Supreme Court Holds Covenant Not to Sue Moots Trademark Cancellation Claim

A trademark owner can avoid a declaratory judgment challenge to the validity of its mark by executing a broadly worded "covenant not to sue." So held a unanimous Supreme Court in *Already, LLC v. Nike, Inc.*, No. 11-982, 2013 WL 85300, 2013 U.S. LEXIS 602 (Jan. 9, 2013). The Court's decision provides trademark owners with a potential low-cost alternative to defending an invalidity counterclaim, but presents some risks to trademark owners with respect to future enforcement efforts.

Nike commenced the litigation, alleging that Already's "Sugars" and "Soulja Boys" shoes infringed and diluted Nike's "Air Force 1" shoe design trademark. Already counterclaimed, seeking a declaratory judgment that the mark was invalid. Nike then issued a "covenant not to sue" "unconditionally and irrevocably" promising not to enforce the mark against Already, its customers or its distributors "on account of any possible cause of action based on or involving trademark infringement, unfair competition, or dilution, under state or federal law." The covenant covered both lines of shoes at issue, any "current and/or previous footwear product designs and any colorable imitations" that Already might sell in the future. Nike then moved to dismiss its claim with prejudice and Already's counterclaim without prejudice. The district court dismissed Already's counterclaim as moot. The Second Circuit and Supreme Court both affirmed.

In a unanimous opinion, Chief Justice Roberts ruled that under the "voluntary cessation" doctrine, Nike, as the party asserting mootness, had the "formidable burden" of showing "that it 'could not reasonably be expected' to resume its enforcement efforts against Already." This burden is met if "the court, considering the covenant's language and the plaintiff's anticipated future activities, is satisfied that it is 'absolutely clear' that the allegedly unlawful activity cannot be reasonably expected to recur."

The broad language of Nike's covenant was sufficient to meet this burden. Although Already submitted an affidavit from its president stating that it planned to introduce new shoe lines, it never asserted any concrete plans to introduce a potentially infringing design that fell outside the scope of the covenant. The Court also rejected Already's arguments that, as a competitor, it suffered inherent injury that gave it standing to challenge Nike's invalid trademark, or that the existence of Nike's trademark continued to deter potential investors from investing in Already. In the Court's view, these injuries were too hypothetical or conjectural to confer Article III standing. Nor was the Court concerned that its decision would permit trademark owners to bully smaller competitors, noting that overuse of covenants not to sue could result in the loss of significance of a trademark through extensive third-party use, which, in turn, could result in cancellation of a registration and loss of all trademark rights.

The Court was careful to emphasize the high burden of establishing mootness. This should help trademark owners in opposing motions to dismiss by defendants asserting that the case against them is moot. As the Court stated, "[w]e have recognized ... that a defendant cannot automatically moot a case simply by ending its unlawful conduct once sued," because, "[o]therwise, a defendant could engage in unlawful conduct, stop when sued to have the case declared moot, then pick up where he left off, repeating this cycle until he achieves all his unlawful ends."

In a concurrence joined by three other Justices, Justice Kennedy cautioned that a trademark owner asserting mootness must show that the withdrawal of the litigation did not result in any ongoing disruption to its competitor's business, or saddle the competitor with costly satellite litigation over mootness or latent issues in the covenant.

In sum, the Court's opinion provides a roadmap for trademark owners, in certain circumstances, to avoid declaratory judgment challenges asserting invalidity by executing a broad covenant not to sue. But this tactic should be used sparingly, given the high burden of proof to show mootness, and because the use of covenants not to sue may erode the very rights that the trademark owner is seeking to protect. Indeed, the decision does not address the many potential implications of executing covenants not to sue trademark infringers. For example, the beneficiary of such a covenant might attempt to supply products to (or itself be bought by) a major competitor of the trademark owner, with significant commercial implications. Others accused of infringement may assert that the trademark owner has essentially granted a "naked license" to the trademark at issue, thereby limiting its trademark rights, or may argue that the trademark owner effectively has conceded that the type of use covered by the covenant not to sue is not infringing or does not threaten irreparable harm. Trademark owners should proceed cautiously, and weigh these risks against the benefits of mooting a case, in deciding whether to use a covenant not to sue of the type the Supreme Court upheld in *Already*.

Authors Paul Llewellyn, Richard De Sevo and Kyle Gooch are lawyers in Kaye Scholer's Intellectual Property Department. For more, visit our website.

Chicago
+1.312.583.2300

Frankfurt
+49.69.25494.0

London
+44.20.7105.0500

Los Angeles
+1.310.788.1000

New York
+1.212.836.8000

Palo Alto
+1.650.319.4500

Shanghai
+86.21.2208.3600

Washington, DC
+1.202.682.3500

West Palm Beach
+1.561.802.3230