

BLOGS

Trademarks

United States Supreme Court Holds Broad Covenant Not to Sue Moots Trademark Infringement Action

The Supreme Court's decision in *Already, LLC v. Nike, Inc.*, 568 U.S. ___, 184 L. Ed. 2d 553 (U.S. Jan. 9, 2013), is important for franchisors who may be considering bringing a trademark infringement action against a competitor (including a former franchisee) using a similar mark, as well as for recipients of such infringement claims. The unanimous court affirmed the lower courts' rulings that, once a trademark plaintiff has voluntarily dismissed its infringement suit and issued a covenant not to sue, the district court loses federal jurisdiction under Article III of the U.S. Constitution and is barred from considering a defendant's counterclaim that the mark is invalid.

Nike had filed an infringement action against a competitor shoe manufacturer, Already, LLC. Already counterclaimed, alleging that Nike's trademark was invalid and seeking to cancel the registration. Four months later, Nike delivered a comprehensive covenant not to sue to Already, in which Nike promised not to assert any claim against Already relating to the mark based on any of Already's current or previous shoe designs. Nike then moved to dismiss all claims and counterclaims for lack of subject matter jurisdiction. The district court dismissed the case as moot, and the United States Court of Appeals for the Second Circuit affirmed. In reviewing the case, the Supreme Court noted that the breadth of the covenant was adequate to meet the "formidable burden" of showing that Nike could not reasonably be expected to resume its enforcement efforts against Already. The high court rejected Already's policy argument that the case allowed Nike to bully a small innovator, noting that issuing covenants not to sue could be a risky long-term strategy for a trademark holder.

The Supreme Court's ruling confirms that franchisors and other trademark owners enjoy flexibility when issuing trademark cease and desist letters and in filing infringement suits. If the franchisor has a change of heart a properly drafted covenant not to sue can put an end to all aspects of the claim as well as potentially harmful counterclaims.

Related People

Maisa Frank

Partner

Washington, D.C.

202.295.2209

maisa.frank@lathropgpm.com