

FILED 08 MAY 01 2013 USDC-ORP

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF OREGON

ADIDAS AMERICA, INC. and ADIDAS
AG,

Plaintiffs,

vs.

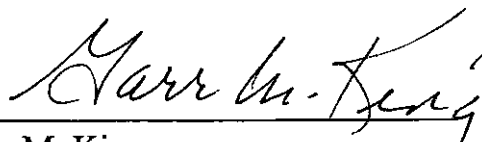
PAYLESS SHOESOURCE, INC.,

Defendant.

Civil Case No. 01-1655-KI

JURY INSTRUCTIONS

Dated: 5-1-08



Garr M. King
United States District Judge

INSTRUCTION NO. 1

Members of the Jury: Now that you have heard all of the evidence, it is my duty to instruct you as to the law of the case.

A copy of these instructions will be sent with you to the jury room when you deliberate.

You must not infer from these instructions or from anything I may say or do as indicating that I have an opinion regarding the evidence or what your verdict should be.

It is your duty to find the facts from all the evidence in the case. To those facts you will apply the law as I give it to you. You must follow the law as I give it to you whether you agree with it or not. And you must not be influenced by any personal likes or dislikes, opinions, prejudices, or sympathy. That means that you must decide the case solely on the evidence before you. You will recall that you took an oath to do so.

In following my instructions, you must follow all of them and not single out some and ignore others; they are all important.

INSTRUCTION NO. 2

When a party has the burden of proof on any claim by a preponderance of the evidence, it means you must be persuaded by the evidence that the claim is more probably true than not true.

You should base your decision on all of the evidence, regardless of which party presented it.

INSTRUCTION NO. 3

When a party has the burden of proving any claim by clear and convincing evidence, it means you must be persuaded by the evidence that the claim or defense is highly probable. This is a higher standard of proof than proof by a preponderance of the evidence.

You should base your decision on all of the evidence, regardless of which party presented it.

INSTRUCTION NO. 4

The evidence you are to consider in deciding what the facts are consists of:

1. the sworn testimony of any witness;
2. the exhibits which are received into evidence; and
3. any facts to which the lawyers have agreed.

INSTRUCTION NO. 5

In reaching your verdict, you may consider only the testimony and exhibits received into evidence. Certain things are not evidence, and you may not consider them in deciding what the facts are. I will list them for you:

(1) Arguments and statements by lawyers are not evidence. The lawyers are not witnesses. What they have said in their opening statements, will say in their closing arguments, and at other times is intended to help you interpret the evidence, but it is not evidence. If the facts as you remember them differ from the way the lawyers have stated them, your memory of them controls.

(2) Questions and objections by lawyers are not evidence. Attorneys have a duty to their clients to object when they believe a question is improper under the rules of evidence. You should not be influenced by the objection or by the court's ruling on it.

(3) Testimony that has been excluded or stricken, or that you have been instructed to disregard, is not evidence and must not be considered. In addition sometimes testimony and exhibits are received only for a limited purpose; when I have given a limiting instruction, you must follow it.

(4) Anything you may have seen or heard when the court was not in session is not evidence. You are to decide the case solely on the evidence received at the trial.

INSTRUCTION NO. 6

Evidence may be direct or circumstantial. Direct evidence is direct proof of a fact, such as testimony by a witness about what that witness personally saw or heard or did. Circumstantial evidence is proof of one or more facts from which you could find another fact. You should consider both kinds of evidence. The law makes no distinction between the weight to be given to either direct or circumstantial evidence. It is for you to decide how much weight to give to any evidence.

INSTRUCTION NO. 7

In deciding the facts in this case, you may have to decide which testimony to believe and which testimony not to believe. You may believe everything a witness says, or part of it, or none of it. Proof of a fact does not necessarily depend on the number of witnesses who testify about it.

In considering the testimony of any witness, you may take into account:

- (1) the opportunity and ability of the witness to see or hear or know the things testified to;
 - (2) the witness's memory;
 - (3) the witness's manner while testifying;
 - (4) the witness's interest in the outcome of the case and any bias or prejudice;
 - (5) whether other evidence contradicted the witness's testimony;
 - (6) the reasonableness of the witness's testimony in light of all the evidence;
- and
- (7) any other factors that bear on believability.

The weight of the evidence as to a fact does not necessarily depend on the number of witnesses who testify about it.

INSTRUCTION NO. 8

A deposition is the sworn testimony of a witness taken before trial. The witness is placed under oath to tell the truth and lawyers for each party may ask questions. The questions and answers are recorded.

You should consider deposition testimony, presented to you in court in lieu of live testimony, insofar as possible, in the same way as if the witness had been present to testify.

INSTRUCTION NO. 9

Some witnesses, because of education or experience, are permitted to state opinions and the reasons for those opinions.

Opinion testimony should be judged just like any other testimony. You may accept it or reject it, and give it as much weight as you think it deserves, considering the witness's education and experience, the reasons given for the opinion, and all the other evidence in the case.

INSTRUCTION NO. 10

All parties are equal before the law and a corporation is entitled to the same fair and conscientious consideration by you as any party. In these instructions, the word "person" also refers to a corporation.

INSTRUCTION NO. 11

Under the law, a corporation is considered to be a person. It can only act through its employees, agents, directors, or officers. Therefore, a corporation is responsible for the acts of its employees, agents, directors, and officers performed within the scope of authority.

INSTRUCTION NO. 12

In this case, plaintiffs, adidas America, Inc. and adidas AG (collectively, "adidas"), contend that defendant, Payless ShoeSource, Inc. ("Payless"), has committed trademark infringement and trademark dilution, and has engaged in unfair competition and unfair and deceptive trade practices arising from Payless's use of two and four parallel stripes on the side of certain of Payless's footwear. adidas further contends that Payless has committed trade dress infringement and trade dress dilution, and has engaged in unfair competition and unfair and deceptive trade practices arising from Payless's sale of certain shoes that, adidas alleges, are confusingly similar to adidas's SUPERSTAR Trade Dress. Payless denies these allegations.

Although for various reasons these claims have different names, some of them require adidas to prove the same elements to the jury. The first section of these instructions is based on the federal statutory trademark and trade dress infringement claims. I will apply your verdict on these claims to adidas's claims for unfair competition under state and federal law and to adidas's state law claims for common law trademark and trade dress infringement.

You will also be instructed and will return a verdict on the dilution claims and unfair and deceptive trade practices claims.

INSTRUCTION NO. 13

You have heard testimony about a 1994 settlement agreement. I instruct you that this settlement agreement does not prohibit adidas from asserting the claims in this case. You should consider the settlement agreement only as evidence related to Payless's intent and understanding of the agreement.

INSTRUCTION NO. 14

Trademarks and Trade Dress Generally

A trademark is any word, symbol, device, or any combination thereof, used by a person to identify and distinguish that person's goods from those of others and to indicate the source of the goods.

Trade dress is the non-functional physical detail and design of a product or its packaging, which indicates or identifies the product's source and distinguishes it from the products of others.

Trade dress is the product's total image and overall appearance, and may include features such as size, shape, color, color combinations, texture, or graphics. In other words, trade dress is the form in which a person presents a product or service to the market, its manner of display.

INSTRUCTION NO. 15

Trademarks and Trade Dress Generally

A person acquires the right to exclude others from using a trademark or trade dress by being the first to use it in the marketplace. Rights in a trademark or trade dress are obtained only through commercial use of the mark or trade dress. The owner of a trademark or trade dress has the right to exclude others unless the trademark or trade dress has been abandoned.

A trademark or trade dress owner may enforce the right to exclude others in an action for infringement, dilution, unfair competition, or unfair and deceptive trade practices.

Once the owner of a trademark has obtained the right to exclude others from using the trademark, the owner may obtain a certificate of registration issued by the United States Patent and Trademark Office. Thereafter, when the owner brings an action for infringement, the owner may rely solely on the registration certificate to prove that the owner has the right to exclude others from using the trademark in connection with the type of goods specified in the certificate.

INSTRUCTION NO. 16

Trademarks and Trade Dress Generally

In this case, the plaintiff, adidas, contends that the defendant, Payless, has infringed the plaintiff's trademark and trade dress. The plaintiff has the burden of proving by a preponderance of the evidence that the plaintiff is the owner of a valid trademark/trade dress and that the defendant infringed that trademark/trade dress. Preponderance of the evidence means that you must be persuaded by the evidence that it is more probably true than not true that the defendant infringed the plaintiff's trademark.

INSTRUCTION NO. 17

Trademarks and Trade Dress Generally

The trademark laws balance three often-conflicting goals: (1) protecting the public from being misled about the nature and source of goods and services, so that the consumer is not confused or misled in the market; (2) protecting the rights of a business to identify itself to the public and its reputation in offering goods and services to the public; and (3) protecting the public interest in fair competition in the market.

The balance of these policy objectives varies from case to case, because they may often conflict. Accordingly, each case must be decided by examining its specific facts and circumstances, which you are to evaluate.

In my instructions, I will identify types of facts you are to consider in deciding if Payless is liable to adidas for violating trademark law. These facts are relevant to whether Payless is liable for:

- (1) infringing adidas's registered trademark rights in the Three-Stripe Mark, by using a trademark in a manner likely to cause confusion among consumers;
- (2) infringing adidas's rights in the SUPERSTAR Trade Dress by using a trade dress in a manner likely to cause confusion among consumers;

- (3) diluting adidas's Three-Stripe Mark by eroding the public's exclusive identification of that mark with adidas; and
- (4) diluting adidas's SUPERSTAR Trade Dress by eroding the public's exclusive identification of that trade dress with adidas.

INSTRUCTION NO. 18

Trademarks and Trade Dress Generally

The term "use" as it is used in these instructions relating to a trademark or trade dress means selling, offering for sale, distributing or advertising.

INSTRUCTION NO. 19

Trademark Infringement

On adidas's claims for infringement of its "Three-Stripe" trademark, adidas has the burden of proving each of the following elements by a preponderance of the evidence that:

1. the Three-Stripe mark is a valid, protectable trademark;
2. adidas owns the Three-Stripe mark as a trademark;
3. Payless used design features similar to the Three-Stripe mark without consent of adidas in a manner that is likely to cause confusion among ordinary consumers as to the source, affiliation, connection, or association of the goods; and
4. adidas was damaged by Payless's infringement.

If you find that each of the elements on which adidas has the burden of proof has been proved, your verdict should be for adidas. If, on the other hand, adidas has failed to prove any of these elements, your verdict should be for Payless.

I will instruct you on how to apply each of these elements to the evidence before you.

INSTRUCTION NO. 20

Trademark Infringement

As stated in instruction number 19 , in order to find for adidas on its claims for trademark infringement, adidas must prove by a preponderance of the evidence that the Three-Stripe Mark is valid and protectable and that adidas owns the trademark.

The parties have no dispute on these issues. Therefore, I instruct you that for purposes of instruction number 19 , it is agreed and therefore you must find that adidas owns the Three-Stripe Mark and that the trademark is valid and protectable.

INSTRUCTION NO. 21

Trade Dress Infringement

On adidas' claim for infringement of its SUPERSTAR Trade Dress, adidas has the burden of proving by a preponderance of the evidence each of the following elements:

- 1) The SUPERSTAR Trade Dress is distinctive;
- 2) adidas owns the SUPERSTAR Trade Dress, which consists of (a) the Three-Stripe Mark, (b) a stylized "shell" toe cap, (c) a colored portion on the outer back heel section, and (d) a particularly flat sole, as a trade dress;
- 3) The SUPERSTAR Trade Dress is nonfunctional;
- 4) Payless used design features similar to adidas' SUPERSTAR Trade Dress without the consent of adidas in a manner that is likely to cause confusion among ordinary purchasers as to the source of the Payless goods; and
- 5) adidas was damaged by Payless' infringement.

If you find that each of the elements on which adidas has the burden of proof have been proved, your verdict should be for adidas. If, on the other hand, adidas has failed to prove any of these elements, your verdict should be for Payless.

adidas claims Payless infringed on the SUPERSTAR trade dress only.

There are no trade dress claims asserted by adidas beyond the SUPERSTAR Trade

Dress claim I just defined.

INSTRUCTION NO. 22

Trade Dress Infringement

I gave you instruction number 21 that requires adidas to prove by a preponderance of the evidence that the SUPERSTAR Trade Dress is non-functional. I have already found as a matter of law that the SUPERSTAR Trade Dress is non-functional. Therefore, I instruct you that for purposes of instruction number 21, you must find that the SUPERSTAR Trade Dress is non-functional.

Instruction number 21 also requires adidas to prove by a preponderance of the evidence that the SUPERSTAR Trade Dress is distinctive. To prove distinctiveness, adidas must show that the SUPERSTAR Trade Dress has "secondary meaning." Secondary meaning is the recognition that the trade dress has among prospective purchasers.

A trade dress acquires secondary meaning when it has been used in such a way that its primary significance in the minds of the prospective purchasers is not the product itself, but the identification of the product with a single source, regardless of whether consumers know who or what that source is. Thus, in order to find that the SUPERSTAR Trade Dress has acquired secondary meaning, you must find that the preponderance of the evidence shows that a significant number of the consuming public associates the SUPERSTAR Trade Dress with a single source.

You may consider the following factors when you determine whether the SUPERSTAR Trade Dress has acquired a secondary meaning:

- 1) Purchaser Perception. Whether the people who purchase products that bear the SUPERSTAR Trade Dress associate the trade dress with adidas.
- 2) Advertisement. The degree and manner in which adidas's advertisements included the SUPERSTAR Trade Dress.
- 3) Demonstrated Utility. Whether adidas successfully has used the SUPERSTAR Trade Dress to increase sales of its shoes.
- 4) Extent of Use. The length of time and manner in which adidas has used the SUPERSTAR Trade Dress.
- 5) Exclusivity. Whether adidas's use of the SUPERSTAR Trade Dress has been exclusive.
- 6) Copying. Whether Payless intentionally copied adidas's trade dress.
- 7) Actual Confusion. Whether Payless's use of design features similar to adidas's trade dress has led to actual confusion.

Trade dress is protectable only to the extent you find it has acquired distinctiveness by the public coming to associate the trade dress with adidas.

Trade dress is entitled to protection only as broad as the secondary meaning it has acquired, if any. If the trade dress has not acquired a secondary meaning, it is

entitled to no protection and cannot be considered a valid trade dress.

The mere fact that adidas is using the SUPERSTAR Trade Dress, or that adidas began using it before Payless used similar design features, does not mean that the trade dress has acquired secondary meaning. There is no particular length of time that a trade dress must be used before it acquires a secondary meaning.

INSTRUCTION NO. 23

Trade Dress Infringement

While in appropriate circumstances deliberate copying may suffice to support an inference of secondary meaning, in order to make this finding, the deliberate copying must be an intentional attempt to capitalize on a company's reputation or good will. Copying to exploit a particularly desirable feature, as opposed to copying to confuse the consumers about the source of the product, does not support an inference of secondary meaning.

INSTRUCTION NO. 24

Likelihood of Confusion

Confusion in the marketplace can occur at three distinct times: before the purchase (called "initial-interest" confusion), at the moment of purchase (called "point-of-sale" confusion), and after the purchase (called "post-sale" confusion). adidas's claims are not based on point-of-sale confusion, but are based on initial-interest and post-sale confusion. I will now explain each of these concepts to you.

Initial interest confusion occurs when someone uses a confusingly similar imitation of another's trademark in a manner calculated to capture initial consumer attention. Even though no actual sale is finally completed as a result of the confusion, there still may be infringement.

Post-sale confusion can occur when someone other than the purchaser sees the item after it has been purchased and the confusion influences a later purchasing decision.

INSTRUCTION NO. 25

Likelihood of Confusion

Because evidence of actual confusion is often not available, a consumer survey conducted according to accepted survey principles is often used as a proxy for evidence of actual confusion. These surveys measure the subjective mental associations and reactions of prospective consumers to the goods at issue. While survey evidence may be probative of whether there is a likelihood of confusion, survey evidence differs from evidence of actual confusion because survey evidence is not necessarily generated in real world settings. The results of a consumer survey are entitled to the weight you decide to give them.

INSTRUCTION NO. 26

Likelihood of Confusion

You must consider whether Payless's use of design features is likely to cause confusion about the source of adidas's or Payless's goods. This test applies to both the trademark and trade dress infringement claims.

I will suggest some factors you should consider in deciding this. The presence or absence of any particular factor that I suggest should not necessarily resolve whether there was a likelihood of confusion, because you must consider all relevant evidence in determining this. A likelihood of confusion requires you to find that confusion is probable and not merely a possibility. As you consider the likelihood of confusion you should examine the following:

1. Strength or Weakness of adidas's Trademark or Trade Dress. The more the consuming public recognizes adidas's Three-Stripe trademark or SUPERSTAR Trade Dress as an indication of origin of adidas's goods, the more likely it is that consumers would be confused about the source of Payless's goods if Payless uses similar design features.

2. Payless's Use of the Trade Mark or Trade Dress. If adidas used its trademark or trade dress and Payless used its similar design features on the same, related, or complementary kinds of goods there may be a greater likelihood of confusion about the source of the goods than otherwise.

3. Similarity of adidas's Trade Mark and Trade Dress and Payless's Design Features. If the overall impression created by adidas's Three-Stripe Mark or SUPERSTAR Trade Dress in the marketplace is similar to that created by Payless's design features in appearance, there is a greater chance that consumers are likely to be confused by Payless's use of its design features. Similarities in appearance weigh more heavily than differences in finding that the adidas trademark or trade dress and Payless's design features are similar.

4. Actual Confusion. If use by Payless of a design feature similar to adidas's Three-Stripe Mark or SUPERSTAR Trade Dress has led to instances of actual confusion, this strongly suggests a likelihood of confusion. However actual confusion is not required for a finding of likelihood of confusion. Even if actual confusion did not occur, Payless's use of the similar design features may still be likely to cause confusion. As you consider whether the design features used by Payless creates for consumers a likelihood of confusion with adidas's trademark or trade dress, you should weigh any instances of actual confusion against the opportunities for such confusion. If the instances of actual confusion have been relatively frequent, you may find that there has been substantial actual confusion. If, by contrast, there is a very large volume of sales, but only a few isolated instances of actual confusion you may find that there has not been substantial actual confusion.

5. Payless's Intent. Knowing use by Payless of design features similar to adidas's Three-Stripe trademark or SUPERSTAR Trade Dress to identify similar goods may strongly show an intent to derive benefit from the reputation of adidas's mark, suggesting an intent to cause a likelihood of confusion. On the other hand, even in the absence of proof that Payless acted knowingly, the use of design features similar to adidas's trademark or trade dress to identify similar goods may indicate a likelihood of confusion.

6. Marketing/Advertising Channels. If adidas's and Payless's goods are likely to be sold in the same or similar stores or outlets, or advertised in similar media, this may increase the likelihood of confusion.

7. Purchaser's Degree of Care. The more sophisticated the potential buyers of the goods or the more costly the goods, the more careful and discriminating the reasonably prudent purchaser exercising ordinary caution may be. They may be less likely to be confused by similarities in adidas's trademark or trade dress and Payless's design features.

INSTRUCTION NO. 27

Likelihood of Confusion

In the last instruction, I instructed you as to factors you should consider in evaluating the likelihood of confusion as to the source of adidas's or Payless's shoes. In evaluating the likelihood of confusion as to the source of adidas's or Payless's shoes, you should not consider a side-by-side comparison of the adidas and Payless shoes, but only should consider the shoes as they are likely to be seen by consumers in the circumstances alleged to lead to initial interest and post-sale confusion.

INSTRUCTION NO. 28

Unfair and Deceptive Trade Practices

adidas has asserted two claims that fall under a set of statutes that prohibit unfair and deceptive trade practices. These claims are very similar to a claim for trademark or trade dress infringement.

In its unfair and deceptive trade practices claims, adidas alleges that Payless has engaged in deceptive trade practices with respect to the Three-Stripe Mark and the SUPERSTAR Trade Dress, and that adidas has been injured by Payless's conduct.

INSTRUCTION NO. 29

Unfair and Deceptive Trade Practices

For adidas to recover from Payless on its claims for unfair and deceptive trade practices, you must find that each of the following have been proved by adidas by a preponderance of the evidence:

- 1) Payless knowingly engaged in a deceptive trade practice;
- 2) The deceptive trade practice occurred in the course of Payless's business;
- 3) adidas was injured in the course of its business as a result of the deceptive trade practice; and
- 4) The deceptive trade practice has caused actual damages or losses to adidas.

INSTRUCTION NO. 30

Unfair and Deceptive Trade Practices

Payless has engaged in a deceptive trade practice if, in the course of its business, it engaged in one or more of the following:

- 1) Payless knowingly passed off any of its goods as those of adidas.
That is, Payless intended to make the consumer believe that any of its products are those of adidas.
- 2) Causing a likelihood of confusion or of misunderstanding as to the source, sponsorship, approval, or certification of any of Payless's goods.
- 3) Causing a likelihood of confusion or of misunderstanding as to affiliation, connection, or association with, or certification by, adidas.

I refer you to the instructions I gave you earlier on likelihood of confusion, which are instructions number 24 through 27.

On each unfair and deceptive trade practices claim, if you find it is more likely than not that any of the above occurred, you should find for adidas. If you find it is more likely than not that none of these occurred, you should find for Payless.

INSTRUCTION NO. 31

Dilution

adidas has also brought three trademark and/or trade dress dilution claims, two under federal law and one under state law. I will now give you some specific instructions to apply in considering these claims.

Under federal law, trademark or trade dress dilution is the lessening of the capacity of a famous or well-known or distinctive mark or trade dress to identify and distinguish goods or services as coming from a single source. The purpose of the anti-dilution laws is to protect against erosion of the trademark's or trade dress' value as a source identifier, or the tarnishment of a trademark's or trade dress' image. The mere fact that consumers mentally associate the junior user's mark with a famous mark is not enough to establish dilution.

adidas has asserted two claims for dilution under federal law. In one claim, adidas asserts that Payless has used design features that dilute the distinctive quality of adidas's Three-Stripe Mark. In the other claim, adidas asserts that Payless has used design features that dilute the distinctive quality of adidas's SUPERSTAR Trade Dress.

Under state law, trademark dilution requires adidas to prove a likelihood of injury to business reputation or dilution of the distinctive quality of the Three-Stripe Mark.

INSTRUCTION NO. 32

Dilution

Payless is liable on the first federal dilution claim if adidas has proven each of the following by a preponderance of the evidence:

- 1) The Three-Stripe Mark is famous and distinctive;
- 2) Payless is making use in commerce of one or more design features that are identical or nearly identical to the Three-Stripe Mark;
- 3) Payless's use began after the Three-Stripe Mark became famous; and
- 4) Payless's use of a design feature identical to or nearly identical to the Three-Stripe Mark caused actual dilution of the distinctive quality of the Three-Stripe Mark.

INSTRUCTION NO. 33

Dilution

Payless is liable on the second federal dilution claim if adidas has proven each of the following by a preponderance of the evidence:

- 1) The SUPERSTAR Trade Dress is famous and distinctive;
- 2) Payless is making use of design features that are identical or nearly identical to the SUPERSTAR Trade Dress;
- 3) Payless's use began after the SUPERSTAR Trade Dress became famous; and
- 4) Payless's use of design features identical to or nearly identical to the SUPERSTAR Trade Dress caused actual dilution of the distinctive quality of the SUPERSTAR Trade Dress.

INSTRUCTION NO. 34

Dilution

To prevail on its federal law claims for dilution of its Three-Stripe Mark and/or SUPERSTAR Trade Dress, adidas must prove by a preponderance of the evidence that its Three-Stripe Mark and/or SUPERSTAR Trade Dress are "famous" and "distinctive." In considering whether adidas's trademark and/or trade dress are "famous" and "distinctive," you may consider the following factors:

- 1) The degree of inherent or acquired distinctiveness of the trademark and/or trade dress;
- 2) The duration and extent of use of the trademark and/or trade dress in connection with the goods or services with which the trademark and/or trade dress is used;
- 3) The duration and extent of advertising and publicity of the trademark and/or trade dress;
- 4) The geographical extent of the trading area in which the trademark and/or trade dress is used;
- 5) The channels of trade for the goods or services with which the trademark and/or trade dress is used;
- 6) The degree of recognition of the trademark and/or trade dress in the trading areas and channels of trade used by adidas and Payless;

- 7) The nature and extent of use of the same or similar trademark and/or trade dresses by third parties; and
- 8) Whether the trademark and/or trade dress was registered.

INSTRUCTION NO. 35

Dilution

As discussed above, to prevail on its federal law claims for dilution of its Three-Stripe Mark and/or SUPERSTAR Trade Dress, adidas must prove by a preponderance of the evidence that Payless used one or more design features that were identical or nearly identical to those owned by adidas.

"Identical or nearly identical" does not mean that the adidas mark or trade dress has to be exactly the same as Payless's design features. The two are considered "identical or nearly identical" if a significant segment of the consuming public would see the two as essentially the same.

INSTRUCTION NO. 36

Dilution

Under federal law, dilution can happen in two ways: blurring and tarnishment.

Blurring occurs when the association arising from the similarity between a design feature used by Payless with the mark or trade dress used by adidas impairs the distinctiveness of the adidas mark or trade dress. Factors you can consider in determining whether dilution by blurring has occurred include:

- 1) The degree of similarity between the mark or trade dress used by adidas and Payless's design features;
- 2) The degree of inherent or acquired distinctiveness of adidas' mark or trade dress;
- 3) The extent to which adidas is engaged in substantially exclusive use of the mark or trade dress;
- 4) The degree of recognition of the mark or trade dress with adidas;
- 5) Whether Payless intended to create an association with adidas' mark or trade dress; and
- 6) Any actual association between the design features used by Payless and adidas' mark or trade dress.

Tarnishment is using design features that are identical or nearly identical to a famous mark or trade dress of the plaintiff in such a way that harms the reputation of the plaintiff's mark or trade dress by improperly associating it with an inferior or offensive product or service.

If adidas proves dilution either by blurring or by tarnishment, then you should find for adidas. adidas is not required to prove dilution both by blurring and by tarnishment.

To prevail on its dilution claims, adidas need not prove likelihood of confusion.

INSTRUCTION NO. 37

Dilution

Payless is liable on the state dilution claim if adidas has proven the following by a preponderance of the evidence:

- 1) The Three-Stripe Mark is distinctive;
- 2) Payless is making use in commerce of one or more design features that are identical or nearly identical to the Three-Stripe Mark;
- 3) Payless's use began after the Three-Stripe Mark became distinctive; and
- 4) Payless's use of design features identical to or nearly identical to the Three-Stripe Mark presents a likelihood of injury to the business reputation of adidas or of diminution of the Three-Stripe Mark as an advertising tool among consumers of adidas's products.

INSTRUCTION NO. 38

Dilution

To prevail on its state law claim for dilution of its Three-Stripe Mark, adidas must prove by a preponderance of the evidence that its Three-Stripe Mark is "distinctive." For this state law claim, adidas does not need to prove that the Three-Stripe Mark is famous. Distinctiveness may be developed by long use, consistent superior quality instilling customer satisfaction, or extensive advertising. If the Three-Stripe Mark has come to signify adidas's product in the mind of a significant portion of the consumers, and if the mark evokes favorable images of adidas or its products, the mark is distinctive.

INSTRUCTION NO. 39

Dilution

Under state law, blurring occurs when the association arising from the similarity between design features used by Payless with the mark used by adidas impairs the distinctiveness of the adidas mark.

Also under state law, tarnishment is using design features that are identical or nearly identical to a distinctive mark of the plaintiff in such a way that harms the reputation of the plaintiff's mark by improperly associating it with an inferior mark or trade dress or offensive product or service.

If adidas proves dilution either by blurring or by tarnishment, then you should find for adidas. adidas is not required to prove dilution both by blurring and by tarnishment.

INSTRUCTION NO. 40

Damages

It is the duty of the Court to instruct you about the measure of damages. By instructing you on damages, the Court does not mean to suggest for which party your verdict should be rendered.

If you find for the plaintiff on any of its claims, you must determine the plaintiff's damages.

Your award must be based upon evidence and not upon speculation, guesswork or conjecture.

INSTRUCTION NO. 41

Damages

If you find for adidas on its federal trademark infringement or trade dress infringement claims, you may award adidas:

- 1) Actual damages; and
- 2) Payless's profits.

I will instruct you as to the requirements for each award and provide guidance as to how to calculate those awards.

INSTRUCTION NO. 42

Damages

If you find for adidas on its trademark infringement claim with respect to the Three-Stripe Mark, or if you find for adidas on its trade dress infringement claim with respect to the SUPERSTAR Trade Dress, you must determine adidas's actual damages.

adidas has the burden of proving actual damages by a preponderance of the evidence. Damages means the amount of money which will reasonably and fairly compensate adidas for any injury you find was caused by either Payless's infringement of adidas's Three-Stripe Mark or SUPERSTAR Trade Dress. It is not necessary for adidas to prove that Payless acted willfully in order to recover actual damages.

In determining the amount of adidas's actual damages, you should consider the following:

- 1) The injury to adidas's reputation
- 2) The injury to adidas's goodwill, including injury to adidas's general business reputation; and
- 3) Whether the evidence would support a reasonable royalty.

To recover damages for trademark infringement or trade dress infringement, it is not necessary for adidas to prove it has actually lost any sales to Payless.

INSTRUCTION NO. 43

Damages

adidas is seeking actual damages in the form of a reasonable royalty. I want to give you some idea of what a reasonable royalty is, and how one is calculated.

A royalty is a payment made to the owner of a trademark or trade dress by a non-owner in exchange for rights to use the trademark or trade dress. A reasonable royalty is the royalty that would have resulted from a hypothetical negotiation between the trademark or trade dress owner and a company in the position of Payless taking place just before the infringement or unfair competition began. You should also assume that both parties to that negotiation understood the trademark or trade dress to be valid. Although the relevant date for the hypothetical negotiation is just before the infringement began, you may consider in your determination of adidas's reasonable royalty-based damages any profits made by Payless from sales of the infringing shoes after that time and any of Payless's commercial success of the trademark or trade dress in the form of sales of items bearing the mark or trade dress after that time. You may consider this information, however, only if it was foreseeable at the time that the infringement began.

INSTRUCTION NO. 44

Damages

In addition to the actual damages I just discussed, adidas also seeks to recover Payless's profits.

In order for adidas to be entitled to recover Payless's profits from the sales of the infringing shoes, adidas has the burden of proving by a preponderance of the evidence that Payless acted willfully or in bad faith when it infringed the Three-Stripe Mark and/or SUPERSTAR Trade Dress.

Willful infringement refers to a deliberate intent to cause consumer confusion. If you find that Payless infringed adidas's trademark or trade dress, you must also determine if Payless used the design features intentionally, knowing it was an infringement. If you find Payless acted in this way, you may find that Payless acted willfully.

INSTRUCTION NO. 45

Damages

As a defense to adidas's allegations of willfulness, Payless has asserted that it relied on the advice of its legal counsel. To prevail on this defense, Payless must prove by a preponderance of the evidence that the legal advice was competent such that Payless was reasonable in relying on the advice. To prevail on this defense, Payless does not need to prove that the advice was ultimately correct. In making this determination, you should consider the totality of the circumstances at the time.

INSTRUCTION NO. 46

Damages

On any trademark or trade dress infringement, claim on which you find for adidas and you find that Payless acted willfully, adidas is entitled to any profits earned by Payless that are attributed to Payless's infringement. You may not include in any award of profits any amount that you took into account in determining actual damages.

Profit is determined by deducting all expenses from gross revenue.

Gross revenue consists of all money derived by Payless from the sale of any shoes found to have infringed adidas's Three-Stripe Mark and/or SUPERSTAR Trade Dress, or from the sale of any shoes found to have unfairly competed with adidas. adidas has the burden of proving Payless's gross revenue by a preponderance of the evidence.

Expenses are all costs that Payless incurred in the production, distribution, or sale of the infringing products. Payless has the burden of proving the expenses by a preponderance of the evidence.

INSTRUCTION NO. 47

Damages

For adidas's federal dilution claim, adidas seeks to recover:

- 1) Actual damages; and
- 2) Payless's profits.

In order for adidas to be entitled to recover actual damages or Payless's profits on adidas's dilution claims under federal law, adidas must prove by a preponderance of the evidence that Payless willfully intended to trade on adidas's reputation or to cause dilution of the Three-Stripe Mark and/or SUPERSTAR Trade Dress.

adidas has the burden of proving actual damages by a preponderance of the evidence. Damages means the amount of money which will reasonably and fairly compensate adidas for any injury you find was caused by Payless's dilution of adidas's Three-Stripe Mark and/or SUPERSTAR Trade Dress.

In determining the amount of adidas's actual damages, you should consider the following:

- 1) The injury to adidas's reputation;
- 2) The injury to adidas's goodwill, including injury to adidas's general business reputation; and
- 3) Whether the evidence would support a reasonable royalty.

INSTRUCTION NO. 48

Damages

This instruction concerns adidas's state law claims for unfair and deceptive trade practices, common law trademark and trade dress infringement, unfair competition, and dilution.

For those claims, if you award a monetary recovery to adidas, you must also determine whether adidas is entitled to punitive damages. adidas is entitled to punitive damages only if adidas proves that Payless has acted with malice, or in wanton and reckless disregard of the rights of adidas, or if deterrence is called for and Payless's conduct is particularly aggravated. You may consider the importance to society in deterring similar misconduct in the future.

You must find these facts by clear and convincing evidence. Clear and convincing evidence means that the truth of the asserted evidence is highly probable.

If you decide to award punitive damages, you may consider the following items in fixing the amount:

- 1) The character of the defendant's conduct;
- 2) The defendant's motive; and
- 3) The sum of money that would be required to discourage the defendant and others from engaging in such conduct in the future.

INSTRUCTION NO. 49

When you begin your deliberations, you should elect one member of the jury as your presiding juror. That person will preside over the deliberations and speak for you here in court.

You will then discuss the case with your fellow jurors to reach agreement if you can do so. Your verdict must be unanimous.

Each of you must decide the case for yourself, but you should do so only after you have considered all of the evidence, discussed it fully with the other jurors, and listened to the views of your fellow jurors.

Do not hesitate to change your opinion if the discussion persuades you that you should. Do not come to a decision simply because other jurors think it is right.

It is important that you attempt to reach a unanimous verdict but, of course, only if each of you can do so after having made your own conscientious decision. Do not change an honest belief about the weight and effect of the evidence simply to reach a verdict.

INSTRUCTION NO. 50

If it becomes necessary during your deliberations to communicate with me, you may send a note through the bailiff, signed by your presiding juror or by one or more members of the jury. No member of the jury should ever attempt to communicate with me except by a signed writing; I will communicate with any member of the jury on anything concerning the case only in writing, or here in open court. If you send out a question, I will consult with the parties before answering it, which may take some time. You may continue your deliberations while waiting for the answer to any question. Remember that you are not to tell anyone—including me—how the jury stands, numerically or otherwise, until after you have reached a unanimous verdict or have been discharged. Do not disclose any vote count in any note to the court.

INSTRUCTION NO. 51

A verdict form has been prepared for you. After you have reached unanimous agreement on a verdict, your presiding juror will fill in the form that has been given to you, sign and date it, and advise the court that you are ready to return to the courtroom.