

Potential Ramifications of *Already v. Nike*

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On June 25, 2012, the U.S. Supreme Court granted certiorari in *Already, LLC v. Nike, Inc.*, No. 11-982, on the issue of whether a federal district court is divested of Article III jurisdiction over a party's challenge to the validity of a federally registered trademark if the registrant promises not to assert its mark against the party's then-existing commercial activities. The issue in *Already* concerns a tactic commonly used in trademark cases: the holder of a trademark registration signs a covenant not to sue the alleged infringer so as to divest the district court of jurisdiction over the infringer's declaratory judgment claim or counterclaim for cancellation of the mark.

The same tactic is commonly used in patent cases, where the patentee may covenant not to sue the alleged infringer in order to avoid the infringer's allegations that the patent in suit is invalid, unenforceable or not infringed. When successfully used, this maneuver allows the plaintiff to live to fight another day, perhaps against an opponent without the funds (or motivation) necessary to mount a successful defense.

In the *Already* action, plaintiff Nike, Inc. filed a complaint against defendant *Already, LLC* alleging trademark infringement, false designation of origin, unfair competition, and trademark dilution in violation of 15 U.S.C. §§ 1141(1), 1125(a), 1125(c), and related claims under New York law, based on *Already's* allegedly infringing shoe design. *Nike, Inc. v. Already, LLC*, 663 F.3d 89, 91 (2nd Cir. 2011).

Nike claimed that *Already* infringed *Nike's* U.S. Trademark Registration Number 3,451,905 (the "'905 registration") for the design of *Nike's* popular "Air Force 1" shoe by selling shoes with "a confusingly similar imitation" of the Air Force 1 design. *Id.* at 92. In response, *Already* filed counterclaims for a declaratory judgment that the '905 registration was not a trademark under 15 U.S.C. § 1127 or New York Law, and for cancellation of the '905 registration. *Id.*

In response, *Nike* delivered a covenant not to sue *Already* for any of *Already's* "current, and/or previous footwear product designs, and any colorable imitations thereof" regardless of whether the footwear was used in commerce before or after the effective date of the covenant. *Id.* *Nike* then dismissed its own claims against *Already* and moved to dismiss without prejudice *Already's* counterclaims on the basis that the district court did not have subject matter jurisdiction over the counterclaims because there was no longer a case or controversy concerning the '905 registration due to *Nike's* covenant not to sue. *Id.* at 93.

The district court dismissed *Already's* counterclaims, determining that there was no longer a "substantial controversy, between the parties having adverse legal interests, of sufficient immediacy and reality to warrant the issuance of a declaratory judgment." *Id.*; see also *Nike, Inc. v. Already, LLC*, 2011 U.S. Dist. LEXIS 9626, at

*6-23 (S.D.N.Y. 2011). The Court of Appeals for the Second Circuit affirmed. *Nike*, 663 F.3d at 91.

The Second Circuit held that Nike's covenant not to sue stripped the district court of jurisdiction over Already's counterclaims because the language of the covenant covered both present and future products from Already; as the court put it, it is "hard to imagine a scenario that would potentially infringe the '905 and yet not fall under the covenant." *Id.* at 97. Thus, the Second Circuit held that any adversity of legal interests between Nike and Already was not "real and substantial" and was not distinguishable from "an opinion advising what the law would be upon a hypothetical state of facts." *Id.* Accordingly, per the Second Circuit, the covenant rendered Already's counterclaims moot and divested the district court of subject matter jurisdiction over the declaratory judgment claims. *Id.*

Subsequently, Already filed a petition for certiorari with the Supreme Court on the issue of whether a covenant not to sue covering only then-existing commercial activity divests the district court of subject matter jurisdiction over a declaratory judgment action for trademark cancellation, and the Supreme Court granted review. Already's petition focused on the possibility for adversity resulting from future changes to the non-IP holder's product, and on an apparent split between the Second and Ninth Circuits concerning the effect of a covenant not to sue on district courts' jurisdiction over declaratory judgment claims of trademark cancellation.

Under the Declaratory Judgment Act, a district court has jurisdiction over a declaratory judgment action only when there is an "actual controversy." 28 U.S.C. § 2201(a); U.S. Const. Art. III, § 2; *SEC v. Med. Comm. for Human Rights*, 404 U.S.

403, 407 (1972). The controversy must be of "sufficient immediacy and reality to warrant the issuance of a declaratory judgment." *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 127 (2007).

Further, this controversy must be present at all stages of review, not merely at the time the complaint is filed. *Preiser v. Newkirk*, 422 U.S. 395 (1975). Thus, the rationale is that by covenanting not to sue, the patent or trademark holder has eliminated any "actual controversy" between the parties and thus, there is no longer any basis for declaratory judgment concerning the invalidity of the patent or cancellation of the mark.

The conflicting line of authority posited by Already is illustrated in *Bancroft & Masters, Inc. v. Augusta National Inc.*, 223 F.3d 1082 (9th Cir. 2000). In *Bancroft*, Augusta National Inc. ("ANI") initially sent a letter to Network Solutions, Inc., the domain name registrar, challenging Bancroft & Masters, Inc.'s ("B&M") use of the domain name "Masters.com." *Id.* at 1085. B&M then filed a complaint against ANI seeking a declaratory judgment that B&M's use of the domain name "Masters.com" did not infringe on ANI's trademarks for the term "Masters" and a separate claim for cancellation of ANI's trademarks. *Id.* After the district court dismissed B&M's complaint for lack of personal jurisdiction, ANI offered to waive all of ANI's trademark infringement, dilution, and unfair competition claims against B&M for B&M's use of the domain name "Masters.com," so long as B&M agreed not to enter into the golf business. *Id.*

On B&M's appeal from the district court's dismissal for lack of personal jurisdiction, the Ninth Circuit addressed the threshold issue of whether the district court had subject matter jurisdiction over the action after ANI offered to condition-

ally waive all of its claims. *Id.* The court held that the district court had jurisdiction over B&M's claim for declaratory judgment because it was not "absolutely clear" that ANI would never seek to prevent B&M from using the "Masters.com" domain name in the future. *Id.*

The reason it was not "absolutely clear" is because ANI's promise to waive its claims against B&M was an incomplete and qualified promise, conditioned on B&M staying out of the golf business. *Id.* Further, in dicta, the Ninth Circuit suggested that, even if ANI's promise had been unqualified, B&M's separate claim for trademark cancellation under the Lanham Act would not have been moot because it was separate from the declaratory judgment claim for the determination of rights and was not obviously meritless. *Id.* Further, the court stated that the district court had subject matter jurisdiction over the trademark cancellation claim because the Lanham Act authorizes district courts to order trademark cancellation in any action involving a mark. *Id.*

The implications of the *Already* action for patent infringement cases are apparent. The Federal Circuit has long held that a sufficiently broad covenant not to sue for patent infringement divests the trial court of subject matter jurisdiction over a declaratory judgment claim that the patent is invalid or not infringed. See *Super Sack Mfg. Corp. v. Chase Packaging Corp.*, 57 F.3d 1054, 1060 (Fed Cir. 1995) ("Super Sack's promise not to sue renders any past or present acts of infringement that Chase may or may not have committed irrelevant to the question of whether a justiciable controversy remains. The residual possibility of a future infringement suit based on Chase's future acts is simply too speculative a basis for jurisdiction over Chase's counterclaim for declaratory judgments of invalidity.").

This is true even where the covenant does not, on its face, cover after-developed products. See *Amana Refrigeration Inc. v. Quadlux Inc.*, 172 F.3d 852, 855 (Fed. Cir. 1999) ("Quadlux's promise not to assert any infringement claim against Amana under the patent as it presently reads, with respect to any product previously or currently advertised, manufactured, marketed, or sold by Amana, removed any reasonable apprehension that Amana will face an infringement suit based on its activities before the filing date.").

While the Federal Circuit's rule that a covenant not to sue divests the trial court of jurisdiction of declaratory judgment claims has come under criticism, e.g. *Benitec Australia, Ltd. v. Nucleonics, Inc.*, 495 F.3d 1340, 1350 (Fed Cir. 2007) (Dyk, T., dissenting), the court has shown no inclination to loosen the reins for district court jurisdiction in the face of a broadly stated covenant not to sue.

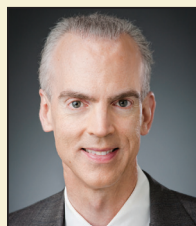
The Supreme Court's decision could have lasting effects on the intellectual property litigation landscape. The fact that the court granted certiorari in this case suggests that it may be poised to require that covenants not to sue encompass products and product designs that have not yet been commercialized in order to divest district courts of jurisdiction over a declaratory judgment claim for trademark cancellation or patent invalidity, unenforceability, or noninfringement.

In *Bancroft*, the terms of the waiver offered by ANI to B&M were unclear and the terms that were known were qualified by the condition that B&M stay out of the golf business. *Bancroft*, 223 F.3d at 1085. In contrast, the covenant in *Already* was clear and covered all then-existing products and any future "colorable imitations" of the Air Force 1, without condition. *Nike*, 663 F.3d at 91.

Thus, the divergent results in these cases could fairly easily be harmonized, and the purported circuit split resolved, without disrupting the current state of the law with respect to covenants not to sue and Article III jurisdiction. In fact, this very argument was advanced by Nike in the briefing regarding Already's petition for cert. Brief in Opposition at pp. 12-20, *Already, LLC v. Nike, Inc.*, 2012 U.S. LEXIS 4718 (2012) (No. 11-982). In this light, the Supreme Court's decision to review the case suggests that it may have a more sweeping intention in mind.

In the event that the Supreme Court holds that jurisdiction may only be defeated by a covenant that abjures suit against an alleged infringer not

only with respect to current products and designs but also for not-yet-developed or commercialized products and designs, then the granting of a covenant not to sue would carry a real cost — that of fully immunizing an opponent from suit under the pertinent mark or patent. This would make it even more important that intellectual property rights holders thoroughly vet the decision to pursue patent or trademark litigation, including evaluating the risk that the adversary will produce evidence that could put the viability of the holder's intellectual property at risk.



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