



Second Circuit Rules That Presenting Covenant Not To Sue Eliminates Subject Matter Jurisdiction Over Declaratory Judgment Action For Non-Infringement And Cancellation Of Trademark Registration

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Nike sued Yums for infringement of Nike's registered trade dress in the Air Force 1 shoe. Yums counterclaimed for a ruling that the claimed dress "is not a valid trademark," a declaration of non-infringement, and cancellation of Nike's registration.¹ Nike then provided Yums a covenant not to sue and moved to dismiss its complaint with prejudice and the counterclaims without prejudice. The district court held that the covenant ended the controversy between the parties and dismissed Yums's counterclaims for lack of subject matter jurisdiction. The Second Circuit affirmed in *Nike, Inc. v. Already, LLC*, _ F.3d _, 2011 WL 5429154 (2d Cir. Nov. 10, 2011).²

A bit of background: if you followed, played, or were remotely interested in basketball or hip-hop in the '80s, Nike's Air Force 1 is an iconic shoe and you know what it looks like. It has been featured in a number of hip-hops songs and music videos, and has been worn and promoted by a number of players in the National Basketball Association. Yums targets the urban and hip-hop market with its shoes and one of the implicated shoes was sponsored by hip-hop artist SOULJA BOY. Nike's Air Force 1 and Yums's Soulja Boy shoes are shown below.

¹ The Answer and Counterclaim is worth a look for its attempt to claim that Nike's shoe trade dress is in the public domain name or unprotectable because it constitutes unpatented patentable subject matter. The Answer can be found here: http://www.pattishall.com/pdf/Answer_to_Nike_complaint.pdf.

² Available here: http://www.pattishall.com/pdf/Nike_v_Already.pdf.



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This litigation was part of Nike’s campaign against imitation Air Force 1 shoes, which proved very successful – except for Yums, which apparently refused to agree to Nike’s demands to stop making shoes that look like the Soulja Boy shoe shown above. After extensive negotiations, “Nike determined that the time and expense of continued litigation against Defendant [was] not justified,” in part, because the infringement was *de minimis*.³ It then provided Yums with the covenant not to sue, which required Nike 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 Sates [sic] relating to the [Air Force 1 trade dress] 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.

Yums decided to pursue its counterclaims “because Nike’s litigation-and the ‘905 Registration itself-constituted a ‘continuing libel’ against Yums by making it appear that Yums had infringed and continued to infringe Nike’s trademark.” Yums had not and has not, however, petitioned to cancel Nike’s registration in the Patent and Trademark Office.

The Second Circuit ruled that, to determine whether a covenant not to sue eliminates the case or controversy requirement for a declaratory judgment action involving a trademark, courts must 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.” The Second Circuit had little trouble finding that Nike’s covenant eliminated any possibility of a controversy and discounted Yums’s arguments that investors were turned off by Nike’s allegations and would continue to stay from Yums as a result. The Second Circuit also agreed with other federal circuits that have opined on the issue that cancellation under 15 U.S.C. § 1119 does not create an independent basis for jurisdiction in federal court. The Court also affirmed that no attorneys’ fees would be awarded to Yums.

³ Nike’s Memorandum of Law in support of its Motion to Dismiss, Doc. 38, 1:09-cv-06366 (filed Apr. 12, 2010).

Trademark owners who file suits to protect their marks and later find that the potential benefit of the suit in the marketplace may not be worth the expense now have confirmation that a covenant not to sue may extricate them from the suit.

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