its nature injures the brand and the goodwill it represents; the trademark owner “loses control” over its own brand; and the injury is irreparable because it is psychological — in the minds of customers — and cannot be quantified in dollars.

In 2006, the U.S. Supreme Court in a patent case, *eBay v. MercExchange*, 547 U.S. 388, decided that irreparable injury cannot be presumed from a finding of likelihood of success on the merits, but must be independently proved, as required by ancient principles of equity. As with all Supreme Court decisions, it has taken time for the bar and judiciary to absorb the full implications; irreparable injury is required not only of preliminary injunctions, but also of permanent injunctions. The first question was whether the holding in patent cases would be applied to other intellectual property cases. It has been, and at the appellate level. Irreparable injury is an independent element which must be independently proved in Lanham Act cases in at least the Third Circuit and Ninth Circuit, with more circuits already there or on the way.

The next question is harder: How exactly does one prove irreparable injury in trademark cases? There are no car wrecks to examine or even contract terms to construe. The subject matter of injury is “goodwill,” an intangible property. Basically, it denotes a favorable disposition of customers to buy a particular product. The purchase decision is guided by the brand, so the brand is said to symbolize the goodwill.

Thus trademark infringement’s injury to goodwill occurs in the minds of customers in anonymous mass markets. How do you prove — as a matter of fact — what is happening in those minds? This is such a poser that many litigants thus far have reverted to what they already know: the factors of the test for infringement,

e.g., evidence of actual confusion. But that approach simply collapses irreparable injury back into likelihood of success on the merits, an approach now apparently forbidden by the Supreme Court.

When requesting certiorari, Herb Reed argued that the requirement, in trademark cases, “may create a bar that cannot be reached.” In an amicus brief supporting grant of cert, the International Trademark Association argued that the new “high burden” involves “difficult things to prove,” “a double burden” on the PI movant. The defendant in the Herb Reed case did not file a brief but avoided cert anyway.

The conundrum is very reminiscent of another Supreme Court intervention in trademark law about a decade ago. To great fanfare in trademark world, Congress passed a statute prohibiting trademark “dilution,” defined as the “blurring” or “tarnishment” of a famous brand. The Supreme Court read the statute, took it literally, and held that it required proof of actual dilution. This decision confounded the trademark bar, because nobody knew how to prove actual dilution, another psychological perception locked in the brains of the mass anonymous public. The outcry from trademark litigators and owners of famous brands moved Congress to water down the statute to require only proof of “likelihood of dilution,” which lowered the bar from actuality to probability, and a broader range of potential proofs and argumentation.

The Ninth Circuit’s Herb Reed requirement of independent proof of actual irreparable injury is sinking its

teeth into trademark litigation. On Aug. 28, 2014, the Northern District of California found likelihood of confusion and likelihood of success on the merits of a trademark claim, but denied a preliminary injunction for failure to prove irreparable injury. *Wells Fargo v. ABD Insurance*. In particular, the district court rejected plaintiff’s claim of “loss of control” over its own mark, a claim the court found to be unsupported by substantial evidence. “Loss of control” has been a traditional articulation of the nature of the injury caused by trademark infringement, but now, without proof, it is rejected under Herb Reed as a “platitude.”

Since injunctions belong to chancery and judicial discretion, trademark litigants and litigators unhappy with the new irreparable injury hurdle are likely to find little comfort come from Congress. Unless and until the Supreme Court for some reason decides that its holding in patent cases does not apply to trademark cases, then litigants on trademark PI motions must devote considerable attention to thinking up ways to prove irreparable injury, and spend time and money finding and adducing evidence.

Given the intangible or psychological nature of irreparable injury to goodwill, proofs may be as or more difficult than those required of likelihood of success on the merits. As happened with the latter element, trademark jurisprudence no doubt over time will develop a multifactor test for irreparable injury, just as every question of law and equity now has its very own multifactor test. The law will slowly evolve, sometimes with half steps and steps backwards

and forward, with most appellate courts gradually reaching a general consensus in a few decades.

Meanwhile, the trademark litigants who pay for the development of the case law will be exposed to potentially great added expense and uncertainty, not only on PI motions, but also on pretrial proceedings and trials that will become more frequent if the availability of trademark PIs diminishes.

