SUPPLEMENT TO:

January 2013 Intellectual Property Roundtable

Yums v. Nike

Exploring the Boundaries of an IP Owner's Ability to Control the Existence of a Justiciable Case or Controversy

By: Michael M. Lafeber
Erin O. Dungan
Briggs and Morgan, P.A.
80 S. Eighth Street
2200 IDS Center
Minneapolis, Minnesota 55402

Yums v. Nike
Exploring the Boundaries of an IP Owner's Ability to Control the Existence of a Justiciable Case or Controversy

On January 9, 2013, the U.S. Supreme Court unanimously upheld the dismissal of Yums' counterclaims seeking to invalidate Nike's federally registered trademark for Nike's popular Air Force 1. Specifically, the Court held that Nike's broad covenant not to enforce its trademark against Yums rendered Yums' invalidity counterclaims moot.

The Court relied on the "voluntary cessation" doctrine in finding both the district court and the Second Circuit had erred in placing the burden on Yums to prove Nike's covenant did not render the case moot. In its general application, the voluntary cessation doctrine prevents a defendant accused of infringement from avoiding litigation by voluntarily stopping the infringement, only to resume after the lawsuit has been dismissed. To guard against such abuse, courts have placed the burden on the alleged infringer to establish that "subsequent events made it absolutely clear that the allegedly wrongful behavior could not reasonably be expected to recur."

The Court accepted Yums' argument that Nike was the party accused of improper conduct – namely wrongfully seeking to gain a competitive advantage by enforcing an invalid trademark – and therefore Nike had the burden. Specifically, the Court held that Nike had a "formidable burden" under the "voluntary cessation" doctrine to establish it is "absolutely clear" the allegedly wrongful conduct cannot reasonably be expected to reoccur.

Despite disagreeing with the lower court and placing a "formidable burden" on Nike, the Court ultimately agreed that the invalidity counterclaims were moot. According to the Court, the covenant provided by Nike was sufficient to meet the burden imposed by the "voluntary cessation" doctrine. With respect to the covenant, the Court explained:

> The covenant is unconditional and irrevocable. Beyond simply prohibiting Nike from filing suit, it prohibits Nike from making any claim or any demand. It reaches beyond [Yums] to protect [Yums'] distributors and customers. And it covers not just current or previous designs, but any colorable imitations.

The Court also highlighted that Yums failed to come forth with any evidence of intent to design an infringing shoe arguably beyond the scope of the covenant. The Court commented, "[i]f such a shoe exists, the parties have not pointed to it, there is no evidence that [Yums] has dreamt of it, and we cannot conceive of it. It sits, as far as we can tell, on a shelf between Dorothy's ruby slippers and Perseus's winged sandals."

In addition the Court rejected Yums' argument that public policy considerations warranted the exercise of jurisdiction to "eradicate" the anticompetitive effects of invalid trademarks. Specifically, Yums submitted an affidavit indicating retailers refrained from carrying Yums' shoes out of fear Nike would "cancel [their] account or take other actions against the retailer, e.g., delay shipment of the retailer's Nike order or 'lose' the retailer's Nike order." Yums argued further that "[n]o covenant, no matter how broad, can eradicate the effects" of a registered but invalid trademark," and allowing Nike to unilaterally moot the case would subvert "the important role federal courts play in the administration of federal patent and trademark law."

In response, the Court reasoned that accepting Yums' economic approach to jurisdiction would cut far too wide a swath. Specifically, under such a theory Nike would "need not even have threatened to sue first" and Yums, despite having no plans to make an arguably infringing shoe, "could sue to invalidate the trademark simply because [Yums] and Nike both compete in the athletic footwear market." The Court explained:

> Taken to its logical conclusion, the theory seems to be that a market participant is injured for Article III purposes whenever a competitor benefits from something allegedly unlawful-whether a trademark, the awarding of a contract, a landlord-tenant arrangement, or so on. We have never accepted such a boundless theory of standing.

Moreover, the Court noted the inherent safeguards against trademark holders abusing their ability to avoid jurisdiction by issuing broad covenants not to enforce their trademark. Specifically, the Court explained that "granting covenants not to sue may be a risky long-term strategy for a trademark holder." *Citing* 3 J. McCarthy, Trademarks & Unfair Competitio*n* §18:48, p. 18-112 (4th ed. 2012) ("[U]ncontrolled and 'naked' licensing can result in such a loss of significance of a trademark that a federal registration should be cancelled"); *Sun Banks of Fla., Inc. v. Sun Fed. Sav. & Loan Assn.*, 651 F. 2d 311 , 316 (5th Cir. 1981) (finding that "extensive third-party use of the [mark was] impressive evidence that there would be no likelihood of confusion").

Lastly, the Court noted that while Yums' theory could in fact benefit the small competitor in a particular case, "lowering the gates for one party lowers the gates for all," potentially creating the very harm Yums sought to guard against. The Court explained:

> . . .[L]arger companies with more resources w[ould] have standing to challenge the intellectual property portfolios of their more humble rivals—not because they are threatened by any particular patent or trademark, but simply because they are competitors in the same market. This would further encourage parties to employ litigation as a weapon against their competitors rather than as a last resort for settling disputes.

DISCUSSION

Should the "voluntary cessation" doctrine apply outside the typical context of a defendant who ceases allegedly infringing activity? Should it apply to a trademark owner merely seeking to safeguard and enforce its government sanctioned rights?

The Supreme Court's decision has been described by some commentators as providing big trademark owners confronted with unwanted validity challenges with a legal "escape hatch" that is ripe for abuse. Even more direct, some argue the decision affords big trademark owners free rein to "bully the little guy." Are they correct? Or are the risks associated with granting such broad covenants identified by the Court enough of a deterrent to guard against abuse?

Should the arguable economic or anticompetitive harm imposed by invalid trademarks be enough to support jurisdiction as advocated by Yums? Would recognizing jurisdiction based on alleged harm such as investors being leery to invest, or retailers shying away from carrying a specific brand, extend jurisdiction beyond reasonable limits? Are there any circumstances under which such "indirect" anticompetitive effects would support jurisdiction over an action seeking to invalidate a trademark?

The Court relied on the following factors in finding that the covenant granted by Nike was sufficient to meet the burden imposed by the "voluntary cessation" doctrine: 1) it was unconditional and irrevocable; 2) it did not simply prohibit Nike from filing suit, but also prohibited Nike from making any claim or demand; 3) it extended to and protected Yums' distributors and customers; and 4) it was not limited to just current or previous designs, but also covered any "colorable imitations" thereof. Going forward, is a covenant required to have all four (4) of these elements to defeat jurisdiction? Are any of the identified elements more important than the others?