Exceptional Circumstances Justifying Vacatur When Lower Court Decision Mooted by Settlement: Repeat Litigants Slide into Home with Second Circuit Decision - Major League Baseball Properties, Inc. v. Pacific Trading Cards, Inc.

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Exceptional Circumstances Justifying Vacatur When Lower Court Decision Mooted by Settlement: Repeat Litigants Slide into Home with Second Circuit Decision

Major League Baseball Properties, Inc. v. Pacific Trading Cards, Inc.¹

I. INTRODUCTION

"We find it quite impossible to assess the effect of our holding, either way, upon the frequency or systematic value of settlement."²

At heart in the scholarship advocating Alternative Dispute Resolution are two interests: one, that using processes such as negotiation, mediation, and arbitration conserve public and private resources otherwise expended on litigation; and two, that in certain circumstances, these alternative processes may provide better justice than would occur in litigation.³ However, once litigation of a case has commenced, and an adverse judgment has been made against one party, that party may not be willing to settle the case unless the adverse judgement is vacated.⁴ Historically, most state and federal courts would routinely grant vacatur when requested by litigants who settled their disputes.⁵ Since the Supreme Court held in United States Bancorp Mortgage Co. v. Bonner Mall Partnership that federal courts should not vacate decisions mooted by settlement absent exceptional circumstances, federal courts have been reluctant to grant such requests.⁶ This presumption against vacatur

¹. 150 F.3d 149 (2d Cir. 1998).
³. See, e.g., Brandon T. Allen, A New Rationale for an Old Practice: Vacatur and the Rules of Professional Responsibility, 76 Tex. L. Rev. 661, 665-67 (1998) (discussing the tension between the private and public models of litigation); Carrie Menkel-Meadow, For and Against Settlement: Uses and Abuses of the Mandatory Settlement Conference, 33 UCLA L. Rev. 485, 500-01 (1985) (discussing need to distinguish between public and private disputes in determining if settlement is appropriate, and stating that "parties will frequently opt out of adjudication precisely because the limited remedial imagination of courts makes justice less possible in adjudication than in individually tailored settlements").
⁴. See generally Vacatur Following Settlement Pending Appeal, 10 No. 9 Fed. Litigator 292, 292 (1995) [hereinafter Pending Appeal] (discussing facts of Motta v. District Director of Immigration & Naturalization Services, 61 F.3d 117 (1st Cir. 1995), in which settlement "was totally dependant on vacatur").
⁶. 513 U.S. 18 (1994); see discussion supra Part III.B (only three court of appeals have permitted vacatur due to settlement).
arguably discourages settlement. It is against this backdrop that the Second Circuit considered the facts of *Major League Baseball Properties, Inc. v. Pacific Trading Cards, Inc.*

II. FACTS AND HOLDING

In April 1998, Major League Baseball Properties, Inc. ("MLB") brought a trademark infringement and unfair competition suit in the U.S. District Court for the Southern District of New York against Pacific Trading Cards, Inc. ("Pacific") alleging that Pacific was manufacturing and distributing baseball trading cards depicting major-league baseball players wearing MLB-trademarked uniforms. MLB had granted Pacific licenses to issue trading cards in past years with the understanding that Pacific could not use MLB's trademarks without MLB's consent; however, MLB refused to grant Pacific a license for its current set of cards. MLB argued that Pacific's use of the players' photographs in its current set of cards breached the prior agreements between MLB and Pacific. To prevent the distribution of the unauthorized cards, MLB requested a preliminary injunction from the district court.

Doubting the merits of MLB's claims, the district court denied MLB's motion. MLB subsequently filed a motion with the U.S. Court of Appeals, Second Circuit, for an injunction pending appeal of the district court's order. The Court of Appeals indicated that it would not be able to hear the merits of the claim for two months and that it intended to grant MLB's motion unless Pacific posted sufficient bond to secure MLB's claims. The court then suggested that the parties attempt to negotiate a settlement and assigned staff counsel to mediate their discussions.

When the parties reconvened with the appellate court judges in chambers, Pacific informed the court that it would have difficulty posting the bond necessary to prevent the court from granting the injunction but emphasized that an injunction would have a financially ruinous effect, even if Pacific later prevailed on the claims of the appeal. Pacific, therefore, wanted to settle the case, but because MLB was concerned about the effect of the district court's decision on future litigation, the

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8. *Pacific Trading*, 150 F.3d at 150. Actually, Pacific had manufactured the cards but had not yet distributed them when the suit was brought. *Id.*

9. *Id.* The opinion does not explain MLB's refusal.
10. *Id.*
11. *Id.*
12. *Id.*
13. *Id.*
14. *Id.* at 150-51.
15. *Id.* at 151.
16. *Id.*
parties informed the court that they would not be able to reach a settlement unless the district court's order was vacated.17

Concluding that Pacific's desire to settle the case coupled with MLB's legal obligation to proceed with the litigation absent a vacatur presented "exceptional circumstances" sufficient to satisfy the rule of United States Bancorp, the Court of Appeals vacated the district court's opinion as moot and dismissed MLB's motion for an injunction.18

III. LEGAL BACKGROUND

A. Balancing the Social Value of Settlements against the Social Value of Judicial Precedents

The layperson typically views the law as an adversary process, with the individual attorney fighting to represent the interests of his or her client to the exclusion of his opponent. When parties are unable to resolve their differences on their own, courts often provide a preferred mechanism for handling disputes.19 For example, resolving disputes through litigation (1) allows a neutral third party or parties to determine if there was injury and the extent of that injury; (2) provides a measure of damages to remedy that injury; and (3) provides a means to enforce that remedy if the losing party fails to comply with the court order. When the court perceives that the parties may be able to reach a resolution on their own, however, it generally encourages them to do so.20

By encouraging parties to settle, courts save both the litigants and the courts the time and expense of further litigation.21 Many times the parties will be able to reach a satisfactory remedy through settlement that a court would not be able to provide.22

17. Id. If the lower court's opinion was not vacated, MLB would be subject to the defense of acquiescence in future trademark cases. Id.
18. Id. at 152; see discussion infra Part III.
19. See Purcell, supra note 7, at 881 (1997) (citing examples where parties would disfavor settlement); William Burger, Isn't There a Better Way? Annual Report on the State of the Judiciary, reprinted in LEONARD L. RISKIN & JAMES E. WESTBROOK, DISPUTE RESOLUTION AND LAWYERS 8-11 (abridged ed. 1988) (stating that "often the courts are the only avenue to justice").
20. See Allen, supra note 3, at 661 ("The law favors settlement and compromise."); see also Federal Administrative Procedure Act, 5 U.S.C. §§ 554(c)(1), 556(c)(6)-(8) (1994) (requiring that agencies give parties opportunity to settle; encouraging consideration of various forms of ADR); FED. R. EVID. 408 advisory committee's note (evidence that parties offered or accepted compromise is inadmissible to show liability or invalidity of a claim, in part because of "the public policy favoring the compromise and settlement of disputes").
21. See Purcell, supra note 7, at 882-83 (stating that pretrial settlements save "time, paper and labor hours" but dismissing argument of courts that post-trial settlements do the same).

As the parties in Pacific Trading were encouraged to settle, not forced to, the issues involved in court-ordered settlement will not be discussed in this Note. For a discussion of the advantages and disadvantages of court-ordered mediation, see Julie Heintz, Mediating Instead of "Mediating," 75 U. DET. MERCY L. REV. 333 (1998).
22. See Menkel-Meadow, supra note 3.
In addition, some parties may prefer settlement to avoid publicity, to avoid adverse judgments, or simply to ensure a payoff. As the facts in *Pacific Trading* illustrate, settlement may be impossible to achieve unless a prior judgment in the proceedings can be vacated. Because the public record will show the judgment disfavoring one party but not the later compromise, parties who could be prejudiced in future proceedings by past adverse judgements or who do not want the publicity of an adverse judgment will disfavor settlement unless there is a possibility of vacatur.

Prior to *United States Bancorp*, when parties settled their dispute while an appeal was pending, the courts would almost routinely grant the parties’ request for vacatur. Because the *United States Bancorp* decision applies only to federal courts, this is still the policy in many state courts. For example, following the *United States Bancorp* decision, Texas has continued to permit vacatur of opinions. In addition, California courts have adopted a rule for stipulated reversal, reversing the decision of a lower court on stipulation of the parties. This practice has been lauded for encouraging settlement between the parties while lessening the burden on the courts.

Given the social value of settlements, the Supreme Court’s decision in *United States Bancorp* establishing a rule disfavoring vacatur following settlement may seem anomalous. Central to the court’s analysis was its recognition of vacatur as an extraordinary remedy, requiring the appealing party to carry the burden of demonstrating entitlement to the remedy. Where the party seeking vacatur caused the mootness by voluntary action, such as settlement, rather than by happenstance, the court is less likely to find that equity demands vacatur because that party “voluntarily forfeited his legal remedy.” Thus, the court found that vacatur following mootness by settlement should only be granted under “exceptional circumstances.”

Although the Court acknowledged that there is a social value to settlement, it concluded that the social value of judicial precedents is greater because precedents are “valuable to the legal community as a whole.” For example, disfavoring vacatur allows the prior judicial decision to be used against the losing party in future cases through the doctrines of collateral estoppel and *res judicata*, thus promoting

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23. See Purcell, supra note 7, at 882.
24. See discussion supra Part II; *Pending Appeal*, supra note 4, at 292.
25. See Purcell, supra note 7, at 867-68.
27. See id., supra note 3, at 663-64, 675.
28. Id. at 675-77 (citing Pantera Corp. v. American Dairy Queen, 908 S.W.2d 300 (1995)).
30. See Harmon, supra note 29, at 480.
32. Id. at 25.
33. Id. at 29.
34. Id. at 26 (citing Izumi Seimitsu Kogyo Kabushiki Kaisha v. United States Phillips Corp., 510 U.S. 27, 40 (1993) (Stevens, J., dissenting)).
consistency in judgments.\textsuperscript{35} Furthermore, judicial precedents enhance order in society by providing rules on which potential litigants may base their behavior.\textsuperscript{36} Finally, judicial precedents are valuable because they further the concept of the integrity of the judicial process, in that members of society will believe that courts will base their decisions on what is just, not on which party has the most money or influence.\textsuperscript{37}

Another rationale for disfavoring vacatur is that a general policy to grant vacatur actually discourages settlement, at least in the pre-trial stage.\textsuperscript{38} This argument is premised on the notion that if the parties to a lawsuit are aware that vacatur is an option, they initially will proceed through one round of litigation to see if they can prevail, only considering settlement if they receive an adverse judgement.\textsuperscript{39} But, as other legal scholars have noted, determining whether and when to settle a case is, or should be, the prerogative of the parties.\textsuperscript{40}

\textbf{B. How Other Circuits Have Addressed the Exceptional Circumstances Test}

The Supreme Court in \textit{United States Bancorp} did not address what constitutes "exceptional circumstances" and there have been few lower court decisions interpreting the "exceptional circumstances" standard.\textsuperscript{41} To date, only three circuit courts, including the Second Circuit court in the instant decision, have found that exceptional circumstances warranted the granting of vacatur of a lower court decision mooted by settlement.\textsuperscript{42}

The Fourth Circuit was the first court after \textit{United States Bancorp} to find that vacatur of a court decision mooted by settlement was appropriate. In the unreported decision of \textit{In re: General Motors Corporation}, the court partially vacated the order of a judge which demanded production of \textit{in camera} documents but later was stayed by the appellate court when a court considering a different case involving General Motors demanded production pursuant to the prior court's order, because of the

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\item \textsuperscript{35} See Purcell, \textit{supra} note 7, at 869; Harmon, \textit{supra} note 29, at 480, 503. \textit{But see} United States v. Munsingwear, Inc., 340 U.S. 36, 40 (1950) (granting vacatur \textit{because} it "clears the path for future litigation").
\item \textsuperscript{36} See Purcell, \textit{supra} note 7, at 869 (stating that courts develop or articulate social norms).
\item \textsuperscript{37} See id.; see also Harmon, \textit{supra} note 29, at 480.
\item \textsuperscript{38} \textit{United States Bancorp}, 513 U.S. at 28; see Purcell, \textit{supra} note 7, at 868.
\item \textsuperscript{39} See Purcell, \textit{supra} note 7, at 868.
\item \textsuperscript{40} See Allen, \textit{supra} note 3, at 681-82 ("Giving the parties control over the objectives and scope of representation, in terms of settlement, makes them masters of their own case.") Allen also argues that it is the professional responsibility of the attorney to seek vacatur after settlement if in the best interest of the client.).
\item \textsuperscript{41} \textit{Pacific Trading}, 150 F.3d at 151. However, courts have granted vacatur when the prior decision was mooted for some reason other than settlement. See, e.g., American Games, Inc. v. Trade Prods., Inc., 142 F.3d 1164, 1166 (9th Cir. 1998) (mooted by merger); Haley v. Pataki, 60 F.3d 137, 142 (2d Cir. 1995) (mooted by voluntary compliance with preliminary injunction).
\item \textsuperscript{42} The First Circuit found exceptional circumstances in the case Motta v. District Dir. of Immigration \& Naturalization Servs., 61 F.3d 117(1st Cir. 1995), discussed \textit{infra} Part IV. The Fourth Circuit found exceptional circumstances in the case \textit{In re} General Motors Corp., No. 94-2435, 1995 WL 940063 (4th Cir. Feb. 17, 1995).
\end{itemize}
privileged status of the documents and the impropriety of permitting a prior discovery order stayed in a previous case to be binding in a later case.\textsuperscript{43}

Taking a different approach, the First Circuit examined the "best interests of the parties" in deciding \textit{Motta v. District Director of Immigration & Naturalization Services}.\textsuperscript{44} In \textit{Motta}, the Department of Immigration and Naturalization Services ("INS") appealed a district court's decision to stay an immigrant's deportation until the Board of Immigration Appeals could evaluate the immigrant's motion to reopen the deportation proceedings and the U.S. Court of Appeals could review that decision, if appealed.\textsuperscript{45} The court suggested settlement and both parties were interested, but one party, INS, would not settle unless the court of appeals would vacate the district court's decision, due to the INS's concern that the lower court's decision could impact future litigation.\textsuperscript{46} Because "the appellee, not the appellant, initiated consideration of settlement" and both parties were interested in vacatur, the court held that the interest in vacating the district court's opinion outweighed the social value of its precedent, and thus vacated the decision of the district court.\textsuperscript{47}

The Eighth Circuit is the only other federal circuit that has published and opinion addressing whether particular facts warranted a finding of exceptional circumstances necessary to vacate a decision mooted by settlement. But, in contrast to the cases cited above, it refused to vacate. \textit{Nahrebeski v. Cincinnati Milacron Marketing Co.}, involved a claim brought under the Age Discrimination in Employment Act.\textsuperscript{48} The court did not describe the facts of the case in any detail, but simply stated that it found no exceptional circumstances, noting that mootness by settlement does not alone "justify vacation of the judgment being reviewed."\textsuperscript{49}

None of the other circuits have published opinions addressing the issue of whether a district court decision should be vacated when mooted by settlement. Therefore, the court in \textit{Pacific Trading} had little authority on which to base its decision to vacate. And, because parties who settle cases and are granted vacatur are unlikely to file appeals, the issue of what constitutes exceptional circumstances may completely evade Supreme Court review.\textsuperscript{50}

\section*{IV. INSTANT DECISION}

In evaluating whether the facts of the instant case justified vacatur, Chief Judge Winter, writing for a unanimous court, first articulated the court's general authority

\begin{footnotes}
\item[43] General Motors, 1995 WL 940063, at *1.
\item[44] 61 F.3d 117 (1st Cir. 1995).
\item[45] Motta, 61 F.3d at 117.
\item[46] Pacific Trading, 150 F.3d at 151-52.
\item[47] Id. at 152.
\item[48] 41 F.3d 1221.
\item[49] Id. at 1222.
\item[50] See Purcell, supra note 7, at 876. The Supreme Court in \textit{United States Bancorp} originally addressed the issue of vacatur after settlement because the parties settled the case after the Court granted writ of certiorari and requested vacatur from the Supreme Court. \textit{United States Bancorp}, 513 U.S. at 20.
\end{footnotes}
to vacate an opinion, pursuant to 28 U.S.C. § 2106.\textsuperscript{51} Judge Winter then explained that historically an appellate court retained the power to vacate even when the decision before it became moot.\textsuperscript{52} This power was “circumscribed” by the Supreme Court’s decision in \textit{United States Bancorp}, which held that “mootness by reason of settlement does not justify vacatur of a judgment under review” absent “exceptional circumstances.”\textsuperscript{53}

Because the Supreme Court has not addressed what constitutes “exceptional circumstances” adequate to justify vacatur of a judgment mooted by settlement, Judge Winter turned to the only other reported circuit court opinion addressing the issues: the U.S. Court of Appeals, First Circuit’s decision in \textit{Motta v. District Director of Immigration and Naturalization Services}.\textsuperscript{54}

The Second Circuit found that the facts of \textit{Motta} paralleled the facts of \textit{Pacific Trading}.\textsuperscript{55} In both \textit{Motta} and \textit{Pacific Trading}, the party requesting vacatur was a repeat litigant who would not “relinquish its right to appeal a decision that might harm it in future litigation.”\textsuperscript{56} Furthermore, the party in each case who was successful in the lower court was willing to vacate in order to effect a settlement, which it preferred over awaiting a court decision.\textsuperscript{57} Finally, in assessing the value of the lower court’s opinion as precedent, the Second Circuit determined that, as in \textit{Motta}, the social value of vacatur of the district court’s decision outweighed the social value of its precedent, stating that “[t]he only damage to the public interest from . . . vacatur would be that the validity of MLB’s marks would be left to future litigation.”\textsuperscript{58} The court concluded that these reasons were sufficient to constitute “exceptional circumstances” and therefore the court vacated the district court’s decision as moot and dismissed MLB’s motion for an injunction.\textsuperscript{59}

\section*{V. Comment}

With no guidance from the U.S. Supreme Court on how to assess whether “exceptional circumstances” were present, the court in \textit{Pacific Trading} shadowed the opinion of \textit{Motta} and determined that the interest of a repeat litigant in avoiding the adverse judgment, coupled with the concern that the other party would suffer injustice if the parties did not settle the case, constituted “exceptional

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\textsuperscript{51} \textit{Pacific Trading}, 150 F.3d at 151. 28 U.S.C. § 2106 (1994) states that an appellate court has the power to “affirm, modify, vacate, set aside or reverse any judgment, decree, or order of a court lawfully brought before [the appellate court] for review.”

\textsuperscript{52} \textit{Pacific Trading}, 150 F.3d at 151. When the judgment before the court has become moot, the court cannot determine the merits of the case. \textit{Walling v. Reuter}, 321 U.S. 671, 677 (1944). In such a situation, the appellate court may either vacate the lower court’s decision or remand the decision to the lower court to determine whether or not to vacate, whichever “justice may require.” \textit{See id.} at 677; \textit{Nahrebeski}, 41 F.3d at 1221.

\textsuperscript{53} \textit{Pacific Trading}, 150 F.3d at 151.

\textsuperscript{54} Id.

\textsuperscript{55} Id. at 151-52.

\textsuperscript{56} Id. at 152.

\textsuperscript{57} Id.

\textsuperscript{58} Id.

\textsuperscript{59} Id.
\end{flushright}
circumstances.\textsuperscript{60} Central to the holding of the court, although not fully articulated, is that the parties in Pacific Trading and Motta desired vacatur in order to facilitate settlement, whereas the parties in United States Bancorp first settled the case, and then requested vacatur.\textsuperscript{61}

Prior to United States Bancorp, vacatur following settlement was granted fairly routinely, and repeat litigants could agree to settle a case with confidence that, if requested, the appellate court would vacate the lower court’s decision.\textsuperscript{62} This permitted repeat litigants, rather than the courts, to control the litigation by gambling with the chance of a favorable decision in the lower court and only considering settlement after an adverse judgment, “disturb[ing] the orderly operation of the federal judicial system.”\textsuperscript{63}

After United States Bancorp, courts now disfavor vacatur due to settlement, so the possibility of repeat litigants settling first, then requesting vacatur of lower court decisions is unlikely.\textsuperscript{64} With repeat litigants, vacatur may always be necessary to facilitate post-trial settlement.\textsuperscript{65} Whether the unavailability of vacatur then leads to an increase in pre-trial settlement, thereby balancing the decrease in settlement at the post-trial stage, or leads merely to an increase in the advanced stages of litigation, is debatable.\textsuperscript{66}

The court in Pacific Trading seems to express sympathy for the need of repeat litigants to avoid the consequences of adverse judgments.\textsuperscript{67} This sympathy ignores the obvious fact that the repeat litigant lost at the lower court level and wishes to settle in order to “cut his losses.” To ensure that decisions adverse to repeat litigants remain on the public records, just as they would for any other party, is a substantial public interest, which the court in Pacific Trading essentially dismissed.\textsuperscript{68} To prevent the appearance of favoring repeat litigants, the court should have stressed that it was granting vacatur only because justice demanded resolving the dispute through settlement, to which the repeat litigant would not agree absent vacatur, but that normally a party’s classification as a “repeat litigant” would not justify vacatur, even if refusing vacatur in many cases would prevent settlement. A “what justice demands” rule would create less confusion and help ensure that litigants, whether repeat or first-time, would be treated equally.

VI. CONCLUSION

Settlement of cases is of significant value to our society and the courts should encourage and facilitate settlement whenever justice so demands, even if that requires the court to vacate a lower court decision. But where justice to the parties

\textsuperscript{60} Id. at 152.
\textsuperscript{61} See id.
\textsuperscript{62} See supra text accompanying note 5.
\textsuperscript{63} United States Bancorp, 513 U.S. at 27-28.
\textsuperscript{64} See Allen, supra note 3.
\textsuperscript{65} See discussion supra Part III.
\textsuperscript{66} See, e.g., Purcell, supra note 7, at 868; discussion supra Part III.
\textsuperscript{67} See generally Pacific Trading, 150 F.3d at 152.
\textsuperscript{68} See supra text accompanying note 57.
does not require vacatur, the courts should not grant it, even if denying vacatur results in the parties fully prosecuting their claims. By taking a narrow, but not prohibitive view of vacatur, courts can prevent repeat litigants from controlling the course of litigation to the detriment of the opposing parties, the courts, and the general public.

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