

# On the Merits:

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ALREADY, LLC d/b/a YUMS,

*Petitioner,*

v.

NIKE, INC.,

*Respondent.*

**U.S. Sup. Ct. No. 11-982**

## **On Writ of Certiorari to the United States Court of Appeals For the Second Circuit**

**Oral Argument:** November 7, 2012

### **Question Presented:**

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.

### **Summary of the Case:**

In 2009, Respondent sued Petitioner for alleged infringement and dilution of a shoe trademark based on Petitioner's sale of YUMS-branded shoes. Petitioner answered the complaint, denied infringement, and countersued for a declaratory judgment that Respondent's registration was not in fact a trademark under either federal or New York law, and for cancellation of any trademark registration pursuant to the Lanham Act. In its answer to Petitioner's counterclaim, Respondent denied Petitioner's allegations but admitted that "an actual controversy" existed between the parties over whether the trademark registration was valid.

In 2010, Respondent executed and delivered to Petitioner a "Covenant Not To Sue" in which it promised to refrain from asserting the trademark registration against any of Petitioner's current or previous shoe designs. Respondent then sought voluntary dismissal of its own complaint, with prejudice, and dismissal of Petitioner's counterclaim for lack of subject matter jurisdiction. In response, Petitioner argued that its counterclaim was not subject to dismissal because, under the Declaratory Judgment Act, an independent controversy existed as to whether Respondent had violated its rights by improperly obtaining a trademark registration. Nevertheless, the district court dismissed both Respondent's complaint (with prejudice) and Petitioner's counterclaim, holding that Petitioner's counterclaim failed to constitute a justiciable case or controversy in light of the "Covenant Not To Sue." On appeal, the U.S. Court of Appeals for the Second Circuit affirmed.

### **On The Merits: Judgment for Respondent Gregory S. Gilchrist Kilpatrick Townsend**

The Second Circuit's dismissal of Already LLC's declaratory relief claims must be affirmed. No "case" or "controversy" about trademark validity arises from the mere fact that Nike sued, then dismissed its infringement claims against Already with prejudice. Already's professed fear that Nike will renew its infringement allegations squarely conflicts with Nike's dismissal with prejudice of its claims and its voluntary covenant not to sue for Already's present or

future “colorable imitations.” Article III requires a real and immediate injury, capable of being redressed, for a federal court to exercise jurisdiction.

Nike’s lawsuit does not afford Already with a special stake in invalidating Nike’s mark. Already makes much of the sliver of exposure that supposedly remains after Nike’s covenant not to sue, but fails to show that its planned production implicates any current or future disputes. This vaguely expressed concern assumes that a court should ignore traditional Article III requirements by speculating that Nike might someday renew its infringement claims against Already. At least in the absence of a parallel “raging” dispute sufficient to independently establish jurisdiction (see *Altvater v. Freeman*, 319 U.S. 359, 364 (1943)), the Court has previously held that a dismissal with prejudice—a full adjudication on the merits in its own right—moots related declaratory relief claims. *Deakins v Monaghan*, 484 U.S. 193, 200 n. 4 (1988) (dismissal with prejudice negates “speculative contingencies that respondents will assert new federal claims against the same [defendants].”) Here, in addition to the dismissal with prejudice, there is further protection against any renewed claims from Nike’s covenant not to sue.

This Court’s decisions do recognize, as Already asserts, that a defendant may not—by voluntarily stopping its challenged actions—strip a court of Article III jurisdiction. See, e.g. *Knox v. SEIU*, 132 S. Ct. 2277, 2287 (“voluntary cessation of challenged conduct does not ordinarily render a case moot because a dismissal for mootness would permit a resumption of the challenged conduct as soon as the case is dismissed”). But there is a substantial difference between trademark cases where a defendant voluntarily stops infringing in order to moot a controversy and this case where Nike has dismissed its claims with prejudice. In this case, there is the equivalent of a judgment against Nike; in the “voluntary cessation” cases there is not. When a challenger has lost its claims, with prejudice, courts have declined declaratory relief jurisdiction and have done so without requiring the challenger to show that it is “absolutely clear” (*Friends of the Earth, Inc. v. Laidlaw Envtl. Servs. (TOC), Inc.*, 528 U.S. 167, 190 (2000)) renewed challenges will not recur. *Deakins, supra*.

Article III requires that a case or controversy persist throughout proceedings in the District Court. *White River Amusement Pub, Inc. v. Town of Hartford*, 481 F.3d 163, 167 (2d Cir. 2007) (citing *Spencer v. Kemna*, 523 U.S. 1, 7, 118 S. Ct. 978, 140 L. Ed. 2d 43 (1998)). Nike’s covenant not to sue, in the absence of any evidence that Already plans to make shoes that are not immunized by it, is adequate to meet any burden to show that the original dispute was truly mooted. When Nike dismissed its infringement claims with prejudice, and granted the covenant not to sue, it self-imposed substantial barriers to any future challenges it might make against Already that would implicate the validity of the Nike mark.

Already would save Article III jurisdiction by requiring Nike to bear the impossible burden of establishing that it will never again need to enforce its mark against Already—a burden that would require Nike to predict what Already has refused to disclose about its future plans. But the burden must be imposed on the party who has control over the information necessary to discharge it. *Concrete Pipe & Prods. of Cal., Inc. v. Contr. Laborer’s Pension Trust*, 508 U.S. 602, 626 (1993). Without any showing from Already that it has concrete plans to make shoes that remain subject to challenge, there is no need for the Court to scrutinize in any detail whether Nike’s covenant not to sue would eliminate all conceivable disputes about trademark validity that may ever arise. In these circumstances of Already’s non-showing that any future dispute is likely, Nike’s covenant is unquestionably broad enough to meet any rule that might be fashioned to determine whether a covenant not to sue adequately avoids the prospect of future disputes.

Already’s claim that it and its competitors suffer a generalized harm caused by Nike’s ability to assert “scarecrow” trademarks provides no Article III foundation. Apart from the danger that this theory would arm the marketplace with a general right to bring competitively motivated “validity” litigation, there is no support for this argument. No court has identified a special jurisdictional rule for invalid intellectual property that eliminates the Article III requirement of a concrete dispute involving an existing or imminent injury. A “generally available grievance... seeking relief that no more directly and tangibly benefits [the claimant] than it does the public at large... does not state an Article III case or controversy.” *Lujan v. Defenders of Wildlife*, 504 U.S. 555, 574-75 (1992).

There is even less reason for expanding Article III jurisdiction in the case of intellectual property. There are widespread administrative remedies in the Patent and Trademark Office, with relaxed standing rules, for parties who believe they will be damaged by any “scarecrow” trademarks or other allegedly invalid intellectual property. Already is suffering no imminent injury that is separable from that of any other shoe producer. If Already has any standing that survives Nike’s broad covenant not to sue, it is to exhaust these administrative options.

**Dissenting View:**  
**David C. Frederick**  
&  
**Michael J. Burstein**

This Court has long recognized that “[a] party seeking a declaratory judgment” that intellectual property is “invalid[] presents a claim independent of” the intellectual property holder’s “charge of infringement.” *Cardinal Chem. Co. v. Morton Int’l, Inc.*, 508 U.S. 83, 96 (1993). That principle should be respected in this case. A trademark holder’s voluntary dismissal of its *infringement* suit and unilateral promise not to sue

over the defendant’s current products does nothing to dispel the injury that gives rise to the defendant’s counterclaim for a declaration of *invalidity*. The continued existence of Nike’s trademarks casts a shadow of uncertainty on Already’s business and investment activities. Already’s counterclaim that the alleged marks are invalid therefore remains a live case or controversy despite Nike’s desire to end the current infringement dispute.

To sustain its declaratory judgment counterclaim, Already must demonstrate that it has standing both as an initial matter and throughout the course of the litigation. See *Friends of the Earth, Inc. v. Laidlaw Envtl. Servs. (TOC), Inc.*, 528 U.S. 167, 180 (2000). The “irreducible constitutional minimum of standing,” the Court has held repeatedly, is an “injury in fact,” “fairly traceable to the . . . defendant,” and “redress[able] by a favorable decision.” *Lujan v. Defenders of Wildlife*, 504 U.S. 555, 560-61 (internal alterations and citations omitted).

Trademarks and patents are exclusive rights that purport to regulate the behavior of others within their fields of coverage; they are specific restraints on behavior, signaling that individuals cannot engage in activities within their boundaries without incurring liability. Because the validity of these rights is uncertain until they are tested in court, their existence in any field poses a risk to those working in the field. That risk is particularly pronounced where investments need to be made over time.

When a person is deterred from undertaking valuable business or investment activity by the risk that the activity may encroach on another’s intellectual property right, that person has incurred an injury in fact sufficient to enable her to sue for a declaration that the right is invalid. That injury is caused by the right holder, who defined the scope of exclusion in a trademark registration or patent application and then applied for and maintained the trademark or patent. A judicial declaration that the right is invalid as a matter of law eliminates the uncertainty and therefore remedies the injury.

This situation is similar to that faced by a developer of real property who seeks to clear title *before* making costly, at-risk investments. As we have observed elsewhere, Article III does not require a plaintiff to “destroy a large building . . . before seeking a declaration of its actively contested legal rights.” *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 134 (2007) (emphasis added).

In this case, Already faces just the sort of injury described above. It is a manufacturer of athletic shoes in a highly competitive industry that demands continuous innovation. Already’s ongoing product development efforts are presently hindered by the risk that a design might run afoul of one of Nike’s asserted trademarks. Indeed, Already has proffered evidence that its investors are reluctant to continue funding the company in light of that ongoing risk.

Nike’s unilateral covenant not to sue does nothing to remove that risk. It does not remedy Already’s injury and therefore cannot moot the case. Nike has promised not to sue Already—again—for infringement of its marks by Already’s presently existing products. But the covenant does not purport to cover future product designs. Already’s product development efforts therefore continue to be undertaken in the shadow of Nike’s trademarks. “A company once charged with infringement must remain concerned about the risk of similar charges if it develops and markets similar products in the future.” *Cardinal Chem.*, 508 U.S. at 99-100. At most, Nike’s covenant eliminates the current threat of an *infringement* suit. It does not redress the risk posed by the trademarks’ continuing *validity*.

In holding otherwise, the majority deprives Already of the ability to clear the field of potentially invalid intellectual property ahead of its investments. This new limit goes against the great weight of precedent, which has “emphasized the importance to the public at large of resolving questions of [intellectual property] validity.” *Id.* at 100. Intellectual property can provide an important incentive to innovate, but *invalid* rights provide the opposite. They discourage risky

investments. This Court should ensure that our trademark and patent laws consistently achieve the former rather than the latter.

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