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***Already v. Nike*: The Supreme Court Finds Covenant Not to Sue Made Competitor's Claim for Invalidity of Trademark Moot**

By **Kenneth A. Kuwayti**

The U.S. Supreme Court issued its opinion yesterday in the closely-watched case, *Already, LLC v. Nike, Inc.* In a decision that is almost certain to affect patent owners as well, the Court unanimously affirmed the Second Circuit's opinion and ended the speculation of commentators that trademark holders might no longer have the ability to dismiss an invalidity challenge by entering into a covenant not to sue. The Court concluded that an appropriately framed, broad covenant not to enforce a trademark against a competitor moots the competitor's action to have the trademark declared invalid. The Court imposed a high standard, however, holding that the party issuing the covenant bears a "formidable burden" to establish it is "absolutely clear" the allegedly wrongful conduct cannot reasonably be expected to reoccur.

BACKGROUND

Nike designs and manufactures a popular line of shoes known as "Air Force 1s." In the summer of 2009, Nike filed a lawsuit alleging *Already's* "Sugars" and "Soulja Boys" shoe lines infringed and diluted Nike's Air Force 1 trademark. *Already* filed a counterclaim asking the court to declare Nike's trademark invalid.

Eight months after filing suit, Nike concluded that the action was no longer worth pursuing. It issued a broad covenant to *Already*, agreeing not to raise any claim relating to its trademark against *Already*, and *Already's* affiliates, distributors and customers, based on any of *Already's* existing footwear products, or any future "colorable imitations" of those products.¹ Nike then moved to dismiss its claims with prejudice, along with *Already's* declaratory judgment counterclaim, on the grounds that the covenant not to sue rendered *Already's* counterclaim moot.

The district court granted Nike's motion to dismiss, holding that because *Already* sought to invoke declaratory judgment jurisdiction, it bore the burden of establishing subject matter jurisdiction.² Because there was no evidence that *Already* planned to develop any shoes not covered by the covenant, the district court concluded that "there was no longer 'a substantial controversy...of sufficient immediacy and reality to warrant the issuance of a declaratory judgment.'"³ The Second Circuit affirmed.⁴

¹ More specifically, the covenant provided that:

[Nike] unconditionally and irrevocably covenants to refrain from making *any* claim(s) or demand(s) ... against *Already* or *any* of its ... related business entities...[including] distributors...and employees of such entities and *all* customers ... on account of any *possible* cause of action based on or involving trademark infringement, unfair competition, or dilution under state or federal law ... relating to the NIKE Mark based on the appearance of *any* of *Already's* current and/or previous footwear product designs, and *any* colorable imitations thereof, regardless of whether that footwear is produced ... or otherwise used in commerce before or after the Effective Date of this Covenant.

Already, LLC v. Nike, Inc., 568 U.S. ___, No. 11-982 (Jan. 9, 2013) (slip op. at 6).

² *Id.* at 2 (quoting *Nike, Inc. v. Already, LLC*, Civ. No. 09-6366, 2011 U.S. Dist. LEXIS 9626 at *5-6).

³ *Id.* at 3 (citation omitted).

⁴ *Id.* at 3 (citing *Nike, Inc. v. Already, LLC*, 663 F.3d 89, 96 (2d Cir. 2011)).

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THE SUPREME COURT'S DECISION

Chief Justice Roberts delivered the opinion for a unanimous Court. The opinion starts with Article III of the Constitution, which gives courts the authority to adjudicate “Cases” and “Controversies.”⁵ To demonstrate standing, a plaintiff must show “a personal injury fairly traceable to the defendant’s allegedly unlawful conduct and likely to be redressed by the requested relief.”⁶ An actual controversy must exist, not just at the time of the filing of the complaint, but at all stages of the litigation.⁷

While the district court and the Second Circuit placed the burden on Already to prove Nike’s covenant did not moot the case, the Supreme Court instead applied the “voluntary cessation” doctrine, which holds that a defendant cannot moot a case simply by ending its unlawful conduct. The doctrine places the burden on the defendant and sets a high standard: “a defendant claiming that its voluntary compliance moots a case bears the formidable burden of showing that it is absolutely clear the allegedly wrongful behavior could not reasonably be expected to recur.”⁸

Despite disagreeing with the lower courts’ allocation of the burden, the Court upheld the result, finding Nike had met its “formidable burden” here. The Court noted the broad scope of the covenant, and emphasized four features it found to be important: (1) “The covenant is unconditional and irrevocable”; (2) “Beyond simply prohibiting Nike from filing suit, it prohibits Nike from making any claim or any demand”; (3) the covenant “reaches beyond Already to protect Already’s distributors and customers”; and (4) “it covers not just current or previous designs, but any colorable imitations.”⁹

The Court also emphasized that Already had not shown any intent to design an infringing shoe that fell outside the scope of the covenant before the district court, the Second Circuit, or even at oral argument before the Supreme Court.¹⁰ “If such a shoe exists, the parties have not pointed to it, there is no evidence that Already 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.”¹¹

Importantly, the Court rejected Already’s argument, supported by various *amici*, that given “the important role federal courts play in the administration of federal patent and trademark law,” the courts should retain jurisdiction to adjudicate the validity of a trademark.¹² Already contended that as a competitor in the shoe industry it should have standing to challenge the mark, because “[n]o covenant, no matter how broad, can eradicate the effects’ of a registered but invalid trademark.”¹³ It argued that declining jurisdiction would permit large companies to register invalid marks and use them to intimidate their smaller competitors.¹⁴ The Court disagreed, stating that standing must be based on “an injury more particularized and more concrete than the mere assertion that something unlawful benefited the plaintiff’s competitor.”¹⁵

⁵ *Id.*

⁶ *Id.* (quoting *Allen v. Wright*, 468 U.S. 737, 751 (1984)).

⁷ *Id.* at 4 (citations omitted).

⁸ *Id.* at 4 (quoting *Friends of the Earth, Inc. v. Laidlaw Envtl. Servs. (TOC), Inc.*, 528 U.S. 167, 190 (2000)).

⁹ *Id.* at 6.

¹⁰ *Id.* at 8.

¹¹ *Id.* at 7.

¹² *Id.* at 12.

¹³ *Id.* at 11-12.

¹⁴ *Id.* at 12.

¹⁵ *Id.* (citation omitted).

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CONCURRING OPINION

While the opinion of the Court was unanimous, Justice Kennedy authored a short concurring opinion, joined by Justices Thomas, Alito, and Sotomayor, warning that “Courts should proceed with caution before ruling that [covenants] can be used to terminate litigation.”¹⁶ This separate concurrence was “written to underscore that covenants like the one Nike filed here ought not to be taken as an automatic means for the party who first charged a competitor with trademark infringement suddenly to abandon the suit without incurring the risk of an ensuing adverse adjudication.”¹⁷

Justice Kennedy noted the potential for unfairness in permitting the holder of a trademark to file suit, file a covenant not to sue midcourse, and then require its competitor to expose its business plans and engage in costly “satellite proceedings” to demonstrate that future products might still be affected.¹⁸ He stated that “[a]n insistence on the proper allocation of the formidable burden on the party asserting mootness” is one way to prevent this result.¹⁹ He ultimately found significant Already’s failure to assert an intent to design an infringing product that fell outside the covenant, concluding that “Already’s litigation stance does seem to have made further proceedings on the mootness issue unnecessary.”²⁰

IMPACT

The Court’s decision is important because it confirms that a trademark holder defending against a declaratory judgment claim for invalidity has the ability to dismiss the case by entering into a properly drafted covenant not to sue. A contrary holding would have substantially increased the risk to trademark holders in filing suit.

At the same time, the decision sets a high standard for mooted a declaratory judgment claim in these circumstances, and the concurring opinion contains cautionary language suggesting that dismissal may not be granted “automatically.” The Court’s decision highlights some of the factors it found to be important in holding the covenant was sufficiently broad to moot the action. Already made the Court’s job easier by not presenting any evidence of intent to manufacture a shoe that fell outside the scope of the covenant.

Although the Court’s holding is made in the context of trademark litigation, it will likely be extended to patent litigation as well. In particular, the Court’s unequivocal rejection of the argument that federal courts retain jurisdiction to adjudicate the validity of a mark because of “the important role federal courts play in the administration of federal patent and trademark law”²¹ strongly suggests that the Court would also reject such an argument in the patent field. In appropriate circumstances, patent owners should therefore retain the ability to dismiss an invalidity counterclaim based on a properly drafted covenant not to sue. Patent owners would be wise to take into account the Court’s comments regarding the scope of an adequate covenant when drafting covenants in the patent context as well.

Finally, the Court’s opinion is likely to be of significance in adjudicating declaratory actions more generally, because it broadly discusses and applies the standard for meeting the case or controversy requirement of Article III.

¹⁶ *Id.* at 3 (Kennedy, J., concurring).

¹⁷ *Id.* at 1 (Kennedy, J., concurring).

¹⁸ *Id.* at 3 (Kennedy, J., concurring).

¹⁹ *Id.* at 3-4 (Kennedy, J., concurring).

²⁰ *Id.* at 4 (Kennedy, J., concurring).

²¹ *Id.* at 12.

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