
Already, LLC v. Nike, Inc.

133 S. Ct. 721 (2013)

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BACKGROUND

Appellant, Already, LLC (“Already”), and Respondent, Nike, Inc. (“Nike”), are competitors who are both in the business of designing, manufacturing, and selling athletic footwear. Alleging that Already’s “Soulja Boys” and “Sugars” shoe lines infringed on the trademark of Nike’s Air Force 1 shoe line, Nike ordered Already to cease and desist the sale of those shoes. After Already refused, Nike filed a claim in federal court contending that the “Soulja Boys” and “Sugars” shoe lines infringed and diluted Nike’s Air Force 1 line. Already denied these charges and filed a counterclaim challenging the validity of the Air Force 1 trademark.

Four months later, Nike issued a “Covenant Not to Sue” (“Covenant”), promising that Nike would not initiate any trademark or unfair competition claim on Already or its affiliated partners for the designs of Already’s existing and future shoes, or any “colorable imitation” of its current shoes. The Covenant also stated that Already’s activities no longer infringed on the Nike trademark enough to warrant the cost of litigation. Following the issuance of this covenant, Nike moved to dismiss its claim with prejudice and Already’s invalidity counterclaim without prejudice, contending that the Covenant eliminates the case or controversy. “Already opposed the dismissal of the counterclaim, arguing that Nike had not established that its voluntary cessation had mooted the case.”

Ruling that Already had the burden of showing that the court had subject matter jurisdiction, the District Court dismissed Already’s counterclaim. The court concluded that the Covenant would protect any of Already’s future footwear as “colorable imitations” of its current products, and therefore it eliminated a justiciable case or controversy. The Court of Appeals for the Second Circuit affirmed the District Court’s decision. Certiorari was granted.

ISSUE

The issue is whether Nike’s Covenant, which promises not to bring a trademark or unfair competition claim over Already’s current and future “colorable imitations,” extinguishes the case or controversy of Already’s counterclaim alleging the invalidity of Nike’s Air Force 1 trademark. More broadly, does a covenant not to sue a competitor for trademark

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infringement moot the competitor's counterclaim to invalidate the trademark?

DECISION

The Supreme Court affirmed the decision to dismiss Already's invalidity counterclaim and that a remand was not appropriate. The Court held that Nike had met its burden of proving that its wrongful conduct was not reasonably likely to recur as evidenced by the breadth of coverage in the covenant. It further held that Already failed to meet its burden of showing that a cognizable injury remained after the issuance of Nike's covenant. Since Already could not show a remaining case or controversy, the Court concluded that the case was moot. The Court determined that a remand would serve no purpose because Already has had ample opportunity at each court to describe its business activities.

REASONING

The main issue addressed by the Court was whether there was an existing case or controversy between Already and Nike. The determination of this issue turned on whether Already had standing. While the Court admitted that both parties initially had standing, the Covenant now disputes the remaining presence of an actual controversy needed for standing. This controversy must exist through the length of litigation. If it vanishes, the case becomes moot. Warning that a case cannot simply become moot because a defendant stopped its unlawful behavior following suit, the Court relied on precedent to place the formidable burden on the party who claims that its voluntary compliance ceases the controversy. This party must clearly show that the allegedly unlawful conduct will not likely recur.

The Court dismissed Nike's argument that its judicially enforceable covenant to avoid the allegedly wrongful conduct was in and of itself enough to meet its burden. Instead, the appropriate standard is the voluntary cessation test, which asks: "could the allegedly wrongful behavior reasonably be expected to recur?"

The Court then examined Nike's covenant and determined that its broad coverage satisfied the voluntary cessation test. The broad protection promised by the Covenant's language was demonstrated by the fact that it is unconditional and irrevocable, promised not to make any demands or filing any claims, extended protection to Already's affiliated business entities, and included past and current designs, and any "colorable imitations." For these reasons, the Court concluded that the Covenant satisfied Nike's burden of showing that the allegedly unlawful conduct is not reasonably expected to recur.

Because Nike had satisfied the voluntary cessation test, the burden then shifted to Already to show its intention of engaging in marketing a product that may infringe on the Air Force 1 trademark, yet would not be covered by the covenant.

The Court rejected the authorities that Already relied on to show that it had standing. First, this case was unlike *Cardinal Chemical Co. v. Morton Int'l, Inc.*, 113 S.Ct. 1967, where the Court affirmed that a court's reliance on one of two possible grounds did not relinquish its power to rule on the second ground. This case questioned whether the district court had jurisdiction to preside over the case at the outset. Second, this case was distinct from *Altwater v. Freeman*, 63 S.Ct. 1115 (1943), where the owners of a parent sued licensees for specific performance. When licensees counterclaimed alleging the invalidity of the patents, the Court of Appeals dismissed this counterclaim reasoning that the license was not in effect anymore. Here, Already could market its merchandise without worry of a trademark infringement claim. After dismissing Already's supporting case law, the Court then discussed Already's alternative arguments to support standing.

Already's alternative arguments for Article III standing did not convince the Court. First, Already argued that potential investors would be hesitant to invest while Nike's trademark remained valid. The Court reasoned that this argument was unmerited because once its been established that the alleged conduct would not reasonably recur, a plaintiff cannot rely on hypothetical or speculative injury to show standing. Second, Already presented an affidavit from one of Already's vice presidents stating that Nike threatened to cancel orders with retailers if they continued to carry Already's shoes. While the Court admitted that a plaintiff has standing in an invalidity suit if it reasonably believes that a trademark owner interferes with the plaintiff's retailers, the Court explained that the Covenant extended protection to Already's distributors and customers. The Court further reasoned that if Nike was participating in unfair trade practices, Already had not explain how this harassment would stop if Nike's trademark were invalidated. Third, Already argued that it could not simply continue with business after being sued once. The Court dismissed this argument, stating that a plaintiff does not have standing merely because it has been sued once. Further, the Court reasoned that Already was Nike's "least injured competitor", noting that Already was Nike's only competitor in possession of a covenant shielding it from litigation regarding the Air Force 1 trademark.

The Supreme Court also rejected Already's broader argument that as a competitor of Nike, it innately had standing to sue. Already argued that by allowing Nike to unilaterally moot a case, federal courts will be stripped of its role in overseeing patent and trademark cases, and big companies could take advantage of smaller ones by registering invalid trademarks and later dodging judicial review by issuing covenants not to sue. The Court found this theory illogical because it would grant Already standing even if Nike never instigated a claim or Already never produced a product potentially infringing on Nike's trademark. The Court explained, "[w]e have never accepted such a boundless theory of standing."

Already's policy argument based on the bullying of big businesses did

not convince the Court. The Court cited to law that showed that covenants to sue may actually disadvantage a big business by risking dilution of the trademark. It also noted that the Lanham Act allows parties to be awarded litigation costs to offset damage caused by abusive litigation conduct. Worryingly, a larger business backed by heftier resources could have standing to challenge another company for intellectual property rights simply because they are competitors. Because the Court did not adopt any of Already's alternative theories of standing, Already failed to meet its burden of showing that a case or controversy still exists.

Finally, the Court held that a remand would serve no purpose. Although the district court and the Court of Appeals, and the Supreme Court solicited Already to show evidence of an intention to produce a product that would potentially infringe on Nike's trademark, yet fall outside the four corners of the Covenant, Already failed to show this intention at each stage of trial. Thus, the Court determined that "it is plain that Already has said all it has to say" about its business activities and thus a remand is unnecessary.

CONCURRENCE

While Justice Kennedy, Justice Thomas, Justice Alito, and Justice Sotomayor agreed with the Court's holding, they added two additional arguments. First, they warned that the burden to show that a case is moot must remain with the party proposing its mootness, in this case, Nike. The concurring justices reiterated the main opinion's ruling that Nike bore the "formidable burden of showing that is absolutely clear the allegedly wrongful behavior could not reasonably be expected to recur." *Already, LLC v. Nike, Inc.*, 133 S.Ct. 721 (2013) (Kennedy, J., concurring) (citing *Friends of the Earth, Inc. v. Laidlaw Environmental Services (TOC), Inc.*, 120 S.Ct. 693 (2000)). They added that the district court and the court of appeals issued their ruling with the burden placed on the wrong party. When such misplacement of burden occurs, a remand is appropriate to determine whether the outcome would change with the burden on the proper party. The justices proposed that part of the trademark holder's "formidable burden" in showing that a case is moot ought to require it to "make a substantial showing that the business of the competitor and its supply network will not be disrupted or weakened by satellite litigation over mootness or by any threat latent in the terms of the covenant itself."

Second, the justices wanted to emphasize that the type of covenants that Nike filed should not be an automatic method for a party who instigated a trademark infringement suit to avoid the potential for adverse judicial review. In addition, courts should be cognizant of the ramifications that litigation can have on affiliated entities of a business threatened with a trademark suit and carefully consider these and further ramifications when relying on a covenant not to sue to moot a case.