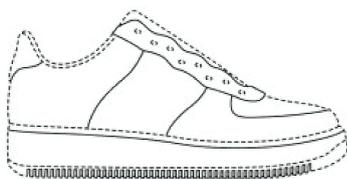




# Nike's promise not to do it

Erin Hennessy and Matt Schneller of the law firm Bracewell & Giuliani discuss "covenants not to sue" in the *Nike v Already* case

The US Supreme Court is currently considering an appeal of the Second Circuit's decision in *Nike v Already*.<sup>1</sup> Nike sued Already (then doing business as Yums) for a variety of trademark infringement and dilution claims based on its trademark registrations related to the Air Force 1 shoe design:



Yums counterclaimed to cancel one of Nike's design registrations. Nike offered Yums a "Covenant Not to Sue" that read as follows:

To refrain from making any claim(s) or demand(s), or from commencing, causing, or permitting to be prosecuted any action in law or equity, against [Yums] or any of its [successors or related entities and their customers], on account of any possible cause of action based on or involving trademark infringement, unfair competition, or dilution, under state or federal law in the United States [sic] relating to the NIKE Mark based on the appearance

of any of [Yums]'s current and/or previous footwear product designs, and any colorable imitations thereof, regardless of whether that footwear is produced, distributed, offered for sale, advertised, sold, or otherwise used in commerce before or after the Effective Date of this Covenant.<sup>2</sup>

**"Yums sought to keep its counter-claim for cancellation alive, arguing that it remained at risk of lawsuits based on this registration"**

Nike then dismissed its infringement claims, but Yums sought to keep its counter-claim for cancellation alive, arguing that it remained at risk of lawsuits based on this registration on future Yums designs that Nike might argue

were confusingly similar to that registration.

The Supreme Court accepted *certiorari* on two grounds: did the covenant not to sue eliminate the underlying "case or controversy", and, if it did, did the counter-claim for cancellation provide federal jurisdiction when the underlying infringement action was withdrawn?

## Analysis of the parties' positions

Under the Declaratory Judgment Act, an adversity of legal interests that exists between the parties must be "real and substantial" and "admit of specific relief through a decree of a conclusive character, as distinguished from an opinion advising what the law would be upon a hypothetical state of facts," such as where the "plaintiff engaged in a course of conduct which has brought it into adversarial conflict with the defendant."

As applied to a covenant not to sue, courts look at: (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.

Here, all parts of the covenant were contested. Yums argued that Nike's covenant



not to sue did not cover future designs that were not “colorable imitations” of existing designs but which Nike could claim were confusingly similar to its trade dress registration. Yums also took the position under the third prong of the test that it need not provide current plans of an additional arguably infringing shoe design in order to have standing to retain its cancellation claim, because doing so would provide competitive business intelligence that Nike would not normally have access to. This was a major point of emphasis at oral argument before the Supreme Court, with several justices concerned taking the position that merely revealing the information would cause an ongoing harm, and with Nike countering that Yums’ plans would be subject to a protective order (though whether the order restricted the information to outside counsel only is not clear from the record).

If Nike prevails in its arguments that Section 1119 of the Lanham Act does not provide independent grounds for a cancellation claim, and in its arguments that there was no “case and controversy” after the infringement claim was withdrawn and the covenant not to sue was granted, Yums will need to bring its cancellation action before the Trademark Trial and Appeal Board (TTAB) instead of in federal court.

### What is the impact of a possible victory for Yums?

If the Supreme Court agrees with Yums’ position, plaintiffs bringing infringement claims will need to be careful about initiating litigation if they are not confident in their rights. This may reduce the overall incidence of trademark claims, especially where the rights

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may be subject to cancellation claims that will not become time-barred, like claims that the “mark” is functional or that the “mark” fails to function as a mark. Other litigants may choose to wait to file infringement claims until

their registrations pass the five year mark from registrations and after they have filed Section 8 & 15 “incontestability” declarations, so their marks are less subject to cancellation counter-claims.

Moreover, if the Supreme Court sides with Yums’ position, plaintiffs bringing infringement claims should *still* be able to get rid of the underlying “case or controversy”. The plaintiff could modify their covenant to clarify that it covers any “current, previous, or future footwear product designs (other than product counterfeits)” instead of relying on the narrower “colorable imitations” language – a relatively minor change that would further limit the trademark owners’ remedies, but provide sufficient clarity to the defendant that it should remove any ongoing case or controversy.

While the TTAB can provide an alternative forum for a cancellation claim, defendants in an infringement lawsuit will likely want to petition to cancel at the same time as they file their counter-claim for cancellation. Waiting to do so could result in a situation where a counter-claim was permitted in the litigation but would not be permitted before the TTAB (eg if a counter-claim for cancellation on descriptiveness was brought in the fourth year after registration but the petition to cancellation was not filed until after the fifth

year after registration, after the underlying infringement litigation was withdrawn).

This would add a smallish but immediate cost (\$350 per class plus attorney's fees to prepare and file the petition for cancellation) for defendants and counter-claimants. It would have a considerable benefit: filing a cancellation petition immediately would "freeze" the dispute at the status it stood at the time the counter-claim was filed, and, if the underlying infringement litigation is dismissed, the defendant could pick up as cancellation petitioner with no damage.

It's also important to think about what a covenant not to sue does not cover. Does it cover business activities outside of the US? Since the claim is limited to a particular mark (and US registration), it probably does not. Is a covenant not to sue even enough to get impounded goods out of customs, for example, either in the US or internationally (even if the goods are intended for the US market)?

These may be issues that the parties to a trademark dispute are more likely to want to be clearly resolved if the parties agree to a mutually acceptable settlement agreement instead of a unilateral covenant not to sue. Both sides would incur costs related to this negotiation, but the costs of these settlement discussions is likely to make up only a fraction of the cost of an even partially litigated infringement action or contested cancellation action.

If Yums wins and you are going to be a trademark infringement defendant:

- You may not be able to get out of litigation as quickly or as easily as you'd like – you may be able to get a better deal from pursuing a settlement agreement instead of providing a unilateral covenant not to sue.
- You may not be able to push a cancellation action to the TTAB as easily as has traditionally been the case.

If Yums wins and you are going to be a trademark infringement defendant:

- It is less important to promptly lodge a cancellation petition.
- You can use your counter-claim to hold out for a better deal than a simple covenant not to sue.

### What is the impact of a possible victory for Nike?

Nike's position is largely the status quo – litigants pressing trademark claims will essentially be able to continue to operate in much the same way as they have to this point. If you are a trademark plaintiff:

- If you get cold feet about an ongoing litigation matter or if you get worried that a counter-claim for cancellation might



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succeed, issue a covenant not to sue covering all current and past conduct and back out.

- This is especially a good idea if a key ground or grounds for the counter-claim is no longer statutorily available in a cancellation action.
- Don't pull this "back-out" routine too many times, or courts will probably look askance at future attempts to assert your claimed rights.

If Nike wins and you are going to be a trademark infringement defendant:

- If you are going to counter-claim for cancellation, file a cancellation petition at the TTAB at the same time. If you wait, you may lose some or all grounds for cancellation.
- You may want to use the cancellation counterclaim (or action) to continue to seek a favourable decision or to pressure the mark owner into agreeing to extend

its covenant not to sue to cover some or all of (1) your future products or services (short of counterfeiting claims) it alleges to be confusingly similar to the mark at issue, (2) your current or future non-US business activities, and (3) a blanket consent to import your current or future products that are arguably similar to the mark at issue.

If Nike wins, trademark litigants will be in the same world they currently live in – plaintiffs can abort a lawsuit by granting a broad current covenant not to sue, although not without ramifications for their attempts to enforce those rights against similarly situated third party defendants in the future, and defendants need to file a petition for cancellation at the TTAB when they file their counterclaims for maximum leverage.

If Yums prevails, trademark litigants will have a more difficult time extricating themselves from ongoing litigation (and counterclaims arising from that litigation) through unilateral actions like a covenant not to sue, and so may need to take an even more cautious approach about initiating litigation in the first place.

#### Footnotes

1. 663 F.3d 89 (2d Cir. 2011). Supreme Court Docket # 11-982.
2. Unquoted in the district or circuit court opinions is the following precedent: "And it is written in the laws of single combat, in express terms, that if the shoemaker strike another with the last which he hath in his hand, although it be certainly of wood, yet cannot it be said that he who was stricken had the bastinado." M. de Cervantes Saavedra, *Don Quixote*, Part 1, The Third Book.

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