
A Covenant Not to Sue May Avoid Invalidity Claims

By Kelly W. Craven and Bobby Ghajar

*Last week, in [Already, LLC v. Nike, Inc.](#) (opinion attached), the Supreme Court unanimously decided that the voluntary cessation doctrine, most often used when a **defendant** claims its voluntary compliance moots a case where it is “absolutely clear that the allegedly wrongful behavior would not reasonably be expected to recur,” mooted trademark invalidity counterclaims where the **plaintiff** entered a sufficiently broad covenant not to sue. Thus, regardless whether Nike provided the covenant not to sue to avoid a vigorous cancellation claim against one of its trademarks, or whether it provided the covenant not to sue because the costs of the litigation outweighed any perceivable benefit of pursuing a case against infringing shoes that were no longer being sold, the choice remained Nike’s to make.*

By way of background, Nike sued Already LLC, d/b/a Yums, in July 2009 for trademark infringement, false designation of origin, unfair competition and trademark dilution of Nike’s Air Force 1 athletic shoe. Already filed a counterclaim for declaratory judgment and cancellation of the registration. Eight months after filing suit, Nike provided Already with a covenant not to sue, and it subsequently moved to dismiss all claims (including the counterclaim). Already fought to maintain its right to sue on its counterclaims, claiming its business was threatened by the continued existence of the Air Force 1 trademark. The issue on certiorari was whether Nike’s broad covenant not to sue divested the court of subject matter jurisdiction over the invalidity claim because Article III only governs actual cases or controversies; it did.

The New York district court had dismissed Nike’s trademark claims with prejudice and Already’s declaratory counterclaim without prejudice. The Second Circuit agreed, applying the following *MedImmune* factors to determine that there was no justiciable case or controversy in the declaratory judgment action: “(1) the language of the covenant; (2) whether the covenant covers future, as well as past, activity and products; and (3) evidence of intention or lack of intention, on the part of the party asserting jurisdiction, to engage in new activity or to develop new potentially infringing products that arguably are not covered by

the covenant.” The Supreme Court focused on the third factor, questioning whether there was any record support for any future products of Already that might fall outside the scope of the covenant. Importantly, the covenant covered all of Already’s already-identified shoes and “any colorable imitations thereof.” Therefore, the Court could not conceive of a shoe that would be infringing yet outside immunity. “It sits...on a shelf between Dorothy’s ruby slippers and Perseus’s winged sandals.”¹

Both Justice Roberts’ opinion and Justice Kennedy’s concurrence highlighted the “formidable burden” of showing that the covenant prevented Nike from refiling its lawsuit against Already at a later point, but found that Nike met the burden and the case was properly dismissed. The covenant not to sue stated 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” [emphasis added in opinion]. It is important to note that Nike’s broad language – particularly the inclusion of “any colorable imitations” – was sufficient to dispose of the case, but it essentially fully immunized Already from suit. The option to use a covenant not to sue as a tool should not be exercised without careful consideration (as Justice Kennedy cautions in the concurring opinion).

Still, the Supreme Court set an important limit with this ruling; otherwise subject matter jurisdiction would have existed for declaratory judgment actions for almost any suit challenging the validity of intellectual property rights. Already’s theory of continuing case or controversy was that it was a “real world” competitor of Nike, but the Court rejected that argument, noting that it risked allowing larger companies to attack the portfolios of more humble rivals in the name of competitive injury and declining to allow litigation to be used as a “weapon” instead of a “last resort.”

Despite having “every opportunity and incentive” to do so, Already had not suggested any concrete plans to design an infringing shoe that would fall outside of the covenant – it merely submitted a general statement in its president’s affidavit that Already “is actively engaged in designing and bringing out new footwear products.” The Court was also not persuaded by affidavits stating that three potential investors would not consider investing in Already until the Air Force 1 trademark was invalidated and claiming that Nike had intimidated retailers into refusing to carry Already’s shoes because they would not have supported standing in the first instance. For example, the alleged choice not to invest in Already when there is a covenant promising no interference from Nike is “conjectural or hypothetical speculation,” and the retailers were already covered by the broad covenant.

¹ While Nike admitted that a counterfeit Air Force 1 would be outside the scope of the covenant, there was no indication Already intended to make counterfeits, and the Court noted it would also be covered by independently registered trademarks such as the Nike Swoosh.

Litigants in all fields – not just trademark litigation – are likely to scrutinize the scope and utility of covenants not to sue as a result of this ruling.

If you have any questions about the content of this alert, please contact the Pillsbury attorney with whom you regularly work, or the authors below.

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