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April 2021

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The April 2021 issue of Sterne Kessler's MarkIt to Market® newsletter discusses the suit filed by Nike over MSCHF's "Satan Shoes"; the latest PTAB decision in the ongoing battle between Philip Morris and RAI Strategic Holdings; and the new gTLD open sunrise period.

Sterne Kessler's Trademark & Brand Protection practice is designed to help meet the intellectual property needs of companies interested in developing and maintaining strong brands around the world. For more information, please contact Monica Riva Talley or Tracy-Gene G. Durkin.

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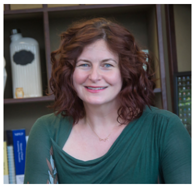

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SOLE MATES (OR NOT) – TAKEAWAYS FROM NIKE V. SATAN

SHOES

By: Monica Riva Talley and Joseph Diorio

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By: Deborah Sterling, Ph.D.

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It was hard to escape news last month of the “Satan Shoes” collaboration between Lil Nas X and Brooklyn art collective MSCHF Product Studio (“MSCHF”). The limited (666 pairs) release of custom red and black Nike Air Max shoes, modified with the addition of a drop of human blood in the sole of the shoe and featuring satanic verses and imagery, were promoted in conjunction with new music released by Lil Nas X.

The release garnered so much attention that it prompted Nike to quickly file suit asserting trademark infringement, false designation of origin, trademark dilution, and unfair competition in violation of the Lanham Act (along with related state and common law claims), requesting declaratory and injunctive relief, and monetary damages. The fact that Nike filed suit is noteworthy in and of itself, as it did not pursue legal action relating to MSCHF’s 2019 release of “Jesus Shoes” – a modification of an all-white Nike Air Max that allegedly had been blessed by a priest and included holy water from the River of Jordan. In any event, the court granted Nike’s request for a temporary restraining order in the Satan Shoes case, blocking sale of the sneakers; the parties quickly settled.

Getting down to the root, or sole, of the issue, Nike claimed that consumers were confused as to Nike’s association with MSCHF’s Satan Shoes, which still featured the Nike Swoosh Logo and other source indicia. Nike has partnered with others in arguably similar co-branding initiatives; the Satan Shoes launch prompted a significant volume of consumer complaints and calls to boycott Nike, which suggested that consumers believed the product to be a collaboration between MSCHF and Nike.

In response, MSCHF asserted that the collectible Satan Shoes were individually numbered works of art, and therefore considered protected artistic expressions under the First Amendment. The shoes sold out in less than a minute, and all but one of the 666 pairs produced were sold and shipped prior to the TRO hearing.

The use of well-known trademarks within expressive works of art has long resulted in a blurred line between trademark infringement and freedom of expression under the First Amendment. This interplay between the First Amendment and the Lanham Act continues to be a very fact-specific analysis, with the devil (as it were) being in the details. While the Satan Shoes case quickly settled, it still helps illustrate the factors courts consider when determining whether custom/modified products constitute an infringement or a work of art protected under the First

Amendment.

The first question is how far a brand owner can extend its trademark rights once the trademarked product is purchased. The first-sale doctrine prevents manufacturers from asserting their trademark rights to control distribution of its products beyond the first sale of the product, as long as the product sold is genuine. *See* Abbott Labs. v. Adelphia Supply USA, 2019 WL 5696148, at *4-5 (E.D.N.Y. Sept. 30, 2019). The analysis of the applicability of the first-sale doctrine hinges on consumer confusion. Do the changes to the product constitute a materially different product that would lead a consumer to be confused as to the source? In the Satan Shoes case, the ultimate product is still shoes – albeit ones that are dramatically modified. While adding a drop of human blood might sweeten the deal, consumers may mistake these MSCHF works of art as a genuine Nike product – particularly as all still bore the famous Nike Swoosh Logo, and in light of Nike's past co-branding initiatives.

The second prong of the inquiry is whether "the public interest in avoiding consumer confusion outweighs the public interest in free expression" (the test set forth in Rogers v. Grimaldi and adopted by the Second Circuit). *See* Rogers v. Grimaldi, 875 F.2d 994, 999 (2d Cir. 1989). The Second Circuit has opined that the "finding of the likelihood of confusion must be particularly compelling to outweigh the First Amendment interest recognized in Rogers." Under this test, the Lanham Act should only be applied when the use of the trademark has no artistic relevance to the original work, or if it has some artistic relevance but it misleads as to the source of the content of the work. Although the first prong is easily satisfied, to show that the work is misleading to the source requires a weighing of the Polaroid Factors. *See* Polaroid Corp. v. Polarad Elecs. Corp., 287 F.2d 492, 495 (2d. Cir. 1961). If, after weighing these factors, the court finds that the consumer confusion is particularly compelling, it will favor the trademark owner.

As noted above, this particular case quickly settled, with MSCHF agreeing to initiate a voluntary recall to buy back any of the Satan Shoes and previously sold Jesus Shoes. That said, after generating millions on free publicity, perhaps MSCHF and Nike are sole mates after all?

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By: Deborah Sterling, Ph.D.

Following a previously unsuccessful IPR bid, in a second go-around, Philip Morris won an institution decision in an inter partes review of a vaping patent owned by rival R.J. Reynolds' parent company, RAI Strategic Holdings. The battle between these companies is happening in the district court (currently stayed), at the ITC, and at the PTAB. What is interesting here is that the panel did not exercise its discretion under 35 U.S.C. 314 to deny this petition under the PTAB's *Fintiv* factors, when it had done so just five months earlier in a prior proceeding on the same patent. So what are the differences between the cases that drove the decisions in opposite directions?

Three of the *Fintiv* factors were the same between the proceedings, but three differed. The three that differed include a lack of overlap in the challenged claims and in the invalidity arguments between the PTAB case and the ITC investigation, which the Board found compelling, particularly when compounded with the "strong" merits of the IP case:

***Fintiv* factor**	**Institution denied**	**Institution granted**
Existence or likelihood of stay	neutral	neutral
Proximity of trial date to final written decision	+	+
Investment in parallel proceedings	-	+
Overlap in issues raised	+	-
Are the parties the same?	+	+
Other circumstances including merits	+	-

(+ indicates factor found to favor exercising discretion; - indicates found to not favor exercising discretion)

So how did the overlap between the claims and arguments at issue differ between the two IPR proceedings such that it flipped the outcome between exercising discretion and not? When Philip Morris filed its earlier unsuccessful petition (IPR2020-00019), RAI had asserted the patent at issue (US 9,901,123) in both district court and at the ITC. In addition, Philip Morris' grounds of challenge were to the same claims and used the same art as that in the ITC proceeding. Notably, the Board found the merits of these grounds weak. Weighing the overlap between proceedings and lack of merits with the other *Fintiv* factors, the Board exercised its discretion and denied institution.

In contrast, by the time it filed its second petition (IPR2020-01602), Philip Morris had narrowed its invalidity arguments in the ITC proceeding such that the claims and grounds at issue in the IPR petition did not overlap at all with those in the ITC case. Despite Patent Owner's arguments that Philip Morris' actions in changing its invalidity defense at the ITC demonstrated "pure and utter gamesmanship" that "violates the spirit, if not the rule of *Fintiv*," the Board found the lack of overlap compelling: "[Philip Morris'] decision to limit its ITC invalidity case to claims and grounds that are not at issue in this proceeding mitigates to some degree concerns of duplicative efforts between the ITC and the Board, and mitigates any concerns about potentially conflicting decisions."

The Board made a similar decision in January, when it instituted IPR of a different patent that was also involved in the same ITC proceeding (IPR2020-01904; US 9,930,915). In that case, the Board again was swayed by a lack of overlap, this time only of arguments. There, while the claims at issue in each proceeding overlapped, the invalidity arguments did not. At the ITC, Philip Morris' invalidity grounds relied on an on-sale bar—which cannot reasonably be raised in an IPR—whereas, the IPR was based on patents and printed publications.

These two decisions to institute an IPR despite a parallel proceeding have become rare recently, in light of the *Fintiv* factors. But both seemed to turn heavily on the lack of overlap between proceedings—whether claims, arguments, or both. Petitioners and Patent Owners can both learn from these three decisions that differences between the parallel proceedings, or a lack thereof, can be persuasive one way or another in an overall weighing of *Fintiv* factors and a decision on institution.

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As of April 29, 2021, ICANN lists a new Sunrise period as open for the following new gTLD that may be of interest to our clients. A full list can be viewed here.

.spa

ICANN maintains an up-to-date list of all open Sunrise periods here. This list also provides the closing date of the Sunrise period. We will endeavor to provide information regarding new gTLD launches via this monthly newsletter, but please refer to the list on ICANN's website for the most up-to-date information – as the list of approved/launched domains can change daily.

Because new gTLD options will be coming on the market over the next year, brand owners should review the list of new gTLDs (a full list can be found here) to identify those that are of interest.