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TRICKY BUSINESS: A DECISION-MAKING FRAMEWORK FOR LEGALLY SOUND, ETHICALLY SUSPECT BUSINESS TACTICS

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ABSTRACT

TRICK: “a crafty or underhanded device, maneuver, stratagem, or the like, intended to deceive or cheat.”

Tricks are designed to outwit others in a cunning and skillful manner. Despite well-written, philosophically sound codes of ethics and core values, businesses are not above employing tricky tactics to suit their pecuniary interests. These strategies often involve the legal system as the outwitted ask courts to vindicate their rights. However, the most successful tricks are skillfully crafted to survive legal scrutiny. This article evaluates three tricky business tactics found lawful by United States Supreme Court during its most recent term. The story begins with a legal analysis designed to appraise how and why the justices upheld each tactic in near unanimous fashion. An ethical analysis then scrutinizes each tactic under the prominent ethical frameworks of Utilitarianism, Deontology and Virtue Ethics. The goal is to compare and contrast legal outcomes with the ethical consequences and draw important conclusions for law and business.

Legally, each of the tricky tactics prevailed. Each was blessed by a series of courts, including the highest court in the land, and now abides under the strong protection of precedent. This article evaluates the cases as well as their legal and ethical implications in five parts. Part II introduces and synthesizes the three prominent ethical frameworks of Utilitarianism, Deontology and Virtue Ethics. These frameworks are typically used in evaluating business ethics scenarios but are also appropriate to also evaluate cases at the intersection of business, law and ethics. Part III evaluates the three tricky tactics from a legal standpoint by analyzing how these companies were able to outwit (or trick) the system. This sets up Part IV where each tactic is evaluated under the ethical frameworks and determined to be ethically suspect. Part V concludes with an argument that this inconsistency between law and ethics is not the fault of judges stuck with precedent that has not anticipated these tricky tactics. In fact, the American Bar Association’s Model Code of Judicial Conduct implies that judges should “uphold and apply the law” and not intersperse ethical frameworks into legal decision-making. Instead, the task of considering ethical implications is for legislators (and the citizens who elect them), lawyers, and (most importantly) business professionals who confront the business ethics dilemmas on a regular basis. These groups must consider the moral implications of their actions and do so more consistently. The old adage, “just because something is legal does not make it ethical” rang true in each of these cases. It is likely that the managers responsible for these three tricky practices would have (and should have) acted differently upon deeper ethical introspection. This article provides a framework to guide this more ethically focused decision-making process.

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I. INTRODUCTION

TRICK: “a crafty or underhanded device, maneuver, stratagem, or the like, intended to deceive or cheat.”¹ Tricks are designed to outwit others in a cunning and skillful manner. Despite well-written, philosophically sound codes of ethics and core values,² businesses are not above employing tricky tactics to suit their pecuniary interests.³ These strategies often involve the legal system as the outwitted ask courts to vindicate their rights. However, the most effective tricks are skillfully crafted to survive legal scrutiny. This article evaluates three effective tricky business tactics found lawful by United States Supreme Court during its most recent term. A legal analysis appraises how the justices, in near unanimous fashion, tweaked precedent to uphold each tactic.⁴ An ethical analysis then scrutinizes each tactic under the prominent ethical frameworks of Utilitarianism, Deontology and Virtue Ethics. The goal is to compare and contrast the legal outcomes with the ethical propriety of each trick and draw important conclusions for law and business.

The first case, Already v. Nike,⁵ revolves around the global athletic shoe market. Nike sued Already for infringement of its trademarked Air Force I show design. Already counterclaimed that the mark was invalid because shoe designs cannot be trademarked. During discovery, Nike discovered that major retailers no longer carried Already’s shoes and determined the company was no longer a threat. Nike wanted out of the litigation but the counterclaim posed a problem. Even if Nike dropped its claims, there was no guarantee that the court would dismiss Already’s counterclaim. Enter the trick. Nike abruptly submitted a unilateral covenant not to sue Already for past, current or future shoes at all resembling Nike’s famous Air Force I brand. Basically, Nike agreed never to enforce this mark against Already. Nike then argued that its covenant mooted the counterclaim because Already now suffered no injury or future threat of injury. Each of the courts to consider the case accepted the tactic and ruled in Nike’s favor. The trick was effective. The Nike case presents the following ethical maxim for evaluation: I may, unilaterally and without consent, seek and exploit legal loopholes to escape the consequences of a decision that time and circumstances prove unwise.

The second case, Federal Trade Commission v. Actavis,⁶ involved a fight between a brand name and a generic prescription drug manufacturer. The brand name desired to maximize its monopoly profits under a patent for AndroGel (a drug that combats low testosterone). The generic recognized that United States law favors expedited market entry of generic drugs because generics are between twenty and ninety percent less expensive.⁷ Therefore, the law allows generics to apply for permission to market their products, provoke patent infringement lawsuits by the brand and then argue that: (#1) the generic version does not infringe the brand name’s patent or (#2) the patent is

² See, e.g., Lynn Paine, Rohit Deshpandé, Joshua D. Margolis, and Kim Eric Bettcher, Up to Code: Does Your Company’s Conduct Meet World-Class Standards?, HARVARD BUSINESS REVIEW: THE MAGAZINE (Dec. 2005), http://tinyurl.com/c9g5tbd (“Codes of conduct have long been a feature of corporate life. Today, they are arguably a legal necessity -- at least for public companies with a presence in the United States.”)
⁴ The justices upheld the tricky tactics unanimously in two of the three cases. See Already, v. Nike, 133 S. Ct. 721, 724 (2013) and Nitro-Lift Techs. V. Howard, 133 S. Ct. 500, 500 (2012). The third case generated a five-vote majority of justices who were somewhat suspicious of the tactic and a three-justice dissent generally supporting the tactic; however, none of the justices were suspicious enough to rule the tactic per se unlawful. See FTC v. Actavis, No. 12-416, 2013 U.S. LEXIS 4545, *7 (2013) (showing also the Justice Alito was recused from the case).
⁵ 133 S. Ct. 721, 724 (2013).
⁷ See, e.g., Elizabeth MacDonald, Pay for Delay: U.S. Says Drugmakers Block Cheaper Generic Rivals, FOX BUSINESS (May 4, 2011), http://tinyurl.com/l8q8xm (“The FTC says . . . that generic drugs typically are ‘at least 20% to 30% less than the name-brand drugs, and in some cases are up to 90% cheaper.’”)

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invalid. This is a risky and expensive process for generics. They may lose the infringement lawsuit, have their application denied and be forced to wait for the brand’s patent to expire. Brand name manufacturers, however, also risk losing the litigation, facing competition and having valuable patents declared invalid. Enter the trick. These competitors decide to cooperate and enter into a so-called reverse payment agreement. These agreements require the generic to delay market entry in return for a share of the brand’s now more secure monopoly profits. Ironically, the party alleging infringement actually pays the alleged infringer -- the opposite of a typical legal settlement. The lower courts bought the argument that the agreement at issue offered no protection beyond the scope of the patent. The Supreme Court declined to hold such agreements as presumptively unlawful. The majority argued instead that lower courts are capable of determining, case by case, whether a reverse payment agreement is unlawfully anti-competitive. Three dissenters would have retained the scope of the patent test from the lower court and upheld this agreement. The trick was effective (at least in the fact that it was not declared per se unlawful). The Actavis case presents the following ethical maxim for evaluation: I may agree to increase my benefits even when I recognize that my agreement will directly cause others to expend more resources.

The third and final case, Nitro-Lift Technologies v. Howard, delves into the employee-relations arena. Nitro-Lift operates in four states including Oklahoma. Oklahoma law limits overly restrictive non-compete clauses in employment agreements as violating public policy. Nitro-Lift required its employees to sign an employment agreement that contained a broad arbitration clause and strict non-compete provisions. The non-compete clause barred employees from, among other things, working for, soliciting others to work for and loaning money to a competitor across the United States for two years. Nitro-Lift recognized that Oklahoma courts would likely look askance at its non-compete clause. Enter the trick. The company understood that the Federal Arbitration Act requires courts to send a case to arbitration as long as the parties previously agreed to valid arbitration terms. Therefore, Nitro-Lift inserted a broad arbitration clause in the employment agreement that required employees (some residing and working in Oklahoma) to arbitrate employment-related disputes in Houston using Louisiana law (the location of Nitro-Lift’s headquarters). The United States Supreme Court found for the company in a unanimous summary dismissal. This trick was also effective. The Nitro-Lift case presents the following ethical maxim for evaluation: When I find myself in a position of power, I may require weaker parties to agree to unfavorable terms when my goals can be achieved with less restrictive and more equitable terms.

Legally, each of the tricky tactics prevailed. Each was blessed by a series of courts, including the highest court in the land, and now abides under the strong protection of precedent. This article evaluates the cases as well as their legal and ethical implications in five parts. Part II introduces and synthesizes the three prominent ethical frameworks of Utilitarianism, Deontology and Virtue Ethics. These frameworks are typically used in evaluating business ethics scenarios but are also appropriate to also evaluate cases at the intersection of business, law and ethics. Part III evaluates the three tricky tactics from a legal standpoint by analyzing how these companies were able to outwit (or trick) the system. This sets up Part IV where each tactic is evaluated under the ethical frameworks and categorized as ethically suspect. Part V concludes with an argument that this inconsistency between law and ethics is not the fault of judges stuck with precedent that has not anticipated these tricky tactics. In fact, the American Bar Association’s Model Code of Judicial Conduct implies that judges should “uphold and apply the law” and not intersperse ethical frameworks into legal decision-making. Instead, the task of considering ethical implications is for legislators (and the citizens who elect them), lawyers, and (most importantly) business professionals who confront the business ethics dilemmas on a regular basis. These groups must consider the moral implications of their actions and do so more consistently. The old adage, “just because something is legal does not make it ethical” rang true in each of these cases. It is likely that the managers responsible for these three tricky practices would have and should have) acted differently upon deeper ethical introspection.

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8 See generally S. Ct. 500 (2012).
II. ETHICAL FRAMEWORKS

It is enlightening to employ prominent ethical frameworks to evaluate the morality of contemporary business practices.\(^\text{10}\) It is especially intriguing to use ethics to analyze tricky business tactics deemed valid by the law. In a perfect world, perhaps the legal and ethical conclusions would line up -- what is unethical is found to be illegal and vice versa. The problem with that ideal in the real world is that obtaining consensus on the morality of particular decisions is a difficult exercise.\(^\text{11}\) At least the judiciary has a structure in place to hand down final, binding verdicts on legality. A plethora of very different frameworks exist to evaluate decision-making from an ethical lens and people disagree bitterly on which is most appropriate.\(^\text{12}\) The most prominent ethical frameworks roughly fall into five broad categories: the Utilitarian Approach,\(^\text{13}\) the Rights Approach,\(^\text{14}\) the Fairness/Justice Approach,\(^\text{15}\) the Common Good Approach\(^\text{16}\) and the Virtue Approach.\(^\text{17}\) From these approaches, this article selects the three ethical theories - Utilitarianism, Deontology and Virtue Ethics - that prove most helpful in analyzing ethical dilemmas arising at the confluence of the business and legal spheres.\(^\text{18}\) The three frameworks will be discussed in turn.

\(^{10}\) There are many very interesting works on the topic of ethical frameworks and their application to business. See, e.g., JOHN R. BOATRIGHT, ETHICS AND THE CONDUCT OF BUSINESS (4th ed. 2003), THOMAS DONALDSON, PATRICIA WERHANE AND JOSEPH VAN ZANDT, ETHICAL ISSUES IN BUSINESS: A PHILOSOPHICAL APPROACH (2007) and ROBERT C. SOLOMON, ETHICS AND EXCELLENCE: COOPERATION AND INTEGRITY IN BUSINESS (1992).


\(^{12}\) See, e.g., Poll: Would you consider yourself more of a Utilitarian or Deontologist?, ESCAPIST MAGAZINE, http://tinyurl.com/n442x4r (last visited June 1, 2013) (showing that fifty-one percent of respondents considered themselves Utilitarians and nine percent Deontologists; fourteen percent disagreed with both frameworks and twenty-three percent admitted that they had no idea what these terms mean) and Charles T. Schmidt, Ethical Decision Making and Moral Behavior, UNIVERSITY OF RHODE ISLAND, http://tinyurl.com/l6mhthg (last visited June 5, 2013) (“It is very difficult to define ethical behavior. Many definitions exist, but most depend on using some standard of ethical behavior from which to judge the individual’s behavior. Any standard used is subjective and cultural in nature and subject to intensive debate.”).

\(^{13}\) A Utilitarian Approach revolves around the idea that a moral action is the one that produces the greatest good for the greatest number of people. See, e.g., A Framework for Thinking Ethically, SANTA CLARA UNIVERSITY MARKKULA CENTER FOR APPLIED ETHICS, http://tinyurl.com/foj7e (last visited May 30, 2013).

\(^{14}\) The Rights Approach revolves around the idea that human beings deserve dignity; therefore, respect for and protection of rights matter a great deal when evaluating potential decisions. Id.

\(^{15}\) The Fairness/Justice Approach revolves around the idea that “ethical actions treat all human beings equally - or if unequally, then fairly based on some standard that is defensible.” Id.

\(^{16}\) The Common Good Approach “suggests that the interlocking relationships of society are the basis of ethical reasoning and that respect and compassion for all others - especially the vulnerable - are requirements of such reasoning. This approach also calls attention to the common conditions that are important to the welfare of everyone. This may be a system of laws, effective police and fire departments, health care, a public educational system, or even public recreational areas.” Id.

\(^{17}\) The Virtue Approach revolves around the idea that “ethical actions ought to be consistent with certain ideal virtues that provide for the full development of our humanity. These virtues are dispositions and habits that enable us to act according to the highest potential of our character and on behalf of values like truth and beauty.” Id. (discussing these five approaches in greater detail).

\(^{18}\) The three frameworks utilized in this article stem from three of these five approaches; Utilitarianism stems from the Utilitarian Approach, Deontology from the Rights Approach and Virtue Ethics from the Virtue Approach. Id. Interesting legal publications delve into these theories from time to time for various purposes. See, e.g., Sherman J. Clark, Law as Communitarian Virtue Ethics, 53 BUFFALO L. REV. 757, 757 (2005) (“The governance and regulation of a community can and should be thought about in ways akin to the ways in which virtue ethics looks at the governance and regulation of an individual life.”).
A. UTILITARIANISM

"Lying does not come easily to me. But we all had to weigh in the balance the difference between lies and lives." -- OLIVER NORTH (TESTIFYING TO CONGRESS AFTER THE IRAN CONTRA SCANDAL)¹⁹

Utilitarianism is the most well known Teleological ethical framework. Teleological theories hold that the moral correctness of an action is directly correlated to the good produced by its goal or purpose. In other words, consequences of an action play a major part in ethical decision-making. This is slightly different from a subset within the Teleological framework, called Consequentialism, where consequences are all that matter in making a moral decision; the means (potentially lies, blackmail, bribery or manipulation) to obtain that end are morally irrelevant as long as good is produced. To a Consequentialist, it would not matter whether someone rescues a drowning person to save that person or to steal his wallet -- the only thing that matters is that the life was saved. Utilitarianism is a Consequentialist framework holding that an action is ethical to the degree that its consequences produce the greatest utility (meaning good or well-being) for the greatest number of people.²⁴ A decision-maker must place everyone on an equal playing field when making a decision. Acting out of self-interest is a major violation of the theory. This is much different from a related Consequentialist theory called Ethical Egoism where an actor is able to act morally by being selfish.²⁵

Utilitarian decision-making is relatively straightforward but still requires deep thinking. The Utilitarian rubric has three steps in a business context: (1) the decision maker (often an executive or other management-level employee) must identify the various courses of action that a company could perform when faced with an ethical dilemma; (2) the decision maker then must consider all the foreseeable benefits and harms that would result from choosing each course identified in step one; and (3) the decision maker must choose the course of action that provides the greatest benefits to the greatest number of people after all the benefits and costs have been considered.²⁶ It is important to note that the chances or odds that each benefit and cost will come to fruition must be part of the analysis. One can ponder many tremendous benefits and horrible costs that have very little chance of occurring. Unrealistic expectations and worries should be highly discounted in a Utilitarian analysis.


²²See id.
²³See, e.g., JOHN STUART MILL, UTILITARIANISM, ch. 2, pt. 19, (George Sher ed. Hackett 1979. at 17-18) (discussing why it is important to distinguish rules from motives).
²⁵See, e.g., Egoism, STANFORD ENCYCLOPEDIA OF PHILOSOPHY (Oct. 4, 2010), http://tinyurl.com/6g5uzlz ("Ethical egoism claims that it is necessary and sufficient for an action to be morally right that it maximize one’s self-interest.").
²⁶See Calculating Consequences, supra note 19 (discussing the idea that people use this type of moral reasoning frequently and stating:

When asked to explain why we feel we have a moral duty to perform some action, we often point to the good that will come from the action or the harm it will prevent. Business analysts, legislators, and scientists weigh daily the resulting benefits and harms of policies when deciding, for example, whether to invest resources in a certain public project, whether to approve a new drug, or whether to ban a certain pesticide.)
There are two primary lenses focusing this evaluation process: Act Utilitarianism and Rule Utilitarianism. Act Utilitarianism applies the greatest good for the greatest number analysis to every act that a person (or company/entity/decision maker) takes. The ethical action in each case is the one that brings about the greatest utility to all in that particular situation. This can become a very tedious task considering the many acts people undertake each day. Rule Utilitarianism, on the other hand, looks whether a general rule will bring about the greatest good for the greatest number of people. Rules that bring about utility are moral and should be put into effect. Congress and other legislative bodies tend to act as rule Utilitarians as they ponder which rules will make their communities better off.

The so-called Classical Utilitarians are Jeremy Bentham and John Stuart Mill. Bentham formulated the first “systemic account of Utilitarianism.” He believed that “two sovereign masters: pleasure and pain” ruled human beings. Therefore, good actions are those that tend to promote physical pleasure and bad actions are those that tend to promote physical pain. To Bentham, physical pleasures and pains were deemed equal to mental pleasures and pains and could be quantified in order to assess which actions were moral. It was John Stuart Mill, however, whose later interpretation of Utilitarianism gained the most traction. Mill believed that mental/intellectual pleasures are intrinsically better than hedonistic or purely physical pleasures. To Mill, good actions were those that produce the greatest mental pleasure (happiness or well-being) and bad actions are those that tend to produce mental pain (unhappiness). Mill also looked to the quality of the pleasure/pain instead of merely the quantity.

In the business context, the greatest number of people involves many stakeholders -- employees, customers, shareholders, the families of the three groups just mentioned, community members living nearby corporate property, and potentially society at large. Because this theory does not allow businesses to think of their interests about the interest of their other stakeholders, a Utilitarian analysis of business decisions often becomes very interesting. There are instances when revenue seeking will be unethical because the profit-generating activity will harm more people than the extra revenue benefits. This may be the last thing that a corporate executive desires to hear but Utilitarianism makes the point very clear. However, profit is surely part of the utility that a business decision should consider along with other important benefits such as morale, workplace and community safety, stimulation of learning and creativity, environmental sustainability and employee health. This article generally invokes Mill's Utilitarianism to evaluate the tricky business practices detailed in Part III.

A few key objections to Utilitarianism exist. First, the consequences of an action are not always clear and it is exceptionally difficult to understand how these uncertain consequences will help or harm other people. Do people really want to base decisions on outcomes they cannot fully control or accurately predict? Second, seeking the greatest good for the greatest number of people often leaves out minority groups and violates individual rights. For example, the Bill of Rights to the United States Constitution exists precisely because a national government must function primarily on a Utilitarian basis (the majority rules). However, there is no equivalent to the Bill of Rights supplementing minority groups under Utilitarianism. Tough luck if you find yourself outside of the will of the majority. Third, Consequentialist frameworks like Utilitarianism ignore the means to an end as morally irrelevant but

27 The History of Utilitarianism, supra note 24.
28 Id.
29 In conducting this analysis of physical pleasure and pain, Bentham looked to its intensity, duration, certainty, remoteness, fecundity (basically, will more of the same pain or pleasure follow the current pain or pleasure), purity (basically, will the pleasure be followed by pain or vice versa) and extent (basically, how many people will be affected). Id.
30 See, e.g., Notes on Utilitarianism, supra note 20 (“Although forms of utilitarianism have been put forward and debated since ancient times, the modern theory is most often associated with the British philosopher John Stuart Mill . . . who developed the theory from a plain hedonistic version put forward by his mentor Jeremy Bentham.”) and Utilitarianism, WIKIPEDIA, http://tinyurl.com/7mt8v5o (last visited June 1, 2013).
31 See, e.g., Notes on Utilitarianism, supra note 20.
32 See, e.g., Most Common Criticisms of Utilitarianism (and Why They Fail), UTILITARIAN.ORG, http://tinyurl.com/n8xdkma (last visited June 1, 2013).
33 See, e.g., Utilitarianism, supra note 30 (discussing the idea that Utilitarianism ignores justice).
this cannot be true.\textsuperscript{34} Means, especially when injurious to others or otherwise unethical, should matter in the decision-making process. A person should not be able to use people as a means to an end even if that leads to a beneficial outcome. Finally, evaluating the greatest good for the greatest number of people is a time consuming process. Many moral decisions require a much faster answer and people will not take the time to implement the calculus.

B. DEONTOLOGY

“Happiness and moral duty are inseparably connected.” -- GEORGE WASHINGTON\textsuperscript{35}

“What you do, but about why you do it.” -- JON RANDBERG

“Do your duty in all things. You cannot do more, you should never wish to do less.” -- ROBERT E. LEE\textsuperscript{36}

Deontology judges the morality of actions based on the actor’s adherence to duty.\textsuperscript{37} A duty is moral or legal obligation that informs people how to act in a given situation. The obligation stays the same regardless of the circumstances or projected outcomes. Deontology is the opposite of Consequentialism because consequences are irrelevant to making duty-based decisions (consequences are too difficult to predict or control).\textsuperscript{38} Deontologists believe that people should be judged for actions within their control, for the things they will as opposed to the things they achieve.\textsuperscript{39} Acting out of a sense of duty is the right thing to do and the emphasis is on the “right thing to do” rather than the “good thing to do.”\textsuperscript{40} To a Deontologist, even tremendous amounts of good produced by a decision will never justify immoral actions leading to the outcome. Additionally, Deontology’s emphasis is on a person’s duty as opposed to a person’s motive.\textsuperscript{41} For example, a person who tells the truth acts morally if and only if the truth is told because it is the right thing to do. Telling the truth is unethical if done with the wrong motive such as seeking approval from others or obtaining a desired outcome.

\textsuperscript{34} See, e.g., IMMANUEL KANT, GROUNDWORK ON THE METAPHYSICS OF MORALS 24 (T.K. Abbott trans. Prometheus Books 1988). (“An action done from duty derives its moral worth, not from the purpose which is to be attained by it, but from the maxim by which it is determined, and therefore does not depend upon the realization of the object of the action”) (emphasis added).


\textsuperscript{36} QUOTATIONSBOOK.COM, http://tinyurl.com/mms26qm (last visited May 31, 2013) (stating that the quote was attributed to Lee:

[I]n a letter to his son, G. W. Custis Lee, dated April 5, 1852, and published in the New York Sun, November 26, 1864. Although accepted as authentic by many nineteenth century writers, and used for the inscription under Lee’s bust in New York University’s Hall of Fame in 1901, repudiation of its authenticity began shortly after its publication, beginning with articles in two Richmond, Virginia, newspapers.).

\textsuperscript{37} See, e.g., Deontological Ethics, STANFORD ENCYCLOPEDIA OF PHILOSOPHY, http://tinyurl.com/ya6dgay (last visited June 1, 2013).

\textsuperscript{38} See id. (“In contrast to consequentialist theories, deontological theories judge the morality of choices by criteria different from the states of affairs those choices bring about.”).

\textsuperscript{39} See Notes on Deontology, WOFFORD UNIVERSITY, http://tinyurl.com/3ae3gjt (last visited May 31, 2013). See also Terms In and Types of Ethical Theory, supra note 21 (making the point via the following example: it would not matter if a drunk driver made it home safely after a long night at the bar -- “driving drunk was still wrong because the intention to drive drunk was wrong (or to drink alcohol when one knows one needs to drive)” was wrong.).

\textsuperscript{40} Deontological Ethics, SEVENOAKSPHILOSOPHY.ORG, http://tinyurl.com/lyv8wnc (last visited May 31, 2013).

\textsuperscript{41} See, e.g., IMMANUEL KANT, GROUNDWORK ON THE METAPHYSICS OF MORALS (H.J. Patton trans. Harper & Row 1964, at 65), NIGEL WARBURTON, A LITTLE HISTORY OF PHILOSOPHY 116 (2011) (stating that morality for Kant “wasn’t just about what you do, but about why you do it.”) and NORMAN E. BOWIE, KANTIAN ETHICS, ENCYCLOPEDIA OF BUSINESS ETHICS AND SOCIETY 1499-1500 (Robert Kolb ed. 2008) (“Kant is looking toward reasons rather than motivation in the psychological sense. An action is right if it is performed for the right reason and the person of goodwill is the person whose actions are based on or are in conformity with good reasons.”).
Immanuel Kant remains the world’s most famous Deontologist. Kant believed that the humanity comprising the essence of a person makes it immoral to use someone else merely a means to an end. Under this formulation, it is ethical to use people’s talents for your own ends in situations like buying groceries, getting gas or obtaining an education. These service providers receive something valuable from the transaction as well. Using people becomes unethical in situations where people use others only as a means to that end and thereby ignore their humanity. Kant argued that people have the capacity to act out of this sense of duty because people have the ability to reason. This focus on cool rationality over emotion is equitable because some people possess less emotion than others yet all rational people should be able to make ethical decisions. Emotions are also dangerous because of their ability to cloud a decision-maker’s judgment. Kant articulated these principles through his major contributions to Deontology -- the Categorical Imperative (CI).

Kant’s Categorical Imperative determines whether a person has a duty to act or refrain from acting. In other words, the CI declares how people, acting rationally, should behave. An imperative is an unavoidable obligation or an order. The fact that Kant’s formulation is categorical means that obligations deemed to be duties under his rubric must be performed without exception each and every time the obligation arises. Kant’s CI declares: “Act only according to that maxim by which you can at the same time will that it should become a universal law.” Kant’s formulation of a categorical imperative is a little clunky due to the philosophy-speak, but it is rather elegant when put into practice for most ethical dilemmas. Translated to plain English, the CI contains three distinct steps:

1. **Define a maxim (a short, pithy statement) that states your reasons for acting as you propose.** It is important to identify the action to be evaluated with some specificity but it need not contain all the details. For example, “I may act dishonestly when lying would better suit my needs” is better than “I may be dishonest to the partners in a law firm about my expertise when lying will allow me to work on the most important case the firm has ever litigated.” Less specific maxims will assist in universalizing the maxim -- the work of step two.

2. **Can this decision be universalized?** If you are able to make an exception for yourself, you must be able to imagine a world where others always take the same exception for themselves. If this produces an irrational result (you cannot imagine such a world making any sense), you have what Kant called a perfect

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42 See, e.g., Deontological Ethics, supra note 37.
43 See, e.g., Notes on Deontology, supra note 39 and Kant’s Moral Philosophy, STANFORD ENCYCLOPEDIA OF PHILOSOPHY, http://tinyurl.com/dejz25 (last visited June 1, 2013) (explaining that Kant did not:

[R]ule out using people as means to our ends. Clearly this would be an absurd demand, since we do this all the time. Indeed, it is hard to imagine any life that is recognizably human without the use of others in pursuit of our goals. The food we eat, the clothes we wear, the chairs we sit on and the computers we type at are gotten only by way of talents and abilities that have been developed through the exercise of the wills of many people. What [Kant’s idea] rules out is engaging in this pervasive use of Humanity in such a way that we treat it as a mere means to our ends.).

44 See id.
45 See, e.g., Kant’s Moral Philosophy, supra note 43 (stating that Kant “argued that conformity to the [Categorical Imperative] . . . and hence to moral requirements themselves, can nevertheless be shown to be essential to rational agency.”).
46 See, e.g., WARBURTON, supra note 41, at 116.
47 See, e.g., Kant’s Moral Philosophy, supra note 43.
48 This is different from hypothetical imperatives which only require a person to act in certain circumstances. A good example of a hypothetical imperative would be, “If you want to avoid prison, don’t steal.” WARBURTON, supra note 41, at 118. Kant believed that “morality was a system of categorical imperatives” instead of hypothetical imperatives. Id.
52 See, e.g., Kant’s Moral Philosophy, supra note 43.
53 See id.
duty to avoid taking the exception.\textsuperscript{54} If you have a perfect duty, you must act according to that obligation every time it arises.\textsuperscript{55} In the example above, step two entails asking whether the maxim of lying when it suits your needs can be universalized. If you are allowed to lie when it suits you needs, then you must be able to imagine a rationally functioning world where everyone acts dishonestly whenever lying suits their needs as well. Such a world would not make any sense. People would continually be deceived, contracts and handshakes would have no meaning and people would stop believing each other. Eventually, people would even stop listening to each other’s promises completely. It would not make sense to lie to others in such a world because it is irrational to lie to someone who is not listening.\textsuperscript{56} This new world would thwart your maxim of lying in order to suit your needs. It would never work. Additionally, by taking this exception for yourself, you treat people as mere means to your end and ignore the humanity of the people you deceive -- an unethical action under Kant’s Deontology. The answer to the second question of Kant’s CI proves that lying cannot be universalized and, therefore, people have a perfect duty to tell the truth even when lying would better suit their needs.

3. \textbf{Would you want to live in such a world?}\textsuperscript{57} This third step is only reached if you could imagine a world that still functions rationally when everyone is always able to take the exception you desire.\textsuperscript{58} Under these circumstances you must now ask whether you are willing to still take the exception for yourself and live in such a place. The lying example would not be analyzed under this third question because the world would cease functioning rationally if people lied whenever being dishonest suited their needs. This was established under the second question.

However, there are other scenarios where a person would reach this third step. Assume the maxim: “I need not give anything to charity when I am succeeding financially in life and others are suffering.” After evaluating step two, the decision-maker would conclude that the world would not cease to function rationally if no one ever gave anything to charity. Just because such a world can rationally exist, however, does not mean that it would be a hospitable place for rational person to live. If a decision maker feels that such a world would be awful then that person possesses an imperfect duty to give to charity. Imperfect duties like giving to charity generate praise when undertaken but fail to generate blame when avoided. This all leads to the conclusion that imperfect duties are those that a person cannot perform all the time (even the wealthiest person would run out of money eventually), but must be done some of the time and to a certain extent.\textsuperscript{59} The question is not whether a person should be charitable if financially capable, but rather, when that person must be charitable.

Do not forget that there is a final scenario that may arise under Kant’s CI. There are situations where a rational person would have no qualms living in a world where the proposed maxim could be universalized. These cases provide neither a perfect nor imperfect duty. In these circumstances, acting on the proposed maxim is morally acceptable.\textsuperscript{60}

There are a few key objections to Deontology.\textsuperscript{61} First, the categorical imperative is just that - categorical - meaning that it “yields only absolutes.”\textsuperscript{62} A lie would always be wrong under the CI even if were just a “polite lie” or a lie that

\textsuperscript{54} See id.
\textsuperscript{55} See id.
\textsuperscript{57} See Kant’s Moral Philosophy, supra note 43.
\textsuperscript{58} See id. (stating that this step requires a decision-maker to recast the maxim “as a universal law of nature governing all rational agents, and so as holding that all must, by natural law, act as [the maxim proposes] to act in these circumstances.”).
\textsuperscript{59} See id.
\textsuperscript{60} See id. (stating, if the maxim passes all the steps of the CI, “only then is acting on it morally permissible.”).
\textsuperscript{61} See generally Deontological Ethics, supra note 40.
\textsuperscript{62} Notes on Deontology, supra note 43.
saves someone’s life.63 This does not resemble the real world where the toughest ethical dilemmas involve grey areas.64 Second, Deontology has no clear answer on what to do when duties conflict.65 For example, what must a person to do when confronted with a duty to be honest and a duty to protect human life in a situation where a criminal asks if you have seen a potential victim run past. A person cannot choose the lesser of the two evils because that would be Utilitarian thinking about consequences. Finally, do the duties that applied to generations past still bind actors in the twenty-first century? Values and thoughts about morality change drastically over time and Deontology struggles to keep pace. Despite these criticisms, many commentators have applied Kant’s Categorical Imperative to business practices66 and the CI will be utilized in this article as well to evaluate the tricky business practices detailed in Part III. The question will generally be whether the corporation had a duty to avoid the practice that brought the case to the United States Supreme Court.

C. VIRTUE ETHICS

“Excellence is an art won by training and habituation. We do not act rightly because we have virtue or excellence, but we rather have those because we have acted rightly. We are what we repeatedly do. Excellence, then, is not an act but a habit.” -- ARISTOTLE67

Eudaimonia. This word roughly translates from Greek to mean human flourishing or success.68 Eudaimonia is not a temporary emotion. It is the lasting sense of wellbeing a person obtains from living a moral life. It is more than just happiness, which ebbs and flows.69 It is more than wealth, attractiveness or popularity. Many people achieve these goals yet fail to flourish morally.70 Virtue Ethics frameworks propose that achieving authentic eudaimonia will be the ultimate goal of every rational individual whether or not the purpose is identified as such.71 People expend great energy -- they exercise, invest, study, travel, work -- all in order to achieve the “Good Life.” The problem to a Virtue Ethicist is that many fail to equate the good life with the correct interpretation of eudemonia and, therefore, fail to flourish.

Unlike the teachings of Utilitarianism and Deontology, Virtue Ethics is not an action-guiding theory. Seeking the greatest good or determining duty is not the way for people to reach eudaimonia. The proper question is not: What

63 Id. Imagine a scenario where your spouse spends hours getting dressed up for a night on the town. You see the final result and do not like the ensemble. When asked, “How do I look?” you would be crazy to answer, “Terrible. I am not impressed.” Is a lie here really unethical? Kant would say so because people have a categorical or perfect duty to always tell the truth in situations where it would be in their self-interest to lie.

64 See, e.g. Deontological Ethics, supra note 40 (“There are situations - unfortunately not all of them thought experiments - where compliance with deontological norms will bring about disastrous consequences.”).

65 See id. (“It is crucial for deontologists to deal with the conflicts that seem to exist between certain duties”).


69 See, e.g., Notes on Deontology, supra note 43 (“Happiness is not at all an adequate translation of this word.”).


71 There are very interesting works on Virtue Ethics; the most powerful are form the 1970s. See generally Philippa Foot, Virtues and Vices and Other Essays in Moral Philosophy (1978), Peter T. Geach, The Virtues (1977) and James D. Wallace, Virtues and Vices (1978).
types of actions must I take to act ethically? Under Virtue Ethics a person must ask: What type of life must I live to be a good person? The idea is that someone seeking eudaimonia will have the disposition to make ethical decisions for the right reasons without the need for rules or action-guiding frameworks.\textsuperscript{72}

The key to Virtue Ethics is the development of this disposition – i.e., a good character. No one is born with a good character. Once developed, it must be exercised or it will fade sort of like a well-chiseled physique fades in the absence of exercise. To develop a good character, a person must habitually strive to acquire virtues and then act as a virtuous person would act in any given situation.\textsuperscript{73} A virtue can be defined as: (1) an acquired character trait, (2) which makes society better and (3) which people admire and consider moral.\textsuperscript{74} To determine whether a trait is a virtue, employ the simplistic Airport Test\textsuperscript{75}: imagine you walk around any airport in the world and ask a random, rational person whether it is good to be honest or compassionate. The answer will almost always come back, “Of course.” The same thing would occur if you asked about benevolence, courage and fairness. However, you are likely to receive many different answers if you asked random people at an airport if it is generally good to be wealthy. This indicates that benevolence, compassion, courage, fairness and honesty are virtues because everyone agrees that they make society better and are admirable and moral character traits. Wealth does not engender the same reaction. This response does not indicate that wealth is immoral; rather, it merely indicates that wealth is not a virtue. Virtue Ethics posits that virtues can be learned by practice and by associations. If you practice compassion, you will become more compassionate over time. If you are dishonest over time, you will become a liar. If you associate with people who lie, cheat and steal, you will be more likely to lie, cheat and steal over time. However, if you associate with people who are honest, kind and compassionate, you are more likely to act that way. Habituating virtues over time will help develop a stable character, which provides the best chance of attaining eudaimonia.

There are modern formulations of Virtue Ethics\textsuperscript{76} but none have gained the stature of the older, more Aristotelian approach. Aristotle, whose moral philosophy forms the foundation of all Virtue Ethics formulations, spent a great deal of time pondering and tweaking his ethical framework to determine what types of behavior would lead someone to achieve eudaimonia, to live the good life.\textsuperscript{77} To Aristotle, human beings have functions just as a knife has a function. A properly functioning, or good, knife is one that cuts well. A human being’s function is to reason -- this is what separates humans from other animals. Therefore, a properly functioning, or good, person is able to reason well. Aristotle believed that a person who reasons well will seek to live a character-filled life or the type of life that leads to

\textsuperscript{72} See, e.g., Virtue Ethics, ETHICANDMORALS.COM (Apr. 19, 2010), http://tinyurl.com/7gkdpmh.


\textsuperscript{74} There are many similar definitions of the word virtue. See, e.g., ALASDAIR MACINTYRE, AFTER VIRTUE: A STUDY IN MORAL THEORY 190-91 (2d ed. 1984) (defining a virtue as “an acquired human quality the possession and exercise of which tends to enable us to achieve those goods which are internal to practices and the lack of which effectively prevents us from achieving any such goods.”).

\textsuperscript{75} This is my creation so you will search in vain for the Virtue Ethics “Airport Test.”

\textsuperscript{76} The three most prominent today are the Eudaimonism, Agent-Based Virtue Ethics and the Ethics of Care Approaches. Eudaimonism claims that there may be many paths to human flourishing but each requires a person to hone a good character to act morally. See generally G.E.M. Anscombe, Modern Moral Philosophy, in THE COLLECTED PHILOSOPHICAL PAPERS OF G.E.M. ANSCOMBE: ETHICS, RELIGION AND POLITICS (1981). Agent-Based Virtue Ethics holds that all that matters to determine whether a person acts ethically is that person’s inner moral state at the time of the action; the state of affairs in the world surrounding that person (such as who may be hurt or which decision would produce the least harm) are not considered. See generally Michael Slote, Agent-Based Virtue Ethics, 20(1) MIDWEST STUDIES IN PHILOSOPHY 83-101 (Peter A. French et al. eds. 1996) and MICHAEL SLOTE, FROM MORALITY TO VIRTUE (2002). Finally, the Ethics of Care Approach stems from feminist philosophy and posits that morality must be understood in terms of relationships between people and can only be understood by people who care about the trials and travails of others. See generally CAROL GILLIGAN, IN A DIFFERENT VOICE: PSYCHOLOGICAL THEORY AND WOMEN’S DEVELOPMENT (1982) and NEL NODDINGS, CARING: A FEMININE APPROACH TO ETHICS AND MORAL EDUCATION (1984). There are also other, less popular, modern Virtue Ethics frameworks -- especially since the revival of this way of thinking in the twentieth century. See, e.g., Virtue Ethics: Internet Encyclopedia, supra note 73 (providing a good summary of modern Virtue Ethics theories).

eudaimonia. As with all formulations of Virtue Ethics, Aristotle’s framework revolves around inculcating virtues into everyday actions.

This leads into Aristotle’s concept of the Golden Mean— the tool utilized to implement the Virtue Ethics analysis throughout this article. The Golden Mean is the middle ground between the excess and deficiency of any given virtue. The essence of every virtue lies at its mean. Take honesty for example. A person who is consistently not honest enough is a liar whereas a person who is consistently too honest is blunt. True honesty lies at the mean of these extremes. A person whose character exhibits this deficiency or excess of honesty will struggle to find eudaimonia whereas a person habitually seeking the mean will become more honest over time. All virtues (including their deficiencies and excesses) can be plotted on the following spectrum:

**Figure 1 – Virtue Ethics Spectrum: Honesty**

![Virtue Ethics Spectrum](chart)

There are hundreds of virtues available for analysis under this framework. However, the universe of virtues most appropriate for the business tactics in this article are: accountability, ambition, benevolence, confidence, courage, discernment, fairness, helpfulness, honesty, honor, integrity, loyalty, mercy, sincerity, respect, tact and trust. Part IV will evaluate the tricks based on a few of these business virtues. The business takeaways from Virtue Ethics revolve around the idea that managers (and all employees really) who fail to act virtuously and habitually seek the Golden Mean in their decisions will find themselves personally unfulfilled and will struggle to make ethical decisions at home and in the workplace.

There are a few key objections to Virtue Ethics. First, the theory is not action guiding. Encouraging someone to act like a virtuous person is not as immediately helpful as telling someone to seek the greatest good or to run the decision through a categorical imperative to determine if a duty exists. People may be winging their decisions under Virtue Ethics and assuming they are acting ethically. Second, the theory does not tell people what to do when virtues conflict. Much like Deontology when duties conflict, tough ethical choices occur when someone desires to be honest as well as kind to a friend who asks how an expensive but terribly mismatched outfit looks. Finally, Virtue Ethics is subject to the criticism of Moral Luck or the question as to whether “an agent can be correctly treated as an object of moral judgment despite the fact that a significant aspect of what she is assessed for depends on factors beyond her control.” Virtue Ethics posits that habituating virtues depends somewhat on luck and being surrounded by virtuous people — especially throughout childhood. What about people who are surrounded by all the wrong influences (family, friends and colleagues who do not act virtuously)? Does a person with such an upbringing have the opportunity to become virtuous and, if not, is that equitable?

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78 See ARISTOTLE, supra note 77, at 90-114.


80 The fact that others might pick different virtues for this list demonstrates the flexibility of the Virtue Ethics framework.

III. A LEGAL ANALYSIS OF THE TRICKY BUSINESS PRACTICES

It is important to determine whether these three tricky practices are even lawful prior to any ethical evaluation. Why discuss legality first? If a practice is declared unlawful by a lawgiver there is a good chance that it will also be found unethical under Utilitarianism, Deontology and Virtue Ethics. Such examples are easy to ponder -- murder, assault, arson, identity theft, insider trading, and fraud come to mind. The opposite is not always true, however. Just because a court validates the legality of a practice does not mean that the practice is ethical. Adultery provides an ideal example. The vast majority of states do not criminalize adultery and many states that do criminalize adultery do not enforce the letter of the law. However, each of the ethical frameworks would classify the practice as morally wrong: Utilitarianism -- more people are hurt than helped by adultery (think spouses, children and relatives) and the intensity of the harm is severe; Deontology -- a world where everyone committed adultery would break down as few would marry and the question of whether it is ethical to commit adultery would make no sense; and Virtue Ethics -- adultery is far outside the Golden Mean of commitment, honesty, loyalty and trustworthiness.

The three tricky practices at issue in this article revolve around business practices deemed legal but which appear ethically suspect at first glance. Each section below begins with the facts and pertinent legal background of each case. The discussion then moves to the outcome in the lower courts and the strongest arguments that each side and its amici made to the United States Supreme Court. Each section ends with an analysis of why the Supreme Court blessed each tactic as legally sound. Part IV of the paper then evaluates why these legal tactics are ethically suspect under Utilitarianism, Deontology and Virtue Ethics. The first tactic up for discussion pits the world’s leading athletic shoe manufacturer against a feisty competitor in a fight at the intersection of intellectual property, federal jurisdiction and contact law.

A. THE UNILATERAL COVENANT LOOPHOLE: UNILATERAL COVENANTS NOT TO SUE ISSUED TO MOOT A CASE

The athletic shoe trade is big business. The global market reached $75 billion in 2011 and is growing at a steady pace. Athletic shoes have become cultural icons. People purchase multiple pairs for exercise but also to make a fashion statement. In fact, “colors, styles, fashions, and what is likely to be ‘hot’ are important factors in the design of

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82 There are a few situations where an activity is illegal but ethical such as a family speeding in order to rush to a hospital with a woman in labor. These are sort of the exceptions that prove the rule, however.

83 See, e.g., Chris MacDonald, What’s Legal Isn’t Always Ethical, THE BUSINESS ETHICS BLOG (Dec. 22, 2001), http://tinyurl.com/kemlc6y and Bruce Weinstein, If It’s Legal, It’s Ethical? Right?, BUSINESS WEEK (Oct. 15, 2007), http://tinyurl.com/l2erd8b (“We are a nation of laws, and our society would quickly devolve into anarchy without the rule of law as a binding, motivating force for all of us. Nevertheless, the ethical principles of Do No Harm, Make Things Better, Respect Others, Be Fair and Be Loving are the true basis of our society, and it is to those principles we ought to return every day when we ask ourselves: ‘What should I do? What kind of person should I be? How can I bring out the best in myself and others?’”) (citations omitted).

84 See, e.g., Jonathan Turley, Adultery, In many States, is Still a Crime, USA TODAY (Apr. 25, 2010), http://tinyurl.com/bmgl4ra (stating that around “two dozen states still have criminal adultery provisions. While prosecutions remain rare, they do occur.”).

85 It is easy to imagine how the world could become irrational if everyone was allowed to take the exception and commit adultery. This could lead to a world where no one trusted each other enough to commit to enter into a marriage. In a world with no marriages it would be impossible to commit adultery which is the entire point of the maxim at issue: “May I commit adultery when I form a new relationship that I would like to take part in intimately.” The maxim becomes irrational.

86 See, e.g., Trefis Team, Nike Shares can find some Zip on Emerging Market Sales, FORBES (Apr. 11 2013), http://tinyurl.com/o5mch6a (reporting that global growth is “expected to be driven by factors such rising population, increasing disposable incomes, rising health awareness and launch of innovative footwear designs and technology.”). See also Global Athletic Footwear Market is Expected to Reach USD 84.4 Billion in 2018, P.R. NEWSWIRE (Sept. 26, 2012), http://tinyurl.com/cip24kt.

87 See, e.g., Matt Townsend, Fashion Spurs Sales of Athletic Shoes, BANGOR DAILY NEWS (May 26, 2012), http://tinyurl.com/q9tl08b (stating that shoppers “more interested in making a fashion statement than actually jogging are
athletic shoes.” Nike, Inc. designs, manufactures, and sells footwear as well as other athletic apparel -- to the tune of $13 billion in sales in 2012. The company is the leading seller of athletic shoes worldwide and enjoys a twenty percent market share. Nike’s “Swoosh” and “Just Do It” trademarks are famous across the globe primarily because the company markets its brand vociferously; Nike sponsors major sporting events, buys prime television commercial space and pays for its logo to appear on professional sports uniforms to associate its brand with the world’s top athletes and winning. The Nike brand has been called the world’s most valuable sports brand by Forbes and valued at $15 trillion.

Already, LLC designs and manufactures athletic shoes, hats and other apparel under the brand name YUMS. A Dallas-based graffiti artist created the YUMS brand by mixing elements of “faith, hip-hop, graffiti and street skating.” By design, Already products appeal to a specific sub-niche of the athletic shoe market -- the “street culture.” Already developed 45 shoe lines between 2007 and 2010 and brought five of these shoe brands to market. These two, seemingly much different, companies squared off recently at the intersection of intellectual property, federal court jurisdiction and contract law. Nike’s tactics during this battle qualify as legally ingenious yet ethically suspect. The story is worth recounting in more detail.

Both sides came to the legal battle with intellectual property rights. Already obtained a design patent in January 2009 on its “Sweet” shoe line (the so-called McDade ‘040 Patent named after the application filer and the last three digits of the patent number provided by the United States Patent and Trademark Office). Nike produces a similar looking shoe line called the “Air Force I.” Nike has sold millions of Air Force I shoes since 1982 and has branded them with 1,700 different color combinations. Nike claims that the Air Force I brand “has taken on a unique, iconic status in footwear. That status extends into American popular culture. The shoe is the subject of hit songs, music videos and frequent press coverage.” Although Nike never registered a patent on the Air Force I line, the company did register a

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89 See Already v. Nike, 184 L. Ed. 3d 553, 558 (2013).
90 See, e.g., Nike’s Market Share Gains Rely on its Success in Emerging Markets, TREFIS.COM (Apr. 9, 2013), http://tinyurl.com/nflp8gk (declaring that sports “giant Nike . . . is positioned as the leading player in the global athletic footwear market with an estimated market share of at least 20% in 2012. We believe Nike is well-positioned to grow its market share to nearly 25% in the long run on account of factors such as an above industry-average growth rate in footwear sales, a strong competitive position and rapid growth in key footwear markets.”).
91 See, e.g., Allan Brettman, Creator of Nike’s Famed Swoosh Remembers its Conception 40 Years Later, OREGONLIVE.COM, http://tinyurl.com/3bf6e6 (discussing the creation of Nike’s famous Swoosh trademark). See also Brand Building: Just Do It, BRANDAIDE.COM, http://tinyurl.com/qg38zwp (last visited May 24, 2013) (discussing the effective branding of Nike’s famous trademarks).
93 See YUMS Homepage, http://www.yumslife.com/ (last visited May 22, 2013) (showing the company’s product lines and implying that it no longer manufactures and sells athletic shoes).
95 Id.
After obtaining this trademark, Nike began to think more seriously about defending the Air Force I brand against Already’s similar-looking shoes. Nike referenced an internal list of the Top 10 brand infringers, noticed Already’s “Soulja Boy” and “Sugar” shoes at the top of the list, and decided to take action. Nike sent Already a cease and desist letter; Already ignored Nike’s threats and continued marketing and selling its brands. In July 2009, Nike sued Already for trademark infringement, trademark dilution, false designation of origin, unfair competition and a few New York state law violations. Already denied that its brands infringed Nike’s ‘905 mark.

Already also counterclaimed that Nike’s Air Force 1 trademark on a shoe design was invalid under trademark law because, while it may be a patentable design, it is not a symbol or device used on or in connection with identifying or distinguishing goods in commerce as required of a trademark. Nike answered the counterclaim by admitting that:
An actual controversy exists between Yums and Nike regarding whether the purported “mark” depicted and described in the ‘905 Registration is protectable as a trademark under the Trademark Act . . . or under New York state statutory or common law, and [an] actual controversy exists between Yums and Nike regarding whether the ‘905 Registration is valid.109

The battleground moved to federal district court in November 2009 where the parties began executing normal federal court procedures and agreed to a case management plan.110 Both sides appeared for a Pre-Trial Conference in January 2010111 where the trial judge set deadlines for discovery to be completed in August 2010 and began entertaining summary judgment and other motions from the parties.112 At some point over the winter of 2010 Nike decided that it no longer wanted to be a part of the litigation it initiated. The company realized that it could drop its claims without issue because Already would certainly consent to no longer being sued. But, Nike would still be on the hook to defend against Already’s counterclaim. Nike needed a strategy that would render Already’s counterclaim moot once the court dismissed its claims. This became especially difficult since Nike admitted that an actual controversy existed concerning its ‘905 Mark. The next section details the legal background surrounding federal court jurisdiction and a party’s options for exiting litigation.

(1) THE LEGAL BACKGROUND: ARTICLE III JURISDICTION, VOLUNTARY CESSATION & MOOTNESS

Article III of the United States Constitution declares that the “judicial power shall extend to all cases, in law and equity, arising under this Constitution, the laws of the United States, and treaties made, or which shall be made, under their authority . . . [and] to controversies . . .”113 This language has been interpreted to limit the jurisdiction of federal courts to hear only disputes that consist of a live case or controversy. Chief Justice Roberts described this constitutional requirement in his opinion in the Already v. Nike case:

In our system of government, courts have “no business” deciding legal disputes or expounding on law in the absence of such a case or controversy. That limitation requires those who invoke the power of a federal court to demonstrate standing -- a “personal injury fairly traceable to the defendant’s allegedly unlawful conduct and likely to be redressed by the requested relief.” . . . We have repeatedly held that an “actual controversy” must exist not only “at the time the complaint is filed,” but through “all stages” of the litigation.114

Courts require three things for a justiciable case under Article III: (1) ripeness, (2) standing, and (3) the absence of mootness. Standing and mootness are intertwined in the facts of the Nike versus Already battle (ripeness is not at issue),115 so this section will evaluate these two requirements in turn.

109 See Brief for Petitioner at 12, Already, 133 S. Ct. 721 (No. 11-982) (internal citations omitted).
110 Id.
111 Id. at 13.
112 Id. at 13-14.
113 U.S. CONST. art. III, § 2, cl. 1.
114 See Already v. Nike, 184 L. Ed. 3d 553, 55-60 (2013) (citations omitted).
115 Ripe, in the legal context, means that:

[A] case is ready to be litigated before the Supreme Court for consideration because all other avenues for determining the case have been exhausted, there is a real controversy and the law needs to be settled on one or more issues raised by the case. In order for a case to be ripe to litigate in court, the challenged law or government action must have produced a direct threat. If suit is brought on the anticipated actions resulting from a law not yet enacted, the case is not ripe for consideration. Federal courts only have constitutional authority to resolve actual disputes, not hypothetical ones.

a. STANDING

Judges cannot hear cases where plaintiffs suffer hypothetical injuries -- a plaintiff must have standing to sue. Standing requires three prerequisites. First, a plaintiff must have an injury that is concrete and particularized and actual or imminent.116 Second, this injury must be fairly traceable to the defendant’s actions that have been challenged in court.117 Finally, there must be a likelihood that that a court can redress this injury through a favorable decision.118 The chances of redressability cannot be too speculative. These three standing requirements must be present for a case to be heard by a trial court. If a trial or appellate court senses that a plaintiff is at risk of losing, or has lost, standing some time after the litigation has begun it will undertake a mootness analysis. In this case, Nike’s accusation that its trademark is being infringed and diluted counts as an injury for standing.119 The same is true of Already’s accusation that Nike’s trademark is invalid and continues to harm Already’s business interests.120 Since both parties had standing at the time Nike determined that Already was not a threat, Nike’s strategy had to revolve around the mootness doctrine described next.

b. MOOTNESS

Judges must remain vigilant to situations where litigation loses its adversarial nature and a case becomes moot. Mootness occurs “when the issues presented are no longer “live” [and] the parties lack a legally cognizable interest in the outcome [of the case].”121 A live case must exist through the proceedings both at trial and on appeal and “if events subsequent to the filing of the case resolve the dispute, the case should be dismissed as moot.”122 There are a few primary ways in which a case may become moot. First, the time and circumstances of a case may eliminate the adversarial stance of the parties. Second, the defendant might resolve the plaintiff’s claims by modifying its conduct. Third, a party might stop fighting – i.e., voluntarily cease the litigation. This section will discuss these circumstances in order.

The prototypical time and circumstances mootness situation occurred in De Funis v. Odegaard.123 A prospective student (De Funis) sued the University of Washington alleging racial discrimination after being denied admission to the law school.124 He received a mandatory injunction compelling his admission and was enrolled in his final quarter prior to graduation when his case reached the United States Supreme Court. The Court held the case moot because De Funis would graduate from law school “regardless of any decision this Court might reach on the merits of this litigation.”125 Because the University no longer desired to deny him admission and would put up no obstacle to hinder his graduation there was no remedy the Court could provide that was not already occurring. In other words, no actual controversy existed at the time of appellate review and the Court could not, “consistently with the limitations of Art. III of the Constitution, consider the substantive constitutional issues tendered by the parties.”126 Time and circumstances had mooted the case.

119 See, e.g., Already, 84 L. Ed. 2d at 560 (“Nike had standing to sue because Already's activity was allegedly infringing its rights under trademark law.”).
120 Id. (“Already had standing to file its counterclaim because Nike was allegedly pressing an invalid trademark to halt Already's legitimate business activity.”).
122 See, e.g., ERWIN CHEMERINSKY, FEDERAL JURISDICTION note 44 (Vicki Been et al. eds., 5th ed. 2007).
124 See id. at 314 (alleging his claim of invidious racial discrimination under the Equal Protection Clause of the Fourteenth Amendment).
125 Id. at 319-320.
126 Id.
A defendant can also moot case by modifying its conduct to redress the plaintiff’s injury. Courts often hold that when defendants make an offer that redresses the plaintiff’s entire claim then the case is moot.\textsuperscript{127} Rule 68 of the Federal Rules of Civil Procedure backs up this concept by allowing a defendant to make an offer to settle a case.\textsuperscript{128} The plaintiff then has fourteen days to accept the offer.\textsuperscript{129} If the plaintiff rejects the offer and receives less from the court at the end of the litigation than defendant’s offer, the plaintiff must pay the defendant’s costs.\textsuperscript{130} This rule encourages settlement and the conservation of judicial resources.

Finally, a case may also become moot if one party stops fighting and promises that the actions prompting the lawsuit will not recur. Courts have created the so-called voluntary cessation doctrine to deal with these situations. Voluntary cessation did not occur in De Funis as both sides wanted a judgment from the Supreme Court concerning the constitutionality of the university admissions policy.\textsuperscript{131} Both were still in the fight. Voluntary cessation generally does not occur in cases where the defendant modifies its conduct. In those cases, there is a settlement but often no guarantee that the unlawful acts will not recur. The voluntary cessation doctrine requires that the party cease the litigation and show that it is absolutely clear that the allegedly wrongful behavior is not reasonably be expected to recur.\textsuperscript{132} This is formidable burden because a party could claim that it was ceasing its litigation and then drag the same plaintiff back to court in the future for the same actions at great expense, effort and pain.

If the courts analyzed the case under the voluntary cessation doctrine, Nike would have to show that it is absolutely clear that its trademark infringement actions against Already’s shoe lines under the ‘905 Mark are not reasonably expected to recur.\textsuperscript{133} If Nike could come up with a creative way to make such a showing, the case would be moot. But Nike was rightful worried for several reasons. First, at the start of the lawsuit and as it continued through discovery, both sides had standing to pursue their claims and counterclaim respectively.\textsuperscript{134} Second, these issues created an actual controversy that a court had the power to redress by finding or denying trademark infringement/dilution and/or by cancelling or upholding the ‘905 Mark. The case was nowhere near moot by the time the parties entered discovery. So, unless Nike could find a way to moot the case via the time and circumstances approach of De Funis or through the voluntary cessation doctrine, Already’s counterclaim would move forward and Nike’s ‘905 Mark would be at risk. To make this happen, Nike got creative.

\textbf{(2) The Trick}

Understanding the lay of the jurisdictional landscape, Nike executed its plan to moot the counterclaim. In the middle of the discovery process in March 2010, Nike delivered to the court a unilateral Covenant Not to Sue.\textsuperscript{135} A covenant is similar to a contract -- an “agreement, contract, or written promise between two individuals that frequently constitutes a pledge to do or refrain from doing something.”\textsuperscript{136} The unilateral nature of the covenant meant that Already had no say in its creation or submission to the court. In fact, Already chafed at the fact that Nike “abruptly delivered” the document to the court in the middle of the discovery process.\textsuperscript{137} This covenant stated that Nike would never enforce

\begin{footnotesize}
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  \item \textsuperscript{127} See generally Genesis Healthcare Corp. v. Symczk, 133 S. Ct. 1523 (2012) (discussing the issue under the Federal Rules of Civil Procedure).
  \item \textsuperscript{128} Fed. R. Civ. P. 68.
  \item \textsuperscript{129} Id.
  \item \textsuperscript{130} Id.
  \item \textsuperscript{131} Id. at 315.
  \item \textsuperscript{132} See Friends of the Earth v. Laidlaw Environmental Services, 528 U.S. 167, 190 (2000).
  \item \textsuperscript{133} There was a debate in the case as to which party bears the formidable burden under the voluntary cessation doctrine. The Supreme Court ended any doubt and laid the burden on the party that invokes the doctrine. See Already v. Nike, 184 L. Ed. 3d 553, 560 (2013).
  \item \textsuperscript{134} See id.
  \item \textsuperscript{135} Brief for Petitioner at 14, Already, 133 S. Ct. 721 (No. 11-982) (citations omitted). The covenant was delivered eight months after Nike sued Already and four months after Already counterclaimed that its Air Force I trademark was invalid. See Already, 184 L. Ed. 2d at 558.
  \item \textsuperscript{137} See Brief for Petitioner at 14, Already, 133 S. Ct. 721 (No. 11-982) (citations omitted).
\end{itemize}
\end{footnotesize}
its ‘905 mark against any of Already’s current or past footwear designs or any future “colorable imitations thereof, regardless of whether that footwear is produced, distributed, offered for sale, advertised, sold, or otherwise used in commerce.”138 More specifically, the covenant declared:

[Nike] unconditionally and irrevocably covenants to refrain from making any claim(s) or demand(s) ... against Already or any of its ... related business entities ... [including] distributors ... and employees of such entities and all customers ... on account of any possible cause of action based on or involving trademark infringement, unfair competition, or dilution, under state or federal law ... relating to the [Nike ‘905] Mark based on the appearance of any of Already’s current and/or previous footwear product designs, and any colorable imitations thereof, regardless of whether that footwear is produced . . . or otherwise used in commerce before or after the Effective Date of this Covenant.139

The covenant also reiterated the validity of Nike’s ‘905 Mark: “[Nike] represents and warrants that it owns federal and common law trademark rights in the design of [Nike’s] Air Force 1 . . . shoe including” the ‘905 Mark.140 Nike then moved to drop its infringement claim with prejudice and petitioned the district court to dismiss Already’s counterclaim “without prejudice on the ground that the covenant had extinguished the case or controversy.”141

Why would Nike take such a drastic step to dismiss its patent infringement case with prejudice in the middle of discovery? It is possible to glean some information on the matter from the briefs filed by the parties. The idea of dropping the lawsuit began when litigants met to discuss settlement.142 At this meeting Already told Nike more about its allegedly offending shoe lines. Nike claimed that although “it had initially appeared that major chains including Nordstrom, Foot Action, and Finish Line would carry Already’s shoes, [Nike realized after the meeting that] in fact only Finish Line distributed them, and even it ceased doing so by April 2010.”143 Nike claimed that it soon came to the conclusion that Already was not a true commercial threat and that “Already’s actions complained of in the Complaint no longer infringe or dilute [Nike’s] Mark at a level sufficient to warrant the substantial time and expense of continued litigation and [Nike] wishes to conserve resources relating to its enforcement” of its ‘905 mark.144 It appeared that continuing the litigation would require “extensive discovery and costly infringement and dilution surveys, and [that Already’s] tactics to date suggest that these proceedings will multiply.”145 Nike now wanted out. Its lawyers admitted that its purpose in issuing the covenant was to divest the federal district court of subject matter jurisdiction as the case had now become moot.146 But, would the trick succeed?

(3) THE LOWER COURT DECISIONS

The district judge held a hearing soon after Nike delivered the covenant to determine whether the document deprived the court of subject matter jurisdiction.147 Already argued that its investors and suppliers believed the mark could later be enforced by Nike against Already’s future product lines.148 The trial judge disagreed and found that Already failed to produce any such future product lines. The judge dismissed Nike’s claims with prejudice because Nike initiated the motion to dismiss and Already, of course, consented to no longer being sued.149 The remainder of the opinion dealt with the dismissal of the counterclaim -- a course of action Already opposed.

138 Id. at 14-15 (citations omitted).
139 Already, 184 L. Ed. 2d at 561 (emphasis added to the covenant as replicated in Justice Roberts’ opinion).
140 Id. at 15.
142 See Brief for Respondent at 5, Already, 133 S. Ct. 721 (No. 11-982) (citations omitted).
143 Id. at 6 (citations omitted).
145 Brief for Respondent at 7, Already, 133 S. Ct. 721 (No. 11-982) (citations omitted).
146 Id.
147 See Nike v. Already, 663 F.3d 89, 92 (2nd Cir. 2011).
149 See id. at *6.
Because Already counterclaimed under the Declaratory Judgment Act (DJA), the judge ruled, that law’s jurisdictional boundaries govern the case. For a court to have jurisdiction under the DJA, a federal question and an “actual controversy” must exist throughout the entire litigation. The Supreme Court has held an “actual controversy” results when the “facts alleged, under all the circumstances, show that there is a substantial controversy, between parties having adverse legal interests, of sufficient immediacy and reality to warrant the issuance of a declaratory judgment.”

The question became whether Nike and Already still had immediate and truly adverse legal interests even though Nike promised not to sue Already basically for any reason related to the shoe line’s at issue. The District Court thereby reasoned that a covenant should moot a case for lack of an actual controversy when: (1) the covenant covers future sales of similar products that caused the controversy and (2) the party seeking declaratory judgment cannot prove that it has taken “meaningful preparatory steps toward developing new or updated [products] not covered” by the covenant not to sue.” The judge found that Nike’s broad covenant clearly covered future sales of the allegedly offending brands and that Already struggled to show any new product lines that would not be covered by the covenant. Therefore, the Court held there was no longer “a substantial controversy . . . of sufficient immediacy and reality to warrant the issuance of a declaratory judgment” and dismissed Already’s counterclaims without prejudice.

The covenant had functioned exactly as Nike desired to this point. But, would it hold up on appeal?

On appeal, a Second Circuit panel affirmed unanimously. The three circuit judges held that courts should look to the totality of the circumstances to determine whether a covenant not to sue eliminates a justiciable case or controversy. Relevant factors are: (1) the covenant’s language, (2) whether it covers past, present and future activity or products and (3) evidence that the party being sued for infringement desires to “engage in conduct not covered by the covenant.” The panel weighed the record and held that the:

[B]readth of [Nike’s] Covenant renders the threat of litigation remote or non-existent even if Yums continues to market and sell these shoes or significantly increases their production. Given the similarity of Yums’s designs to the ’905 mark and the breadth of the Covenant, it is hard to imagine a scenario that would potentially infringe the ’905 mark and yet not fall under the Covenant. Yums has not asserted any intention to market any such shoe.

The panel also held that a court does not have the power to cancel an allegedly invalid trademark if the underlying trademark infringement litigation has been resolved via a covenant not to sue. Therefore, Nike’s covenant eliminated any justiciable controversy and won another round. Already had one appeal left in its quiver -- certiorari

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154 Id. at *18 & *24-25 (citations omitted). Already’s second argument, that the court had jurisdiction to cancel Nike’s ’905 Mark under the Lanham Act regardless of what happened with Nike’s claims, was rejected as well because the judge found that Second Circuit precedent holds: “if an event subsequent to the pleadings strips a court of jurisdiction over [an action dealing with a trademark], the court is also stripped of the ability to order cancellation of a registered trademark pursuant to [the Lanham Act].” Id. at *19-21 (citations omitted).

155 See generally Nike v. Already, 663 F.3d 89, 92 (2nd Cir. 2011).

156 See id. at 96.

157 Id.

158 Id. at 97.

159 Id. at 98-99.
was granted and the covenant was headed to the United States Supreme Court.\textsuperscript{160} The case generated much interest among amici curiae and strong arguments on both sides.\textsuperscript{161}

\textbf{(4) \textsc{Already's Best Arguments}}

Already was obviously unhappy with the unexpected turn of events and the ratification of the covenant in the lower courts. The company and the amici on its side made various strong arguments these types of covenants not to sue cannot moot an otherwise valid counterclaim. The following are three of Already's most persuasive points:

1. \textbf{Nike's trademark remains invalid.} Nike should not be allowed to register a perpetual trademark in a shoe design.\textsuperscript{162} Nike should have registered a patent. Design patents are the proper intellectual property vehicles to protect a shoe design. Further, patents expire after a period of time but trademark protection is perpetual. Nike's '905 Mark should be cancelled under the Lanham Act. Federal law allows this to happen: in "any action involving a registered mark the court may determine the right to registration, order the cancelation of registrations, in whole or in part, restore canceled registrations, and otherwise rectify the register with respect to the registrations of any party to the action."\textsuperscript{163}

2. \textbf{An actual controversy remains; Nike's invalid trademark continues to interfere with Already's "ability to carry on a lawful business in making and selling YUMS-branded shoes."} This interference occurs in three ways: (1) Already had future shoe brands in the pipeline (though Already did not produce specific products in the case) and was frightened that Nike would strike again with another infringement lawsuit;\textsuperscript{165} (2) Already claimed that its investors were nervous about investing with the company considering that Nike's mark had not been cancelled. Already produced testimony of one investor who stated that "I would consider reinvesting in Yums if the 905 Registration was cancelled and it was clearly established that Nike has no right to object to Yums sale of shoes similar to Air Force I;"\textsuperscript{166} and (3) Already argued that Nike had been threatening suppliers into avoiding carrying Already brands in their stores.\textsuperscript{167} These facts, combined with the fact that Nike admitted that there was a genuine controversy in the validity of the '905 Mark, clearly proved that a controversy was still very much alive post-covenant.

3. \textbf{Nike must bear the burden of proving that the challenged conduct is not reasonably expected to recur under the voluntary cessation doctrine.} Supreme Court precedent mandates this result.\textsuperscript{168} Placing the burden on Already, the party that does not consent to voluntary cessation, is unfair and unjust.

\textbf{(5) \textsc{Nike's Best Arguments}}

Nike and the amici on its side made various strong arguments that broad covenants not to sue like the one Nike issued should moot a case. The following are two of Nike's most persuasive points:

1. \textbf{Already failed to provide any evidence that it intended to produce shoes whose design falls outside of Nike's covenant; therefore, no actual controversy remains because Nike can no longer injure Already}
with its mark. Nike’s covenant is broad; it is “irrevocable, judicially enforceable, and applies indefinitely in the future” and covers all past, present and future colorable imitations of shoes Already has in the market.\textsuperscript{169} This means that Nike’s ‘905 Mark cannot legally be utilized to injure Already in the future. In fact, the dispute between Nike and Already goes no further than the shoe lines at issue in this case.\textsuperscript{170} Therefore, no actual controversy remains in the case post-covenant. Article III requires that all aspects of the action be dismissed.\textsuperscript{171}

2. Businesses cannot challenge competitors’ intellectual property rights without a concrete stake in litigation between the parties. Creation of a valuable trademark takes a great deal of effort, time and money.\textsuperscript{172} Allowing companies like Already to sue to cancel a trademark without a concrete stake in a lawsuit revolving around the mark would create disincentives for companies to obtain new trademarks. These validity-check lawsuits would place a large burden on large companies like Nike with over 300 registered trademarks.\textsuperscript{173} As amici Levi Strauss and Volkswagen stated in their brief supporting Nike:

To turn product designs into trademarks requires a brand owner to make substantial and sustained investments in distinctive designs that, through marketing and sales, become associated by the public with that producer. At many stages of the process, from development to registration to enforcement in the marketplace, there are opportunities for these efforts to be derailed or “invalidated.” If, in addition to these hurdles, a brand owner must face expensive, serial litigation to validate its rights, it may well lose interest in the effort altogether.\textsuperscript{174}

In this case, Already no longer has a concrete stake in the proceedings and should not be allowed to challenge the validity of Nike’s mark anymore. The covenant removed the threat of future litigation initiated by Nike. Therefore, a rule allowing random validity checks on trademarks in these situations would harm the formation of “new and competitive” intellectual property.\textsuperscript{175} In the end, the “diminished value and considerably increased expense would inhibit the creation and nurturing of novel and distinguishing marks and would discourage the investment necessary to build valuable brands.”\textsuperscript{176}

(6) The Legal Verdict

The Supreme Court affirmed the Second Circuit unanimously.\textsuperscript{177} Chief Justice Roberts wrote for the Court that Nike’s covenant did indeed moot the case.\textsuperscript{178} The Court made it clear that the burden of proof under the voluntary cessation doctrine falls on the party that invokes the doctrine. Chief Justice Roberts wrote, “[w]e have recognized, however, that a defendant cannot automatically moot a case simply by ending its unlawful conduct once sued. Otherwise, a defendant could engage in unlawful conduct, stop when sued to have the case declared moot, then pick up where he left off, repeating this cycle until he achieves all his unlawful ends.”\textsuperscript{179} Even so, the opinion continued, Already’s only legally cognizable injury occurred when Nike enforced the ‘905 Mark against its shoe lines.\textsuperscript{180} That injury was remedied in full when Nike issued the covenant and promised not to sue and “given the breadth of the

\begin{itemize}
  \item \textsuperscript{169} Brief for Respondent at 21, Already, 133 S. Ct. 721 (No. 11-982).
  \item \textsuperscript{170} Id. at 12.
  \item \textsuperscript{171} Id. at 15.
  \item \textsuperscript{172} Brief for Levi Strauss & Co.& Volkswagen Group of America as Amici Curiae Supporting Respondent at 11-12, Already v. Nike, 133 S. Ct. 721 (2012) (No. 11-982).
  \item \textsuperscript{173} Id. at 16.
  \item \textsuperscript{174} Id.
  \item \textsuperscript{175} Id.
  \item \textsuperscript{176} Id. at 17.
  \item \textsuperscript{177} See generally Already v. Nike, 184 L. Ed. 2d 553 (2013).
  \item \textsuperscript{178} See id. at 567.
  \item \textsuperscript{179} Id. at 560.
  \item \textsuperscript{180} See id. at 565.
\end{itemize}
covenant, cannot reasonably be expected to recur.” The opinion ended in grand form by declaring that the “uncontested findings made by the District Court, and confirmed by the Second Circuit, make it ‘absolutely clear’ this case is moot.”

Nike’s covenant survived three levels of intense judicial scrutiny without invoking any dissenting opinions. The unilateral covenant trick is now legally sound and carries the precedential weight of a unanimous Supreme Court opinion. It is now more likely that other companies will invoke unilateral covenants to end litigation they initiated. Their main obstacle is to draft the covenant as broadly as possible and make sure that it covers all past, present and future colorable imitations that the defendant might produce. The covenants will be unilateral and opponents will have no say on their submission. Precedent binds judges (for the most part) and hearings on mootness will likely favor the side that issued the covenant under the voluntary cessation doctrine. The other side can attempt to defeat such a covenant only by showing in detail their confidential future business plans, goals and strategy in court and/or arguing that the covenant at issue is not as broad as the covenant upheld in Already v. Nike.

B. THE COMPETITOR COOPERATION TACTIC: REVERSE PAYMENT AGREEMENTS TO SHARE MONOPOLY PROFITS

Prescription drugs provoke a heated debate in American public policy. The conversation often delves into issues of ethics and law and revolves around prescription drug abuse, creation, efficacy, labeling, marketing, patent protections and safety. One of the most heated dialogues surrounds the high price of brand name prescription drugs. One camp argues that safe and effective prescription medicines should be available cheaply and ubiquitously. “These low-price/high-availability advocates maintain that brand name drug prices are far too high, that big pharmaceutical companies spend too much on direct marketing to consumers and that private insurers fail to negotiate low enough prices for their customers. When combined with long-term patent protection that encourages monopoly pricing and twenty percent profit margins for pharmaceutical companies, they argue that these excessive prices contribute to the country's vast health care spending epidemic.”

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181 Id.
182 Id. at 567.
183 See, e.g., John Dingell, Are we Sure our Drugs are Safe?, CNN (Feb. 1, 2012), http://tinyurl.com/kantpd8 (advocating for higher prescription drug safety standards in the United States), Is the FDA’s Cautious Hazardous to Our Health?, NATIONAL PUBLIC RADIO (May 14, 2013), http://tinyurl.com/n3wgvby (debating whether the Food and Drug Administration focuses too much on drug safety thereby delaying needed medicine from sick patients) and Rachel Rettner, Prescription Drug Problem Sparks Debate over Solutions, MYHEALTHNEWSDAILY.COM (June 21, 2012), http://tinyurl.com/me7d72v (discussing the problem of prescription drug abuse in America and cataloging potential solutions).
184 The academic conversation is vigorous too and covers ethical and legal issues surrounding prescription drugs. See generally Joseph F. Petros III, SYMPOSIUM ON HEALTH: CARE: Costs, Ethics & the Law: The Other War on Drugs: Federal Preemption, the FDA, and Prescription Drugs after Wyeth v. Levine, 25 ND J. L. ETHICS & PUB POL’Y 637 (2011) (discussing prescription drug safety and recent Supreme Court precedent on labeling of prescription drugs and whether federal preemption of state torts laws would result in lower drug prices for consumers) and Amalea Smirniotopoulos, Bad Medicine: Prescription Drugs, Preemption and the Potential for a No-Fault Fix, 35 N.Y.U. REV. L. & SOC. CHANGE 793 (2011) (advocating for Congress to create a no-fault liability scheme for harm caused by prescription drugs and medical devices).
185 See, e.g., Karen Strauss, OPINION: Cut the Cost of Prescription Drugs, N.Y. TIMES (Sept. 24, 2003), available at http://tinyurl.com/pxs9wk3 (arguing, in a letter to the editor, “Congress should not pass legislation to encourage drug imports. It should pass legislation to bring the price of prescription drugs marketed and sold in the United States into line with prices in other industrialized countries.”).
186 See, e.g., Arthur Caplan & Zachary Caplan, How Big Pharma rips you off on Drugs, CNN (Apr. 25, 2013), http://tinyurl.com/is3ckqz (arguing that prescription drugs “cost Americans far more than they do people living in many other parts of the world.”).
A competing camp responds that new drug creation is a very expensive and extremely risky venture. Pharmaceutical companies, operating in uncertain business, legal and regulatory terrain, must constantly analyze and synthesize new chemical compounds in search of a combination able to effectively and safely fight disease, reduce pain, build immunity or otherwise improve health. These high-risk/high-reward advocates argue that this research and development is extremely tedious and expensive. This side points to statistics showing that “only one in every 5,000 medicines tested for the potential to treat illness is eventually approved for patient use, and studies estimate that developing a new drug takes 10 to 15 years and costs more than $1.3 billion.” The argument is that no rational economic actor would undertake such risk without anticipation of large financial reward.

The generic competitors, a third camp, also have strong opinions on the matter. A generic drug is any drug that “has a similar chemical or drug formulation that acts on the body with the same strength and absorption process of the brand-name drug.” Generic pharmaceutical companies recognize the potential rewards of competing for a piece of the huge $1 trillion prescription medicine market. Generic manufacturers as well as the FDA declare that generics are bioequivalent -- meaning just as safe and effective as the brand name drug. Because the brand name innovator makes the bulk of the large research and development investments, generics face lower costs and are able to sell their products at much lower prices. The typical generic drug can sell for up to a ninety percent discount from the brand name price. Generics agree with the low-price/high-availability camp that their products can help diffuse the spiraling health care costs problem. However, generics run head first into twenty-year patents granted to brand name competitors and often find themselves barred from the market. The law has stepped in to mediate (somewhat) the debate.

[ Unlike in other countries, sellers of health-care services in America have considerable power to set prices, and so they set them quite high. Two of the five most profitable industries in the United States - the pharmaceuticals industry and the medical device industry - sell health care. With margins of almost 20 percent, they beat out even the financial sector for sheer profitability.).

188 See, e.g., Matthew Herper, The Truly Staggering Cost of Inventing New Drugs, FORBES, Feb. 10, 2012, http://tinyurl.com/8yqqd7t ("If a drug company could promise to invent new medicines for $55 million a pop [a number tossed around by the other low price/high availability camp and much less than the $1 billion that pharmaceutical companies claim it costs to create a safe and effective new drug], its stock price would soar like Apple’s. It really does cost billions of dollars to invent new medicines for heart disease, cancer, or diabetes. The reality is that the pharmaceutical business is in the grip of rising failure rates and rising costs.").
191 See, e.g., Matthew Herper, Why Big Pharma Won't Get Its Piece Of The $1.2 Trillion Global Drug Market, FORBES (July 12, 2012), http://tinyurl.com/clbneb5 (predicting that the prescription drug market will grown from $950 billion today to $1.2 trillion in 2016).
192 See, e.g., FDA Consumer Magazine & FDA Center for Drug Evaluation & Research, Greater Access to Generic Drugs, FOOD & DRUG ADMINISTRATION (Jan. 2006), http://tinyurl.com/psgaqnw (quoting a former director of the FDA’s Office of Generic Drugs who said, “[y]ou might think that lower cost means lower quality, but that’s not the case with generic drug products . . . The FDA ensures a rigorous review of all drugs, and consumers can be assured that generic drugs are as safe and effective as brand-name drug products.").
193 See, e.g., Generic Drugs, supra note 190.
(1) THE LEGAL BACKGROUND: PHARMACEUTICAL PATENTS & NEW DRUG APPLICATIONS

The law protects all three camps to some extent. The Patent Act of 1952 allows inventors to receive a patent for a composition, process, machine and manufacture that is new, useful and non-obvious (so-called Utility Patents).195 Patents protect an invention for twenty years from the date of its patent application is filed and then the invention moves into the public domain to be copied for free.196 Drug patents can be approved for the compounds that make up the drug or the methods utilized to make or use the drug.197 Patent approval for pioneers of new drugs allows these companies to legally exclude all competitors from making, using, selling, offering to sell the invention throughout the United States or importing their patented drug and charge above-market, monopoly prices.198

But the receipt of a patent is not the end of the legal story. The federal Food and Drug Administration must approve all new drugs prior to sale.199 A New Drug Application must be filed with the Secretary of the FDA detailing whether the drug has proven safe and effective, its chemical composition, information about its manufacture, processing and packaging and its labeling language.200 Patent information must be filed at this time (if a patent has been approved for the drug).201 The FDA analyzes the application and, upon approval, prints the drug information in the so-called Orange Book (officially titled the APPROVED DRUG PRODUCTS WITH THERAPEUTIC EQUIVALENCE EVALUATIONS).202

Prior to 1984 it was difficult for a generic competitor to get its drugs approved. Although the generic drug consisted of the same compounds as the brand name drug the generic had to file its own New Drug Application with the FDA. This meant conducting safety and efficacy studies -- a very expensive and time consuming task. The world for generics looked bleak:

Hence, due to the high costs involved few generic companies were interested in launching products in the US. As a result by 1984, the FDA estimated that there were approximately 150 brand-name drugs whose patents had expired for which there was no generic equivalent available. Another factor complicating generic drug approval concerned the timing of when generic companies could perform their clinical tests. Even if a generic manufacturer gets access to the innovator clinical data making copies of a pharmaceutical product is not simple. Sourcing active ingredients, performing bioequivalence studies, assuring quality, putting together a dossier, establishing patient information leaflets and going through the regulatory process can take 2-3 years. Manufacturing adds on another 3-6 months. Before Hatch-Waxman was enacted, a generic company could not begin the required FDA approval process until the patents on the relevant brand-name product had expired. Consequently, patent protection was extended by 2-3½ years beyond the intended period. Thus, at


197 See generally id. at § 101.
199 See 21 U.S.C § 355(a) (2010) (“No person shall introduce or deliver for introduction into interstate commerce any new drug, unless an approval of an application filed pursuant to subsection [of this statute] is effective with respect to such drug.”).
200 Id. at (b)(1).
201 Id.
202 See 21 U.S.C. § 355(j)(7)(a) (2010) (requiring the Secretary of the FDA to create “a list in alphabetical order of the official and proprietary name of each drug which has been approved for safety and effectiveness.” See also Orange Book: Approved Drug Products with Therapeutic Equivalence Evaluations, FOOD & DRUG ADMINISTRATION, available at http://tinyurl.com/am5jz2j (last visited May 18, 2013).
that time, FDA’s generic approval process coupled with the patent law, in effect, discouraged generic entry and extended the term of the brand-name company’s patent protection.203

In 1984, Congress attempted to solve this problem via the Drug Price Competition and Patent Term Restoration Act (colloquially the Hatch-Waxman Act).204 One of Hatch-Waxman’s purposes was to encourage innovation in the brand name market while also facilitating generic drugs to market.205 Under the new law, generics are able to file Abbreviated New Drug Applications (ADNAs).206 An ADNA allows the generic filer to use the safety and efficacy studies done by the brand name equivalent and then requires it to prove that the drug is the bioequivalent of the brand name.207 The generic must then make one of four declarations concerning any patents held by the brand name drug it is copying:

(I) [N]o patent information for the brand name drug has been filed with the FDA; (II) the patent has expired; (III) the patent will expire on a specifically identified date; or (IV) the "patent is invalid or will not be infringed by the manufacture, use, or sale of the new drug for which the application is submitted."208

A certification under paragraph (I) or paragraph (II) means that the FDA will evaluate the ADNA and potentially approve the generic drug for market.209 A certification under paragraph (III) indicates that the FDA will not approve the ADNA until the brand’s patent has expired.210 A certification under paragraph (IV) causes the most legal drama. At this point the generic manufacturer must send a letter to the brand name manufacturer stating that it believes the brand’s patent to be invalid or that the generic will not infringe the patent.211 The law considers this a constructive act of patent infringement by the generic manufacturer and the brand name manufacturer has 45 days to file a patent infringement lawsuit.212 If the patent holder does not sue then the FDA approval process moves on; if the patent holder sues then the ADNA is stayed for 30 months for the court to resolve the dispute.213 The idea is that patents are challenged and the resulting litigation determines their validity. This allows proper patents to stand and invalid patents to be stuck down rather quickly.

Finally, federal law encourages generic manufacturers to file certifications under paragraph (IV). The first generic applicant to file a paragraph IV certification (which receives FDA approval) receives a 180-day “exclusivity period"

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203 An Overview of Hatch-Waxman Act, PATENTCIRCLE.BLOGSPOT.COM (Mar. 29, 2006), http://tinyurl.com/af29avz (last visited May 18, 2013) [hereinafter Overview]. See also Valley Drug Co. v. Geneva Pharms, 344 F.3d 1294, 1296 (11th Cir. 2003) (“Prior to 1984, the [New Drug Application] was the only method of obtaining FDA approval of a new drug. Every applicant had to submit safety and efficacy studies, even if such studies had already been performed for identical drugs or drugs with identical active ingredients. Adding to this inefficiency was the fact that the conduct of safety and efficacy studies would, if the new drug was the subject of a patent, constitute infringement of that patent under [federal law]”).


205 See, e.g., Overview, supra note 203.

206 21 U.S.C. § 355(j) (2010) (requiring, among other things, new drug applications to prove that the active ingredients and labeling is the same as that of a drug listed in the Orange Book).


209 21 U.S.C. § 355(j)(5)(B)(1) (2010) (declaring that if the “applicant only made a certification described in subclause (I) or (II) . . . or in both . . . the approval may be made effective immediately.”).


211 21 U.S.C. § 355(j)(2)(B) (2010) (requiring generic manufacturer to state that it has filed an ADNA that “contains data from bioavailability or bioequivalence studies . . . for the drug with respect to which the certification is made to obtain approval to engage in the commercial manufacture, use, or sale of the drug before the expiration of the patent referred to in the certification; and . . . include a detailed statement of the factual and legal basis of the opinion of the applicant that the patent is invalid or will not be infringed.”).


213 Id. (stating also that the FDA’s approval of the ADNA is effective on the date that a court finds the patent invalid or not infringed).
where the FDA holds other ADNA applications for the same brand name drug. "As a result, the first generic manufacturer to make a paragraph IV certification could receive a 180-day head start to compete with the pioneer drug, which is 'a significant incentive for generic manufacturers to challenge weak or narrow drug patents.'"

(2) The Trick

Crafty pharmaceutical companies soon began to outmaneuver Hatch-Waxman. Their tool of choice -- tricky transactions styled reverse payment agreements. Generally, patentees who worry that their patents are being infringed may sue the alleged infringer. Patents are assumed by courts to be valid but the alleged infringer may still defend the case in two ways: (1) argue that the patent is invalid or (2) argue that its invention does not violate the plaintiff's patent. Instead of underwriting the risk of losing its patent via litigation, patentees often settle with the alleged infringer. In fact, around 80% of patent infringement lawsuits settle. Settlements of legal disputes are generally positive for the judicial system. "Settlements provide certainty to the parties, put an early end to potentially costly litigation, help relieve crowded court dockets and allow the parties to expend valuable resources elsewhere."

Abraham Lincoln wrote about similar reasons to avoid litigation in 1850 as a lawyer: "Discourage litigation. Persuade your neighbors to compromise whenever you can. Point out to them how the nominal winner is often a real loser -- in fees, expenses, and waste of time." Often, settlement of patent infringement cases means that the defendant will be allowed to enter the market at a late date but before the patent expires. In return, the patent holder decreases its risk that a court will declare its patent invalid or that the allegedly infringing products do not actually infringe the patent.

However, the patent infringement settlement game has evolved a bit differently in the pharmaceutical arena. Instead of the typical 80% settlement rate, only 25% to 30% of pharmaceutical patent suits settle out of court. Like basic patent lawsuits, pharmaceutical patent infringement settlements generally allow the generic drug to enter the market prior to the expiration of the brand manufacturer's patent. These settlements can be pro-competition as consumers receive lower prices on medicine without having to wait for the patent to expire. Unlike typical patent infringement cases however, nearly half of these settlements result in a special deal for both plaintiff patent holder and defendant generic manufacturer. These so-called reverse payment agreements allow the brand manufacturer to pay the generic manufacturer to stay out of the market. The generic manufacturer receives cash in lieu of the profits it would receive by entering the market and selling its product (assuming the generic wins the lawsuit). Oftentimes this settlement amount is far higher than the profits the generic would have earned competing in the market. The brand name is allowed to keep its monopoly status until its patent expires without worrying about its potentially weak patent being declared invalid by a court. Both sides have strong economic reasons to contract. Generic manufacturers can make more money sitting on the sidelines than peddling their drugs in the market. Brand name manufacturers then enjoy more secure monopoly power. This allows them to charge above-market prices to a captive audience.

In *F.T.C. v. Actavis*, Solvay Pharmaceuticals obtained an exclusive license to sell AndroGel -- a topical gel that treats the symptoms of low testosterone or Low T in men. Solvay sold $1.8 billion worth of AndroGel in the United

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215 See 35 U.S.C. § 282(a) & (b) (2010) (declaring the presumptive validity of patents and setting out these defenses).


219 See, e.g., Dolin, supra note 216.


222 See, e.g., FTC v. Watson Pharmaceuticals, Inc., 677 F.3d 1298, 1300 (11th Cir. 2012).
States from 2000 to 2007 - far more than it cost AndroGel’s creator to develop the drug. Solvay obtained a patent on the gel formulation of the drug; the patent is due to expire in August 2020. Watson Pharmaceuticals was the first competitor to file an ADNA for a generic version of AndroGel and made a paragraph IV claim that Solvay’s patent was invalid and that its version did not infringe Solvay’s patent. Soon thereafter Paddock Laboratories did the same (though it was not protected by the 180 exclusivity period). Within 45 days from receiving notice from Watson and Paddock, as required by law, Solvay sued them both for patent infringement. The 30 month stay of Watson’s ADNA began at that point and was set to expire in January 2006. The parties litigated the dispute for a few years. As the 30-month stay expired, the court was considering summary judgment motions from the defendants while the FDA approved Watson’s version of AndroGel.

As a result, Solvay was facing the possibility of losing its monopoly in the AndroGel market in early 2006. If the district court granted Watson’s motion for summary judgment either on the ground that the ’894 patent was invalid or that it would not be infringed by the generic drugs, Watson could immediately flood the market with generic versions of AndroGel without fear of being found to have violated Solvay’s patent (unless the district court’s decision was overturned on appeal). Watson forecast that its generic version of AndroGel would sell for about 25% of the price of branded AndroGel, which could decrease the sales of branded AndroGel by 90% and cut Solvay’s profits by $125 million per year. A lot was riding on the outcome of the patent litigation.

Realizing that the judge could go either way on the summary judgment ruling, the parties settled. The generics promised not to market their versions until at least the end of August 2015 (unless another manufacturer took its own generic version to market). The generics also agreed to market brand name AndroGel to doctors (Urologists and Primary Care specialists) and serve as the backup manufacturer of AndroGel in the United States. Allegedly in return for these marketing services, Paddock was to receive $10 million per year for six years and an additional $2 million per year for the backup manufacturing agreement. Watson was to receive a share of AndroGel profits through September 2015 -- a sum predicted to fall between $19 and $30 million per year.

Reverse payment agreements must be reported to the FTC under federal law. Upon discovering the settlement, the FTC filed an antitrust lawsuit against the parties involved alleging that reverse payment agreements are unlawful

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223 See id. at 1304.
224 Id. The patent is number 6503894 and referred to as the ‘894 patent. See, e.g., Pharmaceutical Composition and Method for Treating Hypogonadism, GOOGLE, http://tinyurl.com/bg45l33 (last visited May 19, 2013). Solvay met the deadline to ask the FDA to include its new patent in the Orange Book. See Watson Pharmaceuticals, 677 F.3d at 1304 (citing 21 U.S.C. § 355(c)(2) (2010) which requires successful new drug applicants receiving new patents for listed drugs to inform the FDA within 30 days). Interestingly, Solvay asked the Patent and Trademark Office to correct certain mistakes in its original AndroGel patent filing (which the PTO did) and these mistakes form a part of Watson’s argument that the patent was invalid. See, generally In re: AndroGel Antitrust Litigation (No. II), 687 F. Supp. 2d 1371 (N.D. GA 2010).
225 See Watson Pharmaceuticals, 677 F.3d at 1304 (stating that being first ADNA filed based on AndroGel entitled Watson to the 180 day exclusivity period to market its version).
226 See id.
227 See id.
228 See id.
229 See id.
230 Id. at 1304-5 (citations omitted).
231 See id. at 1305 (stating also that all parties “filed in district court a stipulation of dismissal terminating the patent infringement lawsuit.”).
232 See id.
233 Id.
234 Id.
235 Id.
236 21 U.S.C. § 355 note (“[P]arties that are required . . . to file an agreement in accordance with this subsection shall file with the Assistant Attorney General and the Commission the text of any such agreement.”).
agreements not to compete under the Federal Trade Commission Act.\textsuperscript{237} The FTC also argued that Solvay had unlawfully extended its monopoly on AndroGel not on the basis of its patent on the gel formulation but, rather, on paying competitors to stay out of the market.\textsuperscript{238} The FTC asked the court to declare the reverse payment agreements unlawful and for a permanent injunction against the settlement.\textsuperscript{239} A federal district court in Georgia dismissed the FTC’s complaint holding that the FTC did not allege that the reverse payment agreement excluded any more competition than Solvay could already exclude under its patent.\textsuperscript{240} The Eleventh Circuit affirmed and elaborated on the so-called “Scope of the Patent” test. The circuit court panel held that “a reverse payment settlement is immune from antitrust attack so long as its anticompetitive effects fall within the scope of the exclusionary potential of the patent.”\textsuperscript{241} This test is used as long as the brand name did not: (1) initiate sham litigation in order to induce the reverse payment situation or (2) commit fraud in obtaining the patent.\textsuperscript{242} Finding no sham litigation or fraud in obtaining the patent, the panel found unpersuasive the FTC’s argument that the scope of Solvay’s patent was diminished because it was likely to lose the patent infringement case.\textsuperscript{243} The scope of the patent test, it held, only looks to Solvay’s patent, the fact that it is presumed to be valid and that it will expire in 2020 and not the likelihood that Solvay may lose in court and have its patent declared invalid.\textsuperscript{244} The FTC appealed to the Supreme Court, which granted certiorari in December 2012.\textsuperscript{245} Both sides made strong arguments to the Court concerning the legality of reverse payment agreements.

**3. The Federal Trade Commission’s Best Arguments**

The Federal Trade Commission and the amici on its side made various strong arguments that reverse payment agreements are presumptively illegal. The following are the three of the most persuasive.

1. **Solvay was susceptible to losing its patent infringement case and having its patent declared invalid.** This would not have been a rare occurrence. Overall, “[i]n cases litigated to decision, would-be generic competitors have prevailed nearly three quarters of the time in paragraph IV litigation against brand-name manufacturers.”\textsuperscript{246} Therefore, there is a solid chance that Solvay would have settled anyway and Watson and Paddock would have been able to bring their generics to market well before August 31, 2015. If Solvay chose not to settle and ended up losing its case, the entry date for Watson and Paddock would have also been before August 31, 2015. Either way, consumers would receive much lower prices much sooner absent the reverse payment agreement.

2. **Reverse payment agreements are presumptively unlawful restraints on trade and the law should view them that way.**\textsuperscript{247} These settlements disserve the purposes of antitrust law, patent law and the Hatch-Waxman Amendments for regulating generic drugs. In fact, an “incumbent firm’s agreement to pay a potential competitor to stay out of the market is ordinarily condemned as a per se violation of [antitrust

\textsuperscript{237} See In re: AndroGel Antitrust Litigation (No. II), 687 F. Supp. 2d 1371, 1371-82 (N.D. GA 2010). See also 15 U.S.C. § 45(a)(1) (2010) (“Unfair methods of competition in or affecting commerce, and unfair or deceptive acts or practices in or affecting commerce, are hereby declared unlawful.”).

\textsuperscript{238} See Brief for Petitioner at 12, FTC v. Activis, 2013 U.S. LEXIS 4545 (June 17, 2013) (No. 12-416).

\textsuperscript{239} See id.

\textsuperscript{240} See In re: AndroGel Antitrust Litigation, 687 F. Supp. 2d at 1379.

\textsuperscript{241} FTC v. Watson Pharmaceuticals, Inc., 677 F.3d 1298, 1312 (11th Cir. 2012)

\textsuperscript{242} See id.

\textsuperscript{243} See id. at 1313-15.

\textsuperscript{244} Id.

\textsuperscript{245} FTC v. Watson Pharmaceuticals, 133 S. Ct. 787, 787 (2012) (stating that Justice Alito took no part in the consideration or decision of the FTC’s petition for certiorari).

\textsuperscript{246} Brief for Petitioner at 6, FTC v. Activis, 2013 U.S. LEXIS 4545 (June 17, 2013) (No. 12-416) (citing an FTC study that found that generics prevailed in seventy-three percent of cases where they filed a paragraph IV certification against a brand name drug between 1992 and 2000).

\textsuperscript{247} See id. at 19.
under which “any payment from a patent holder to a generic patent challenger who agrees to delay entry into the market under the quick look approach shall be..."

3. The quick look approach adopted in the Third Circuit is far more appropriate than the Eleventh Circuit’s scope of the patent approach. The quick look approach treats reverse payment agreements as presumptively anticompetitive with the burden falling on the antitrust defendants to provide a pro-competitive justification for the settlement agreement. The scope of the patent approach presumes too much, especially that the brand’s patent will survive the court challenge. Under the scope of the patent approach, the brand name need not even provide any pro-competitive justification. Finally, the scope-of-the-patent approach is not ideal because it allows companies to receive antitrust immunity (because the patent infringement suit is pending) and avoid the uncertainty of losing at trial on a weak patent (via the reverse payment agreement). The quick look approach minimizes these problems.

4. The Drug Companies’ Best Arguments

The pharmaceutical companies and the amici on their side made various strong arguments that reverse payment agreements should be legal and are not anticompetitive. The following are the two of the most persuasive.

1. The scope of the patent approach best reflects patent and antitrust precedent. Only restraints on generic market entry outside the brand name’s patent violate the law. Patents exist to protect monopoly power for a limited time and reverse payment agreements merely protect monopoly power as long as the patent owner desires. The scope of the patent test includes three important ways for generics to prevail -- settlement agreements that exceed the scope of the patent, sham litigation by the brand name and patents obtained via fraud. The Supreme Court has hesitated to expand antitrust scrutiny to patentee restraints on competition within the scope of the patent.

2. The quick look test advocated by the FTC is unprecedented. The Federal Circuit as well as the Second and Eleventh Circuits have approved the scope of the patent approach. Patents are presumed to be valid and the quick look approach limits a brand’s ability to use its patent to exclude competition. In addition, the

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248 Id. at 20.
249 See FTC v. Watson Pharmaceuticals, Inc., 677 F.3d 1298, 1301 (11th Cir. 2012).
250 Id. at 1302.
251 See, e.g., In re K-Dur Antitrust Litig., 686 F.3d 197, 218 (2012), petitions for cert. pending, No. 12-245 (filed Aug. 24, 2012) and No. 12-265 (filed Aug. 29, 2012) (holding that reverse payment agreements are subject to a “quick look rule of reason analysis” under which “any payment from a patent holder to a generic patent challenger who agrees to delay entry into the market [is] prima facie evidence of an unreasonable restraint of trade.”).
253 Id. at 33.
256 Id.
257 Id.
justifications that antitrust defendants must show to rebut the presumption of unlawfulness are nearly impossible to make.259 Finally, many patents are valid and infringed.

(5) THE LEGAL VERDICT

The Supreme Court took a middle ground approach in adjudicating this trick. A five-justice majority rejected the Eleventh Circuit’s Scope of the Patent test but declined to hold reverse payment agreements presumptively unlawful as the FTC requested.260 The majority held that the Scope of the Patent test is too broad because it provides “near-automatic antitrust immunity” to reverse payment agreements.261 Not every reverse payment agreement is lawful as some bring about large anticompetitive consequences. Take, for example, an agreement where payments to the generic are greater than the brand’s anticipated litigation or settlement costs and/or where the generic undertakes no legitimate services for the brand in return for the payment.262 However, the majority found that the FTC’s proposed quick look approach is too strict.263 There will be some cases where the reverse payment agreement is so small that it has minimal anticompetitive effects -- especially if the payment to the generic was roughly equal to the brand’s projected settlement costs.264 In the end, the Federal Trade Commission must now prove that a particular agreement is anticompetitive.265 A three justice dissent would have upheld the tactic under the Scope of the Patent test from the Federal, Second and Eleventh Circuits.266

The tricky business tactic - where competitors cooperate and agree not to compete in return for splitting monopoly profits made more secure by the agreement - worked. The Supreme Court unanimously refused to declare such agreements unlawful. Three justices supported the tactic under the very broad Scope of the Patent test. It is difficult to predict many reverse payment agreements falling under this test. The five-justice majority blessed some reverse payment agreements as long as their anticompetitive consequences are not too broad. It may seem like the Court restricted the trick -- perhaps to the point where it will lose popularity. However, drug companies have a great deal of money at stake and employ very smart people. The odds are good that these companies will find a way to walk this legal line in future cases while still cooperating to delay generic entry and share monopoly profits. Perhaps unsurprisingly, the ethical analysis to follow in Part IV renders a slightly different verdict from the legal system.

C. THE ARBITRATION PREEMPTION TACTIC: BROAD ARBITRATION & STRICT NON COMPETE CLAUSES IN EMPLOYMENT AGREEMENTS

Most employees are hired at-will.267 Employers may terminate at-will employees at any time for any legal reason without incurring legal liability.268 This is not an ideal situation from an employee standpoint because of uncertainty

261 Id. at *37.
262 Id. at *38-39.
263 Id. at *38.
264 Id.
265 Id. at *39-40.
266 Id. at *44.
267 See, e.g., Ask an Expert: Interview with Suzanne Bogdan, MLP PUBS ONLINE, http://tinyurl.com/pvsm9qj (last visited May 26, 2013) (interviewing a lawyer and expert in employment law who stated that “the vast majority of employees will be hired under the provisions of “employment-at-will.”).
268 See, e.g., Kenneth J. Vanko, “You’re Fired! And Don’t Forget Your Non-Compete . . . “: The Enforceability of Restrictive Covenants in Involuntary Discharge Cases, 1 DEPAUL BUS. & COMM. L.J. 1, 30 (2002) (“Most employees have at-will status, so that the employment relationship can be terminated at any time”). There are exceptions to the at will doctrine, such as decisions based on race, gender or other public policy-based reasons, under which an employee cannot be terminated. See, e.g., At-Will Employee Definition, U.S. LEGAL, http://tinyurl.com/o5bmv8 (last visited May 26, 2013) (“There is also an enormous body of federal and state law limiting an employer’s ability to terminate employees for reasons having to do with race, ethnicity, religion, marital or disability status and, in some cases, sexual orientation. Complaints about violations of employee rights, union activities, workers’
surrounding duration of employment and because employers can “change the terms of the employment relationship with no notice and no consequences.” However, at-will employment provides employers with great flexibility in running their business according to a strategic plan and evolving market conditions. There are other legal ways to hire people. A select group of non-executive-level job seekers are presented with employment contracts that they must sign prior to officially beginning employment. These contracts modify the at-will relationship as commitments are generally made from both sides. Employment contracts define the terms of employment such as hours to be worked, specific job duties, grounds for termination, ownership of employee work product, non-disclosure/competition provisions, contract dispute procedures and salary/other employee benefits. Employers offer contracts because management prefers to obtain written commitments to the company’s employment terms. These contracts may also benefit employees if they specify a certain term of employment (i.e., job security) or other employee benefits (i.e., health care, bonuses,leave policies). Two of the most common provisions in employment agreements revolve around dispute resolution (specifically arbitration clauses) and competition with the employer if an employee leaves (specifically non-compete clauses). Both of these topics played a major role in the third tricky business tactic discussed in this article. The remainder of this section delves into arbitration and non-compete provisions before evaluating the legal repercussions these clauses provide for both employers and employees.

### a. Arbitration Clauses

Arbitration is the “submission of a dispute to an unbiased third person designated by the parties to the controversy, who agree in advance to comply with the award -- a decision to be issued after a hearing at which both parties have an opportunity to be heard.” Arbitrations are quasi-legal proceedings that take place outside of a courtroom. Parties are allowed to produce evidence and make arguments -- albeit with fewer procedural rules and protections than in court and the arbitrator’s decision is binding.

There are prominent benefits to choosing arbitration over litigation. First, arbitration may be faster and more efficient than a trial and the uncertainty and duration of one or more appeals. The Federal Mediation and Conciliation

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269 The At-Will Presumption and Exceptions to the Rule, NATIONAL CONFERENCE OF STATE LEGISLATURES, http://tinyurl.com/c7bal7m (last visited May 26, 2013). See also Robert Morello, Limitations on At-Will Employment, HOUS. CHRONICLE, http://tinyurl.com/qe4dnge (last visited May 26, 2013) (stating that at-will "employment allows employers more freedom to let workers go if necessary or if desired by the employer. All U.S. states except Montana allow for at-will employment and firing without cause, a law that greatly favors the employer over the worker.").

270 See id. (quoting an employment law expert who stated that “[e]xcept in schools - and pro sports - employment contracts are virtually unheard of in American industry. Sometimes the senior leader, CEO or board chairman will have a contract”) and Donald C. Dowling, Jr., The Intersection Between US Bankruptcy and Employment Law, 10 LAB. LAW. 57, 61 (1994) (asserting employment contracts are rare except for "highly compensated executives who had the foresight and bargaining power to secure definite-term contracts.").


272 See id.


274 See id.

275 See e.g., Brian Cooper, Current Development 2008-2009: Ethics for Party Representatives in International Commercial Arbitration: Developing a Standard for Witness Preparation, 22 GEO. J. LEGAL ETHICS 779, 784 (2009) (stating that arbitration “is cheaper and faster than litigation, however, because disputes are resolved in a single round without the right to an appeal.”). But see, e.g., Henry S. Noyes, If You (Re)Build It, They Will Come: Contracts To Remake The Rules Of Litigation In Arbitration’s Image, 30 HARV. J.L. & PUB. POL’Y 579, 585 (2007) (citing a recent study that found that “the average time to resolve an arbitration—the time from the date of filing the demand to the date of the award—is 16.5 months. The median time from filing to disposition of a case filed in a federal district court in 2005 was 9.5 months. The median time to get to trial in a case filed in a federal district court in 2005 was 22.5 months.”).
Service (FMCS) claims that its arbitrations (over collective bargaining agreements) average only 4.42 days in 2012.276 More complex issues, such as securities trading arbitrations, generally average a longer 14 months.277 Second, the procedural wrangling and technical rules that bind trial judges do not bind arbitrators.278 This can speed up the process and allow the parties to better understand the proceedings than via a trial. Third, arbitration may be cheaper in certain instances.279 FMCS estimates that the average cost of its arbitrations to clients in 2012 was just under $5,000.280 Finally, the parties may choose an arbitrator who is an expert in the field covering their dispute whereas a trial judge might have to be brought up to speed on the subject of the dispute.281

There are also prominent drawbacks to arbitration as opposed to litigation. First, arbitrators do not necessarily have to follow the law of the jurisdiction where the arbitration is heard.282 Second, arbitrators are not legally required to provide the reasoning for their decision and this makes the limited right to appeal rather difficult.283 Trial judges produce written opinions including their legal reasoning; these opinions generally make their way straight to the public domain. Finally, arbitration can be riskier and less predictable than litigation:

278 See, e.g., Part VI: Hearings; Evidence; Closing the Record, FINANCIAL INDUSTRY REGULATORY AUTHORITY, http://tinyurl.com/nwcrxw2 (last visited May 27, 2013) (providing the rules for arbitrations handled by the largest independent regulator of securities firms doing business in the United States and declaring that the arbitration “panel will decide what evidence to admit. The panel is not required to follow state or federal rules of evidence.”).
279 See, e.g., Cooper, supra note 275 (stating that arbitration “is cheaper and faster than litigation, however, because disputes are resolved in a single round without the right to an appeal.”) and Keith Maurer, The Truth About Arbitration: Enforcing Consumers’ and Employees’ Legal Rights, MICH. BAR J. (May 2003), http://tinyurl.com/qqa24uj5 (stating that arbitrating “a dispute is far less expensive than litigating a dispute to resolution. Arbitration filing fees, hearings fees, and elective attorney fees are much less than the total of litigation costs and expenses and mandatory attorney fees. Further, businesses and employers voluntarily pay, or may have to pay, for all or part of the costs of consumer and employee arbitration.”) (citations omitted). But see, e.g., Noyes, supra note 275, at 586 (stating that in “litigation, the plaintiff incurs a minimal initial filing fee and the parties each incur the costs of their own attorneys. In arbitration, the claimant incurs an initial filing fee to initiate the dispute, and the parties each incur the costs of their own attorneys plus (a) administrative fees to pay the overhead of the dispute resolution service (hearing space and operating expenses) and (b) the arbitrators’ fees and administrative costs. These additional expenses, “which are never incurred in the judicial forum,” can be substantial and significant.”) (citations omitted) and Leslie A. Gordon, Clause For Alarm: As Arbitration Costs Rise, In-House Counsel Turn to Mediation or a Combined Approach, A.B.A. J. (Nov. 24 2006), available at http://tinyurl.com/qe9vrf2 (noting that arbitration may not be faster than litigation given the “messy, complicated and expensive” process necessary to enforce arbitration clauses and the general absence of summary judgment as a tool for defendants.”).
280 See Arbitration Statistics, supra note 276 (showing that total charged to clients included per diem, arbitration fees and expenses). See also Employment Contract Provisions, FINDLAW, http://tinyurl.com/crt4l9te (last visited May 26, 2013) (showing arbitration and non-compete clauses as provisions that often appear in employment contracts).
281 See e.g., Anne Lane, Are Mediation and Arbitration a Viable Alternative for Business?, ALLLAW.COM, http://tinyurl.com/pgecfgu (last visited May 27, 2013) (stating that the parties can also “select an arbitrator who has experience in your field or in resolving the type of dispute that [they] have.”)
282 See id. (“An arbitrator will not necessarily follow the rule of law when coming up with the resolution to the dispute. What seems fair to the arbitrator may not be the same as what a court would decide. If this is a concern for you, insist that your arbitrator follow legal precedent.”) and Anthony C. Valulis, Winning the Battle to Arbitrate: Was the Victory Real or Pyrrhic?, MUCH SHELIST, P.C., http://tinyurl.com/pj527kz (last visited May 27, 2013) (“Unlike judges and juries, arbitrators are not compelled to follow the law. In fact, their decisions can be made on the grounds of what they perceive to be fair, rather than what the law directs. Thus, even when arbitrators make a decision that seems to run contrary to the law, there is little you can do about it. According to the Supreme Court’s ruling in Hall Street Associates, LLC v. Mattel, Inc., a mere mistate of law is not a basis for overturning an arbitration award, and there is no right to appeal.”) (citations omitted).
283 See, e.g., Decisions & Awards: Arbitration Award, FINANCIAL INDUSTRY REGULATORY AUTHORITY, http://tinyurl.com/qye6qz5 (last visited May 28, 2013) (citing a rule for the securities industry that declares that arbitration awards “must be in writing, but arbitrators are not required to write opinions or provide explanations or reasons for their decision.”).
Arbitration is riskier than litigation because the [Federal Arbitration Act or FAA] severely limits parties' ability to seek judicial review of an arbitration award. As a practical matter, there is no appellate "check" on the arbitrator's work. . . . The FAA provides that arbitration agreements are "valid, irrevocable, and enforceable, save upon such grounds as exist at law or in equity for the revocation of any contract." An arbitration award will not be vacated when the arbitrator misinterprets the governing law or applies it incorrectly. Thus, the party opposing entry of judgment based on an arbitration award will prevail only when the award is "completely irrational" or exhibits a "manifest disregard of law."284

After weighing these pros and cons, many employers add arbitration clauses to employment contracts. Employers prefer arbitration in order to have disputes settled outside of court by a decision-maker of their choosing, in a more confidential matter, with little discovery and a bit more cost certainty.285 A typical arbitration clause in an employment contract will detail the following issues: (1) define the process for selecting an arbitrator, (2) select the number of arbitrators, (3) lay out the qualifications of arbitrators, (4) determine whether the decision will be binding on the employer, the employee or both, (5) choose the location of the arbitration, (5) define relevant timelines, (6) discuss confidentiality, and (7) distribute fee allocation.286 A model arbitration clause might read as follows:

Any dispute, claim or controversy arising out of or relating to this Agreement or the breach, termination, enforcement, interpretation or validity thereof, including the determination of the scope or applicability of this agreement to arbitrate, shall be determined by arbitration in [insert the desired place of arbitration] before [one/three] arbitrator(s). The arbitration shall be administered . . . pursuant to its Comprehensive Arbitration Rules and Procedures [and in accordance with the Expedited Procedures in those Rules]. Judgment on the Award may be entered in any court having jurisdiction. This clause shall not preclude parties from seeking provisional remedies in aid of arbitration from a court of appropriate jurisdiction.287

Problematically, the employment context, the "circumstances in which many employment arbitration agreements arise may raise concerns that those agreements were not entered into willingly or knowingly by employees."288 Employees generally have little choice but to agree to arbitrate all disputes or risk not getting the job. These so-called contracts of adhesion are often seen as inherently unjust.289 This concern that arbitration clauses are unfair to employees who must agree to them in order to work looms large in this case that revolves around the trick described in this Part.

b. NON-COMPETE CLAUSES

Employers have an interest in avoiding situations where they train employees who then leave to work for competitors. These employees likely possess valuable trade secrets, customer lists and business strategy knowledge and documents. To prevent this knowledge from being used against the former employer upon separation, employers often include

284 Noyes, supra note 275, at 591-92 (citations omitted).
285 See e.g., Martha Neil, Litigation Over Arbitration: Courts Differ on Enforceability of Mandatory Clauses, A.B.A. J. (Jan. 25, 2005), http://tinyurl.com/p4jyj7 (stating that arbitration "is extremely popular among U.S. companies that view it as a manageable and efficient vehicle for resolving disputes with other commercial entities and consumers while avoiding time consuming, costly litigation.").
288 Jyotin Hamid and Emily J. Mathieu, The Arbitration Fairness Act: Performing Surgery with a Hatchet Instead of a Scalpel?, 74 ALB. L. REV. 769, 781-82 (2010/2011) (stating that most employees "have little or no meaningful option whether to submit their claims to arbitration . . . and because entire industries are adopting these clauses, people increasingly have no choice but to accept them." In addition, some commentators liken agreements to arbitrate employment disputes to contracts of adhesion, offered on a "take it or leave it" basis with little or no opportunity for the employee to negotiate.").
289 See id. at 782.
non-compete clauses along with arbitration clauses in employment contracts. These provisions generally state that employees, upon leaving, may not undertake similar job duties for a competitor within a certain geographical distance from their previous employer for a certain amount of time. A typical non-compete clause might read as follows:

[Employee name] agrees not to compete with [company name] in the practice of [type of business or service] while working for [company name] and for a period of [number and measure of time (e.g., “six months” or “10 years”)] after termination of employment within a radius of [number] miles of [company name and location]. For purposes of this covenant not to compete, competition is defined as soliciting or accepting employment by, or rendering professional services to, any person or organization that is or was a client of [company name] during the term of [employee name]’s work with [company name].

These clauses are designed specifically to favor employers and employees should read these provisions very closely. The problem is that not all employees will grasp the significance or legalese of a non-compete clause and some will not have the power to significantly negotiate the terms. To demonstrate the serious nature of a non-compete clause, Forbes Magazine posted five things that employees should do if they are allowed to negotiate: (1) consult an attorney; (2) limit the geography where they will be banned from working; (3) limit the time span; (4) try to negotiate non-disclosure clauses instead so they can keep working immediately after leaving; and (5) try and get paid something for signing the clause. A strict non-compete clause also looms large in the case that revolves around the trick described in this Part. The analysis now turns to the legal background surrounding arbitration and non-compete provisions in employment contracts.

(1) THE LEGAL BACKGROUND: SUPREMACY, FEDERAL ARBITRATION LAW, ARBITRATION CLAUSES AND NON-COMPETE CLAUSES

The legal background for the third tricky business case is rather complex. The Supremacy Clause of the United States Constitution exists to mediate a conflict between a federal law (which has created a national policy favoring arbitration), an arbitration clause in an employment contract and a state law that limits non-compete clauses that prove to be unfair to employees. The Supremacy Clause will live up to its name and win the day. However, it is important to grasp the nuances of the law as it relates to preemption, arbitration clauses and non-compete provisions.

a. THE SUPREMACY CLAUSE AND PREEMPTION

The Supremacy Clause in Article VI of the United States constitution declares: “This Constitution, and the laws of the United States which shall be made in pursuance thereof; and all treaties made, or which shall be made, under the authority of the United States, shall be the supreme law of the land; and the judges in every state shall be bound thereby, anything in the Constitution or laws of any State to the contrary notwithstanding.” The first sentence (the Supremacy Clause) receives much attention -- especially in the legal, political and media arenas. Important Supreme Court cases both historic (Gibbons v. Ogdens, an 1824 case preempting a New York law favoring in-state vessels) and recent (such as Arizona v. United States, a 2012 case where federal immigration law preempted the majority of Arizona’s newly enacted strict immigration laws) hinged on the Supremacy Clause. The second sentence of Article VI, section II, however, tends to get short shrift even though its language is as important as the Supremacy Clause itself. State judges are also bound to accept federal law as supreme regardless, in many cases, of conflicting laws enacted in their states. What legal significance would the supremacy of federal laws possess if state judges could

292 U.S. CONST. art. VI, § 2, cl. 1.
293 See generally 9 Wheat. (22 U.S.) 1 (1824).
disregard the commands in Article VI and favor state laws? This issue plays a prominent part in the third tricky business case discussed in this Part.

The Supremacy clause comes into play when a federal law and a state law are in conflict. States were sovereign prior to the federal government coming into existence and states-rights advocates fought hard in the Constitutional Convention and the ratification process to retain this sovereignty from federal government interference. Therefore, courts have held that Congress must express some intent to override state sovereignty via federal law and the Supremacy Clause. There are two primary ways a state law can become preempted: (1) express preemption and (2) implied preemption.

Express preemption is the most obvious type of preemption and occurs when the language of a federal law declares that conflicting state laws are preempted. Courts will look to the substance and the scope of the language of the federal law to make sure that Congress actually desired preemption to occur (i.e., in case Congress was not particularly clear in its chosen statutory wording). Courts will also verify that Congress had the enumerated power in the Constitution to enact such legislation. Congress may also expressly state in legislation that it chooses not to preempt state law. Congress may also impliedly preempt state law by looking at the structure and purpose of the federal law at issue. There are two general types of implied preemption: (1) conflict preemption and (2) field preemption. Conflict preemption occurs when a state law makes it impossible for a person/entity to comply with both state and federal law (impossibility preemption) or where the state law serves as an obstacle to the purposes and objectives of the federal law (obstacle preemption). Field preemption occurs when the federal government has completely occupied the field in which a state chooses to regulate.

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See, e.g., 2 RECORDS OF THE FEDERAL CONVENTION OF 1787, at 347 (M. Farrand ed. 1911) (quoting George Mason who declared that the: “United States will have a qualified sovereignty only. The individual States will retain a part of the Sovereignty”),RAOUL BERGER, FEDERALISM: THE FOUNDERS’ DESIGN, 52-54 (1987) and Geier v. Am. Honda Motor Co., 529 U.S. 861, 894 (2000) (Stevens, J., dissenting) (stating that because of “the role of States as separate sovereigns in our federal system, we have long presumed that state laws - particularly those . . . that are within the scope of the States’ historic police powers - are not to be pre-empted by a federal statute unless it is the clear and manifest purpose of Congress to do so.”).

See, e.g., Atria Group v. Good, 550 U.S. 70, 77 (2008) (stating that when “addressing questions of express or implied preemption, we begin our analysis ‘with the assumption that the historic police powers of the States [are] not to be superseded by the Federal Act unless that was the clear and manifest purpose of Congress.’”) (citations omitted).


Id. A good example occurs in the federal Employee Retirement Income Security Act (ERISA); this statute preempts all state laws “insofar as they may now or hereafter relate to any employee benefit plan,” except that state “laws . . . which regulate insurance, banking, or securities” are saved from preemption. 29 U.S.C. § 1144(a) and (b)(2)(A) (2010). Courts have been called in numerous times to interpret this express preemption clause. Id.

See, e.g., United States Constitution, supra note 297.


See, e.g., Fla. Lime & Avocado Growers, Inc. v. Paul, 373 U.S. 132, 142-43 (1963) (“[A] holding of federal exclusion of state law is inescapable and requires no inquiry into congressional design where compliance with both federal and state regulations is a physical impossibility for one engaged in interstate commerce.”).

See, e.g., Hines v. Davidowitz, 312 U.S. 52, 66-67 (1941) (stating that a primary function in preemption cases is for the court “to determine whether, under the circumstances of this particular case, [state] law stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress.”) and Steel Inst. of N.Y. v. City of New York, No. 12-276, 2013 U.S. App. LEXIS 9236, at 11 (May 7, 2013) (discussing both primary types of implied preemption).

See, e.g., Rice v. Santa Fe Elevator Corp., 331 U.S. 218, 230 (1947) (stating that Congress’ intent to occupy a field may be inferred where federal regulation is “pervasive” or “so dominant” that it can be assumed federal law did not intend for state/local laws to play any supplemental role).
law to determine whether states have traditionally regulated the area. If the area is one of traditional state regulation then courts will be less inclined to presume Congress occupied the field and require more specific evidence.\(^{305}\)

**b. Arbitration –**

There exists a national policy favoring arbitration.\(^{306}\) The thrust of the law was not always this way. In fact, judges used to (some still do) frown on arbitration as a means of settling certain disputes.\(^{307}\) The House report on the first major federal law favoring arbitration discussed this reluctance:

> The need for the law arises from an anachronism of our American law. Some centuries ago, because of the jealousy of the English courts for their own jurisdiction, they refused to enforce specific agreements to arbitrate upon the ground that the courts were thereby ousted from their jurisdiction. This jealousy survived for so long a period that the principle became firmly embedded in the English common law and was adopted with it by the American courts. The courts have felt that the precedent was too strongly fixed to be overturned without legislative enactment, although they have frequently criticised [sic] the rule and recognized its illogical nature and the injustice which results from it. This bill declares simply that such agreements for arbitration shall be enforced, and provides a procedure in the Federal courts for their enforcement.\(^{308}\)

Congress passed the United States Arbitration Act in 1925 (now called the Federal Arbitration Act or FAA) to ensure that courts would enforce private arbitration agreements according to their terms.\(^{309}\) The major provision of the FAA reads:

> A written provision in . . . a contract evidencing a transaction involving commerce to settle by arbitration a controversy thereafter arising out of such contract or transaction, or the refusal to perform the whole or any part thereof, or an agreement in writing to submit to arbitration an existing controversy arising out of such a contract, transaction, or refusal, shall be valid, irrevocable, and enforceable, save upon such grounds as exist at law or in equity for the revocation of any contract.\(^{310}\)

This language requires that courts honor valid arbitration clauses in contracts dealing with interstate commerce.\(^{311}\) A valid arbitration clause is one that meets the requirements of a valid contract entered into by all sides of a commercial transaction. Cases where the FAA is invoked generally arise when a party initiates litigation over a contract containing an arbitration clause. Under the FAA, judges must tread carefully and limit their evaluation to whether the arbitration clause is valid.\(^{312}\) Like other contracts, arbitration clauses may be invalidated by "generally applicable contract defenses,\(^{313}\)

\(^{305}\) *Id.* at 230.

\(^{306}\) See, e.g., Southland Corp. v. Keating, 465 U.S. 1, 10 (1984) (stating that in enacting section 2 of the Federal Arbitration Act, "Congress declared a national policy favoring arbitration and withdrew the power of the states to require a judicial forum for the resolution of claims which the contracting parties agreed to resolve by arbitration.").


\(^{308}\) H. R. REP. No. 68-96, at 1-2 (1924). Two primary reasons have been given for the fact that courts were reluctant to cede cases to arbitration: “First, it was argued that private parties could not "oust" courts of their jurisdiction to resolve disputes. Second, it was argued that arbitration was simply ineffective at administering justice.” Roger J. Perlstadt, *Article III Judicial Power and the Federal Arbitration Act*, 62 Am. U.L. Rev. 201, 210 (2012) (citations omitted).


\(^{311}\) Congress passed the FAA under its Commerce Clause power and the Supreme Court has held the “reach of the FAA, empowered by the full authority of the Commerce Clause, extends to any such transactions which touch upon "the flow of interstate commerce." See e.g., Blank, supra note 301, at 284 (stating also that the “scope of the FAA, then, can be said to reach any contract - alone not having a substantial effect on interstate commerce - that pertains to ‘general practices . . . which bear on interstate commerce in a substantial way.’") (citations omitted).

such as fraud, duress, or unconscionability.

To assist in this process, courts may “look to principles of state-specific contract law to assess an arbitration clause’s validity, and must not base their decisions on views of arbitration clauses generally, but rather on the facts and terms of the specific agreement they are confronted with in the particular dispute.”

For example, a judge can determine whether the parties actually agreed to enter into arbitration, whether one side fraudulent induced the other to agree to arbitration or whether the parties chose to leave certain aspects out of the arbitration clause.

If the judge deems the clause valid, the case goes to the arbitrator to evaluate the underlying agreement. If the judge deems the clause invalid, the judge can decide to review the validity of the underlying agreement under general contract principles.

The main thrust of the FAA is that an arbitrator chosen by the parties, instead of the trial judge, must have the first chance to determine the validity of the underlying agreement.

Finally, the FAA does not contain an express preemption clause and there is no indication that Congress desires to preempt the field of alternative dispute resolution or arbitration specifically. However, the Supreme Court has held that the FAA is “more than a procedural statute governing federal courts [but, instead] a substantive statute intended to make arbitration agreements enforceable in both state and federal court.” Therefore, conflict preemption principles apply to FAA cases. This means that state laws that conflict with the FAA or the national policy favoring arbitration will be carefully scrutinized under the Supremacy Clause.

c. Non-Compete Clauses –

The validity of a non-compete clause is generally an issue of state contract law. Such clauses are disfavored in many state courts as unlawful restraints on a person’s ability to earn a living.

A Virginia state court made the point as follows: “Virginia courts take this view because covenants not to compete, by their nature, restrain competition, and accordingly curb the ‘fundamental right of individuals to seek success in our free-enterprise society.’

Courts usually implement a balancing test to determine if a non-compete clause is too restrictive and, thereby invalid; these tests look to whether the clause: protects the former employer’s business interests narrowly, burdens the former employee’s ability to earn a living unduly and violates the state’s public policy.

Factors such as geographic scope,
prohibited job duties and duration of the non-compete restriction guide this analysis. Some states have legislated against non-compete clauses as violative of state public policy. For example, and as relevant for the case to be discussed below, Oklahoma law states:

Every contract by which any one is restrained from exercising a lawful profession, trade or business of any kind, otherwise than as provided by [other parts of Oklahoma law], is to that extent void. . . . A person who makes an agreement with an employer, whether in writing or verbally, not to compete with the employer after the employment relationship has been terminated, shall be permitted to engage in the same business as that conducted by the former employer or in a similar business as that conducted by the former employer as long as the former employee does not directly solicit the sale of goods, services or a combination of goods and services from the established customers of the former employer. . . . Any provision in a contract between an employer and an employee in conflict with the provisions of this section shall be void and unenforceable.

With a stronger grasp on this matrix of preemption and the Supremacy Clause, a national policy favoring arbitration and a strong state law disfavoring of non-compete clauses, this Part now turns to the final tricky business strategy. This trick presents a different environment because, unlike the first two cases involving competing businesses, this case involves individuals (employees) and a dispute with their former employer. As with the previous sections, this section proceeds by exposing the trick and then moving to an evaluation of the legal and ethical implications.

(2) THE TRICK

Smart businesses should be well aware of the strong national policy favoring arbitration. As mentioned, companies prefer arbitration to litigation in order to have disputes settled outside of court by a decision-maker of their choosing, in a more confidential matter, with little discovery and a bit more cost certainty. The Federal Arbitration Act promises that valid arbitration clauses will be honored -- a big win for business. This public policy stance is ideal from a business point of view. However, businesses also prefer that employees sign non-compete clauses to keep them off the market as competitors for a period of time. The problem for management in this realm is that precedent and public policy in many states tend to disfavor such strict non-competition clauses -- especially in employment agreements where employees have little opportunity to negotiate.

This means that management (more likely their in-house and corporate lawyers) must creatively circumvent such employee-friendly state laws, policy and precedent and draft valid non-compete clauses that will be arbitrated where the company desires upon any dispute. And, this is exactly what has occurred in practice. The trick is twofold: (1) a company places a broad arbitration clause in an employment contract that also contains a strict non-compete clause and (2) a company adds choice of forum and choice of law provisions to jurisdictions a good distance away from where the employees reside and where strict non-compete clauses are not disdavored. This trick was executed in textbook fashion in Nitro Lift Technologies v. Howard.

Nitro-Lift involves a mixture of business-friendly arbitration and non-compete clauses in an employment contract. Nitro Lift, headquartered in Lafayette, Louisiana, provides a service whereby nitrogen in injected into wells in order to

325 See, e.g., Simmons v. Miller, 544 S.E.2d 666, 678 (VA 2001).
326 See, e.g., CAL. BUS. & PROF. CODE § 16600 (2013) (stating that, with few exceptions, “every contract by which anyone is restrained from engaging in a lawful profession, trade, or business of any kind is to that extent void,”), OKLA. STAT. tit. 15 §§ 217 & 219A(A) & (B) (2013) (strongly disfavoring non-compete clauses or any contract that restrains a person from “exercising a lawful profession, trade or business of any kind) and TEX. BUS. & COM. CODE ANN. § 15.50a (West 2013) (“Every contract, combination, or conspiracy in restraint of trade or commerce is unlawful.”).
327 OKLA. STAT. tit. 15 §§ 217 & 219A(A) & (B) (2013).
328 See, e.g., Neil, supra note 285.
329 See generally 133 S. Ct. 500 (2012).
lift oils and gasses to the surface more easily. The company claims that it has “successfully de-watered or lifted more than 10,000 wells in conventional and unconventional plays; purged and tested hundreds of miles of pipelines; and even restarted production in oilfields - both onshore and offshore - that lacked the gas capacity to operate.” The company requires its employees to sign a “Confidentiality/Non-Compete Agreement” that includes an arbitration clause that reads:

Any dispute, difference or unresolved question between Nitro-Lift and the Employee (collectively the “Disputing Parties”) shall be settled by arbitration by a single arbitrator mutually agreeable to the Disputing Parties in an arbitration proceeding conducted in Houston, Texas in accordance with the rules existing at the date hereof of the American Arbitration Association.

The document also contains a choice of law provision that requires the agreement to be “subject . . . interpreted, construed and enforced” under Louisiana law “without regard to conflict of law principles.” The non-compete portion of the agreement was strict as the clause declared:

In consideration of the receipt of Confidential Information during employment, the receipt of compensation, each element of compensation being hereby acknowledged by Employee as adequate, Employee hereby covenants and agrees that for two years from the date of separation from employment with Nitro-Lift, regardless of the reason or cause for separation, he will not directly or indirectly;

(I) own, manage, operate, join, control or participate in or be connected with (whether as a director, officer, employee, agent, representative, partner, consultant or otherwise), or loan money to or sell or lease equipment to, any business or Person, which wholly or in any significant part, engages in Nitrogen Generation . . . ;

(II) (for purposes related to any Competing Business or about whom Employee has Confidential Information, canvass, solicit, approach or entice away or cause to be canvassed, solicited, approached or enticed away from Nitro-Lift or its Affiliates any Person who or which is a past or present customer or supplier of Nitro-Lift or any of its Affiliates, or cause any such Person to curtail or cancel its business with Nitro-Lift or its Affiliates; or

(III) engage or employ, or solicit or contact with a view to the engagement or employment of any Person who is an officer or employee of Nitro-Lift or any of its Affiliates, or induce or attempt to influence any such Person to terminate his or her employment.

The parties agree and acknowledge that the limitations as to time, geographical area and scope of activity to be restrained as set forth [in this section] are reasonable and do not impose any greater restraint than is necessary to protect the legitimate business interests of Nitro-Lift. To the extent that any part of this Section . . . may be invalid, illegal or unenforceable for any reason, it is intended that such part shall be enforceable to the extent that a court of competent jurisdiction shall determine that such part, if more limited in scope, would have been enforceable, and such part shall be deemed to have been so written and the remaining parts shall as written be effective and enforceable in all events.

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330 See Brief for Petitioners at 4, Nitro-Lift Techs. v. Howard, 133 S. Ct. 500 (No. 11-1377) (2012) (stating that such injections stimulate hydrocarbons to float to the surface of a well).
332 See Brief for Petitioners at 4-5, Nitro-Lift Techs., 133 S. Ct. 500 (No. 11-1377).
334 Id. Brief for Petitioners at 5, Nitro-Lift Techs., 133 S. Ct. 500 (No. 11-1377).
Employees Howard and Schneider were hired in Nitro-Lift’s Oklahoma office and worked on wells primarily in Oklahoma and a minimally in Texas and Arkansas.\textsuperscript{336} Both left to work for a competitor because of disputes concerning work hours, time off and a desire to be paid overtime.\textsuperscript{337} In July 2010 Nitro-Lift served both former employees with a demand for arbitration and asked for a ruling that prohibited both from, “disclosing or using Nitro-Lift’s confidential information; inducing Nitro-Lift’s employees to leave Nitro-Lift to work for its competitor; and competing or interfering with Nitto-Lift’s business relationships or soliciting its customers.”\textsuperscript{338}

An arbitrator was selected and Nitro-Lift claimed that it advanced costs for both sides.\textsuperscript{339} However, Howard and Schneider filed a lawsuit in an Oklahoma state court seeking that the employment agreement be held null and void and that Nitro-Lift be enjoined from enforcement.\textsuperscript{340} Nitro-Lift responded that the case should be dismissed because the FAA requires that non-compete agreements in contracts containing valid arbitration clauses must be determined in the first instance by an arbitrator.\textsuperscript{341} Because the plaintiff/employees did not challenge the validity of the arbitration clause in court, Nitro-Lift argued, an arbitrator must decide whether the non-compete clause is valid.\textsuperscript{342} The state trial court judge agreed, found the arbitration clause to be valid on its face, dismissed plaintiff’s complaint and denied any injunction on the agreement.\textsuperscript{343} The plaintiffs appealed and the Oklahoma Supreme Court issued a show cause order directing the parties to brief how the Oklahoma law disfavoring non-compete clauses applied to the case.\textsuperscript{344} The court retained the case without a decision from the Oklahoma appellate courts.\textsuperscript{345}

The Oklahoma Supreme Court unanimously reversed the state trial court.\textsuperscript{346} The justices held that an arbitration agreement in an employment contract “does not prohibit judicial review of the underlying agreement.”\textsuperscript{347} In fact, the court held, “the public right to be free from restraint of trade [in a non-compete agreement] ‘cannot be waived by the parties’ agreement to submit the issue of the validity of a contract provision to arbitration.’ A void provision provides no legal basis for enforcement whether through arbitration or judicial pronouncement.”\textsuperscript{348} The justices claimed they reviewed an earlier Oklahoma Supreme Court decision containing an “exhaustive review” of United States Supreme Court decisions construing the FAA and that this precedent was “found not to inhibit our review of the underlying contract’s validity.”\textsuperscript{349} The court reviewed Nitro-Lift’s non-compete clause and found it overbroad, invalid and unenforceable under the Oklahoma law disfavoring non-compete agreements.\textsuperscript{350} Both sides made strong arguments in their petitions for and against the grant of certiorari.

\textsuperscript{336} See Brief for Respondents at 1, \textit{Nitro-Lift Techs.}, 133 S. Ct. 500 (No. 11-1377) (stating that the former employees worked on wells primary located in Oklahoma). \textit{But see} Brief for Petitioner at 5, \textit{Nitro-Lift Techs.}, 133 S. Ct. 500 (No. 11-1377) (stating that the former employees “worked for Nitro-Lift on wells in at least Oklahoma, Texas, and Arkansas.”).


\textsuperscript{338} Brief for Respondent at 5-6, \textit{Nitro-Lift Techs.}, 133 S. Ct. 500 (No. 11-1377).

\textsuperscript{339} \textit{See id. at 6}.

\textsuperscript{340} \textit{See id.}

\textsuperscript{341} \textit{See id.}

\textsuperscript{342} \textit{See id.}

\textsuperscript{343} \textit{See Howard, 273 P.3d at 25} (stating that the case “was heard on November 23, 2010. An order issued that same day in which the district court found the arbitration agreement to be valid on its face and reasonable in its terms and scope. Nitro-Lift’s motion to dismiss was granted.”).

\textsuperscript{344} \textit{See id.}

\textsuperscript{345} \textit{See Brief for Respondent at 6-7, Nitro-Lift Techs.}, 133 S. Ct. 500 (No. 11-1377).

\textsuperscript{346} \textit{See generally} Howard, 273 P.3d 20 (2011).

\textsuperscript{347} \textit{Id.} at 26.

\textsuperscript{348} \textit{Id.} (citations omitted).

\textsuperscript{349} \textit{Id.}

\textsuperscript{350} \textit{See id. at 33} (holding more specifically that:

\begin{quote}
In conformance with our prior jurisprudence, we hold that the existence of an arbitration agreement in an employment contract does not prohibit judicial review of the underlying agreement. As drafted, we determine that the non-competition covenants are void and unenforceable as against Oklahoma’s public policy as expressed by the Legislature’s enactment of [the Oklahoma state statute disfavoring non-compete clauses].
\end{quote}
(3) Nitro Lift’s Best Arguments

Nitro Lift and the amici on its side made various strong arguments that federal arbitration law requires employment agreements containing an arbitration provision to be evaluated by an arbitrator. The following are three of Nitro Lift’s most persuasive points:

1. **Supreme Court precedent forecloses the argument that a court may ignore an arbitration clause and determine the validity of the underlying agreement under state public policy.**\(^{351}\) This precedent has been settled for forty-five years. The Supreme Court has made it clear that arbitrators are to review the contract as long as the arbitration clause is valid. This is also true even if a court feels that the rest of the contract is invalid. The arbitrator will make this decision and it will be subject to the normal judicial review process that stems from arbitration.

2. **The Oklahoma Supreme Court has provided a perfect example of the judicial hostility to arbitration that the FAA was designed to end.**\(^{352}\) The Supreme Court often takes cases to make it absolutely clear that there is a national policy favoring arbitration.\(^{353}\) Decisions like this from the highest court in a state make it clear that arbitration clauses will not hold weight in states that agree with Oklahoma’s approach and have or pass legislation disfavoring non-compete or other employee-preferring clauses.

3. **This is an extremely important case under the Supremacy Clause.**\(^{354}\) The Oklahoma Supreme Court did not announce any limiting principles in its decision in this case.\(^{355}\) This may indicate that the justices are willing to analyze the validity of other clauses in employment agreements -- even if they contain a valid arbitration clause.\(^{356}\) It is important for the Supreme Court to defend its preemption doctrine.\(^{357}\) Otherwise, the decision of the Oklahoma Supreme Court will provide a roadmap for parties who do not believe that arbitrators can fairly interpret the FAA and who seek to avoid the federal law completely.\(^{358}\)

(4) Howard’s Best Arguments

Howard, Schneider and the amici on their side made various strong arguments that the Oklahoma Supreme Court reached the legally correct result in evaluating the merits of the underlying agreement. The following are two of Howard and Schneider’s most persuasive points:

1. **No federal question is at issue in this case and, therefore, the Supreme Court does not have jurisdiction.**\(^{359}\) In fact, Nitro-Lift did not raise the FAA issue until after the Oklahoma Supreme Court issued its opinion. United States Supreme Court precedent states that the Court has no jurisdiction unless a federal

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\(^{351}\) See Brief for Petitioners at 9, Nitro-Lift Techs., 133 S. Ct. 500 (No. 11-1377).

\(^{352}\) See id. at 13.

\(^{353}\) See id.

\(^{354}\) See id. at 16.

\(^{355}\) See id.

\(^{356}\) See id.

\(^{357}\) See id. at 17.

\(^{358}\) See id.

\(^{359}\) See, e.g., Brief for Respondent at 5, Nitro-Lift Techs., 133 S. Ct. 500 (No. 11-1377) (stating the Nitro-Lift did not raise the federal question issue of the FAA until it petitioned for rehearing at the Oklahoma Supreme Court).
question has been raised and decided by a lower court.\textsuperscript{360} Nitro-Lift was adamant in the lower court proceedings that either Louisiana or Oklahoma law applied to the case and did not mention the FAA.\textsuperscript{361}

2. Even if the United States Supreme Court has jurisdiction the case would need to be remanded for the Oklahoma Supreme Court to review the arbitration clause for validity.\textsuperscript{362} The FAA requires that a court review, upon request of a party, an arbitration clause before ordering arbitration to take place.\textsuperscript{363} Howard and Schneider argued in the courts below that the arbitration clause was unconscionable because of the choice of forum (Houston) and the choice of law (Louisiana) provisions -- especially for employees residing around 300 miles away in Oklahoma.\textsuperscript{364} Howard also argued below that Nitro-Lift’s representatives misrepresented the terms of the non-compete clause when presented to him to sign.\textsuperscript{365} There is a strong chance that the Oklahoma Supreme Court will find the arbitration clause unconscionable on remand leading to the same result.\textsuperscript{366}

(5) The Legal Verdict

The United States Supreme Court summarily dismissed the case in a five-page unanimous opinion.\textsuperscript{367} The Court first analyzed the jurisdiction issue and found proper jurisdiction because the FAA was properly raised by Nitro-Lift when the company relied on federal court cases to prove that an arbitrator needed to evaluate the validity of the underlying agreement.\textsuperscript{368} Moving on, the justices did not take kindly to the opinion of the Oklahoma Supreme Court. The Per Curiam opinion began:

State courts rather than federal courts are most frequently called upon to apply the Federal Arbitration Act . . . including the Act’s national policy favoring arbitration. It is a matter of great importance, therefore, that state supreme courts adhere to a correct interpretation of the legislation. Here, the Oklahoma Supreme Court failed to do so. By declaring the noncompetition agreements in two employment contracts null and void, rather than leaving that determination to the arbitrator in the first instance, the state court ignored a basic tenet of the Act’s substantive arbitration law. The decision must be vacated.\textsuperscript{369}

The opinion reiterated that the Oklahoma Supreme Court did not find the arbitration clause invalid; this indicted that an arbitrator should have determined the validity of the non-compete provisions.\textsuperscript{370} The opinion continued that the FAA preempts conflicting state laws and public policy (under conflict preemption principles) and that the “Oklahoma Supreme Court must abide by the FAA, which is “the supreme Law of the Land and by the opinions of this Court interpreting that law.”\textsuperscript{371} Precedent of the United States Supreme Court “forecloses precisely this type of ‘judicial hostility towards arbitration.’”\textsuperscript{372}

In the end, the tricky business tactic where, (1) a company places a broad arbitration clause in an employment contract that also contains a strict non-compete clause and (2) a company adds choice of forum and choice of law

\textsuperscript{360} Id. (citing Safeway Stores, Inc., v. Oklahoma Retail Grocers Assn., 360 U.S. 334, 342 at n. 7 (1959)).
\textsuperscript{361} Id. at 7.
\textsuperscript{362} Id. at 12.
\textsuperscript{364} See e.g., Brief for Respondent at 2 & 13, Nitro-Lift Techs., 133 S. Ct. 500 (No. 11-1377).
\textsuperscript{365} See id. at 13-14.
\textsuperscript{366} See id. at 14.
\textsuperscript{367} See generally Nitro-Lifts Techs. V. Howard, 133 S. Ct. 500 (2012).
\textsuperscript{368} See id. at 502-03.
\textsuperscript{369} Id. at 501 (citations omitted).
\textsuperscript{370} See id. at 503.
\textsuperscript{371} Id. at 504 (quoting a recent United States Supreme Court case and stating: “[W]hen state law prohibits outright the arbitration of a particular type of claim, the analysis is straightforward: The conflicting rule is displaced by the FAA.”) (citations omitted).
\textsuperscript{372} Id.
provisions to jurisdictions far away from where the employees reside and where strict non-compete clauses are not disfavored, worked. In fact, the trick generated a strong, unanimous Supreme Court precedent in its favor. Perhaps unsurprisingly considering the first two cases, the ethical analysis to follow renders a slightly different verdict than the legal arena.

IV. THE ETHICAL IMPLICATIONS OF TRICKY BUSINESS PRACTICES

It seems clear that businesses without values are businesses at risk. Their reputations suffer in the marketplace, depressing stock prices and eroding consumer confidence; recruitment of talented personnel is more difficult. Many companies now perform due diligence on companies they are considering as partners or suppliers, and are passing on those that don’t meet their ethical standards. Employee morale is also higher in a company that has well-developed values and lives by them. A commitment to shared values, rather than a culture that is based on distrust of employees, encourages employees to aspire to success.\(^{373}\)

With a grasp on these frameworks, it is time to put them to work. This part evaluates whether the three different tricky business practices discussed in the article are actually ethically suspect (the working hypothesis). This matters because values and ethics should matter in business as much as it matters in other areas of life. Today, this business ethics movement is “firmly entrenched” in the United States and gaining traction internationally.\(^{374}\) Corporations have created Chief Ethics/Compliance Officers,\(^{375}\) pondered corporate social responsibility\(^{376}\) and sought a Tripe Bottom Line\(^{377}\) (including financial, social and environmental metrics) instead of profit alone.\(^{378}\) Congress has responded to a recent rash of business ethics scandals with major legislation such as the Sarbanes-Oxley Act of 2002 (passed in the wake of the Enron, WorldCom and other prominent accounting fraud scandals)\(^{379}\) and the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010\(^{380}\) (passed in the wake of the recent housing/mortgage financial crisis).\(^{381}\) With this evolving ethical landscape in mind, managers should be acutely aware of the moral as well as the legal aspects of their decisions.


\(^{375}\) See generally, Erica Salmon-Byrne, Jodie Frederickson, The Business Case for Creating a Standalone Chief Compliance Officer Position, ETHISPHERE.COM (May 25, 2010), http://tinyurl.com/ly24yu5 (“Over the past several years, an emerging practice among corporations has been to appoint a chief compliance officer, designating that person with high-level authority for the company’s ethics and compliance program.”).

\(^{376}\) See generally, Corporate Social Responsibility Definition, INVESTOPEDIA.COM, http://tinyurl.com/kwyjd74 (last visited June 12, 2013) (defining corporate social responsibility as:

Corporate initiative[s] to assess and take responsibility for the company’s effects on the environment and impact on social welfare. The term generally applies to company efforts that go beyond what may be required by regulators or environmental protection groups. Corporate social responsibility may also be referred to as "corporate citizenship" and can involve incurring short-term costs that do not provide an immediate financial benefit to the company, but instead promote positive social and environmental change).

\(^{377}\) See generally, Triple Bottom Line: It Consists of Three Ps: Profit, People and Planet, THE ECONOMIST (Nov. 17, 2009), http://tinyurl.com/3h7jbxm.

\(^{378}\) See De George, supra note 374.


\(^{381}\) Not all commentators believe that these laws are theoretically or legally sound. See, e.g., STEPHEN M. BAINBRIDGE, CORPORATE GOVERNANCE AFTER THE FINANCIAL CRISIS 1-15 (2012) ("Are Dodd-Frank’s governance provisions quackery, as were Sarbanes-Oxley’s?”). Without exception, the proposals lack strong empirical or theoretical justification. To the
This article singled out three tricky business decisions for deeper legal and ethical evaluation. Part III focused on the law and detailed why the United States Supreme Court and the vast majority of the lower courts upheld the tricky tactics. A few of the opinions noted in passing that the practices might be ethically suspect. However, such dicta did not alter the final legal holdings or their precedential value. In a country where business ethics matters, however, the ethical implications of these decisions must also be scrutinized. 382 This Part puts the three ethical frameworks discussed in Part II to work. Each of the tricky business cases will be evaluated under Utilitarianism, Deontology and Virtue Ethics and a final “ethical verdict” will be rendered under each theory. This scrutiny is not meant to chide judges into using ethical frameworks to decide cases. Instead, it is designed to alert business managers to the idea that ethical analyses are not difficult to conduct and that ethical decisions are in their long-term best interests.

No assumptions are made that readers will agree with the verdicts offered below. Predicting consequences, determining duties and deliberating how decision-makers of high moral character would act are each somewhat subjective evaluations. Such subjectivity lurks behind all ethical decision making. 383 It is acceptable, therefore, if the reader employs the theories properly yet differs with the article’s ethical verdicts. At least the conversation is afoot.

A. Already v. Nike: The Ethical Verdict

The Supreme Court opinion in Already did elicit a concurrence predicting the ethical dilemma evaluated in this section. Justice Kennedy, joined by Justices Thomas, Alito and Sotomayor, seemed a bit weary (not weary enough to dissent, however) of the events in question and discussed the fairness of allowing a company to bail out of expensive litigation whenever it so desires by issuing a covenant:

In later cases careful consideration must be given to the consequences of using a covenant not to sue as the basis for a motion to dismiss as moot. If the holder of an alleged trademark can commence suit against a competitor; in midcourse file a covenant not to sue; and then require the competitor and its business network to engage in costly, satellite proceedings to demonstrate that future production or sales might still be compromised, it would seem that the trademark holder’s burden to show the case is moot may fall well short of being formidable. The very suit the trademark holder initiated and later seeks to declare moot may still cause disruption and costs to the competition. The formidable burden to show the case is moot ought to require the trademark holder, at the outset, 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. It would be most unfair to allow the party who commences the suit to use its delivery of a covenant not to sue as an opportunity to force a competitor to expose its future business plans
or to otherwise disadvantage the competitor and its business network, all in aid of deeming moot a suit the trademark holder itself chose to initiate.\textsuperscript{384}

This concurrence foreshadows the analysis of this case under the three frameworks. A very interesting preliminary question is whether (or how seriously) these four justices pondered dissenting. They could have found that Nike’s covenant did not moot the case on any number of valid legal grounds. The prospective dissenters could have held that it was not “absolutely clear the allegedly wrongful behavior could not reasonably be expected to recur” as required by the voluntary cessation test.\textsuperscript{385} They did not need to hold Already to fire of having to produce (in court) lines that might infringe Nike’s mark yet not fall under the covenant. They could have agreed with the United States Solicitor General and voted to remand the case to allow the parties to “develop the record on both the scope of the covenant and [Already’s] business activities, and the courts below [to] apply the proper standard to the record.”\textsuperscript{386} This concurrence may still be important, however, as a shot across the bow to future imitators of Nike’s covenant. But, is a non-precedent-setting concurrence strong enough to alter management behavior enough to motivate different tactics to end ill-considered litigation? Utilitarianism, Deontology and Virtue Ethics should help ethically conscious managers answer that question.

(1) Utilitarian Analysis

Justice Kennedy’s concurrence begins with a Utilitarian statement: “In later cases careful consideration must be given to the consequences of using a covenant not to sue as the basis for a motion to dismiss as moot.”\textsuperscript{387} As detailed in Part II, a Utilitarian analysis begins with identifying the various courses of action that a corporate decision-maker (Nike in this case) could take when faced with an ethical dilemma. In this case Nike had many options when faced with litigation the company wanted to go away. The most prominent among these options included: (1) settle with Already. This option could include settling the entire case (the trademark infringement claim and trademark cancellation counterclaim), dropping the trademark infringement claims against Already and contesting the trademark cancellation counterclaim (perhaps via a bilateral covenant not to sue agreed to by Already); (2) proceed with discovery and contest the entire case; or (3) issue a unilateral covenant, dismiss its trademark infringement claims and try to convince the court to moot the case.

After making this list of potential options, the decision-maker must then consider all the foreseeable benefits and costs that might result from choosing each course identified in step one. This requires some thought about the stakeholders involved in the each decision and the odds of each outcome actually occurring. Nike’s stakeholders include employees and their families, customers, management, owners, suppliers, retailers and community members living near their production and sales outlets and company headquarters. Such stakeholders are numerous because of Nike’s sheer corporate size.\textsuperscript{388} Under Utilitarianism, Nike must also analyze benefits and costs to Already’s stakeholder base. Already is a smaller company with a smaller, yet not any less important group of stakeholders. Analyzing the three options yields the following results:

1. Nike could choose to settle the case in one form or another:

   
   Potential Benefits: a settlement could produce many benefits for the Nike (a term that encompasses Nike’s stakeholders throughout this analysis; Already and its stakeholders will be discussed shortly). The company could save time and money by not prosecuting a legal case against a company whose shoe line is not carried

\textsuperscript{384} See Already v. Nike, 184 L. Ed. 3d 553, 568 (2013). (Kennedy, J. concurring) (emphasis added).
\textsuperscript{385} Friends of the Earth v. Laidlaw Environmental Services, 528 U.S. 167, 190 (2000).
\textsuperscript{386} Already, 184 L. Ed. 2d at 566.
\textsuperscript{387} Id. (emphasis added).
\textsuperscript{388} See, e.g., Locations, NIKE, http://tinyurl.com/86be5v7 (last visited June 3, 2013) (“While the Pacific Northwest is the birthplace of Nike, today the company operates in more than 160 countries and six continents around the globe. Bringing together 40,000+ employees worldwide”) and Nike Company Statistics, STATISTIC BRAIN, http://tinyurl.com/kwvc39p (last visited June 3, 2013) (stating that Nike sells over 120 million pairs of athletic shoes per year to customers (i.e., stakeholders)).
by major retailers and is no longer a direct threat to the Air Force Is. If Nike and Already also come to terms on the cancellation counterclaim these benefits would increase. Nike would not have to worry about potentially losing a valuable piece of intellectual property (which is subject to a compelling validity dispute). With the case settled, Nike management could to turn its attention back to running the company, selling more Air Force Is and innovating new products. Nike must also consider Already and its stakeholders as equal to its own stakeholders. Already would be better off with a consensual settlement as well. A loss in a trademark infringement case over a questionable mark could be financially devastating to the smaller company and put Already out of the shoe business completely. Recall that Utilitarianism also requires consideration of the odds that these benefits will actually occur. The benefits mentioned in this paragraph are the usual benefits that follow settlement of litigation—increasing the odds these benefits will actually occur if this case settles.

**Potential Costs:** a settlement could also produce some long-term disadvantages for Nike. A settlement could cause competitors to perceive that Nike is not serious about defending its trademarks against infringement or dilution from competitors (especially if Nike settles with the top infringer on its list). Competitors may feel more secure in marketing brands that resemble Nike brands and in the belief that Nike will leave them alone. These knock offs would cost Nike business and money which would impact many of the company’s stakeholders and Nike would need to sue more infringers to defend its brand. Competitors might also sense that Nike feels its trademark is weak and that Nike will not subject itself to another counterclaim for cancellation. Finally, if Nike is not seen as adequate defending its trademark it could lose protection. This would harm profits, which in turn, could impact employees and their families and communities where jobs are lost and production slows. These costs sound downright awful. However, an accurate Utilitarian analysis requires an evaluation of the odds that such costs will actually occur. In this case, the odds these costs occur seem low for a few reasons: (1) competitors are likely to see Nike’s settlement as an attempt to get out of messy litigation against what had become an unworthy competitor; (2) Nike’s Air Force I mark is likely to remain valid under a settlement; (3) Nike is still Nike and has the resources to vigorously enforce its mark against future infringers. Finally, Already’s stakeholders would face costs under a settlement because Nike’s questionable mark might hang over Already’s head in future litigation. This fear would likely be ameliorated under Already’s settlement terms if the company had an adept negotiator.

*Overall, the benefits outweigh the costs to Nike and Already if the parties settle the case instead of contesting to an uncertain completion. This is especially true considering the odds that the benefits occur versus the odds that the costs occur.*

2. **Nike could proceed with discovery and contest the entire case:**

**Potential Benefits:** Nike could win its infringement case and defeat Already’s counterclaim. This would remove Already from the list of Top Ten infringers to Nike’s brands. This victory is pyrrhic in this case because major retailers no longer carry Already’s shoes and the company is not a direct threat. The largest benefit from this decision would be that Nike would have its mark validated by a court. This does not mean that others could not challenge it in front of the United States Trademark Trial and Appeal Board (part of the PTO) but these

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389 See, e.g., *To Settle or Not to Settle? That is the Question*, LAWYERS.COM, http://tinyurl.com/k6x97co (last visited June 3, 2013) (discussing the general benefits of settling litigation).

390 See, e.g., Abraham v. Alpha Chi Omega, 708 F.3d 614 (5th Cir. 2013) (upholding on appeal a district court judgment that a trademark holder loses some rights when it fails to adequately defend its mark). See also Oliver Hertzfeld, *Failure to Enforce Trademarks: If you Snooze, Do you Lose?*, FORBES, http://tinyurl.com/dyxanga (discussing the Abraham case and stating that trademark owners “should diligently protect their trademarks from infringement and other misuse (e.g., blurring, tarnishment, unfair competition, passing off, false advertising and cybersquatting) that may harm the owner’s goodwill and business reputation.”).
cases would face an uphill battle.\textsuperscript{391} Already’s stakeholders would not benefit if Nike won the case but, of course, Already would benefit tremendously if it were to prevail on one or both issues.

\textit{Potential Costs}: Nike could just as easily lose its infringement case and/or lose Already’s counterclaim. This would mean that the company would waste valuable resources (time, attention, effort and money) in litigation it initiated and lose a very valuable trademark. Air Force Is would still constitute a well-known brand on the market but competition (from large competitors such as Adidas or Reebok) could soon flood the market. The odds of the court issuing cancellation are not negligible considering that the case made it to the discovery stage.\textsuperscript{392} The major costs to Already would be a loss in court and the spending of valuable resources on prolonged litigation. The litigation expenses on both sides indicate that the parties might strongly consider settlement. In the end, Nike has far more at stake from a loss and far more to gain from a settlement. This analysis might be different if Nike registered a stronger mark or a patent on the shoe design.

\textit{Because the odds indicate that Nike is vulnerable to losing at least one of the issues at trial, a Utilitarian analysis indicates that further litigation is not the option that produces the greatest good for the greatest number. This is especially true when compared to the option of settling this case. This does not mean that Nike should settle every case. This analysis is most applicable to cases the company initiates where significant issues, unfavorable to Nike, appear post-commencement.}

3. \textbf{Nike could issue a unilateral covenant to moot the case:}

\textit{Potential Benefits}: There are potential benefits that stem from a unilateral covenant. The judge may accept it and dismiss the case as moot. This option is much less resource intensive because Nike does not have to gain consensus on the covenant’s terms from Already. Nike just needs to make the covenant legally acceptable to the trial judge and on appeal. Nike also benefits because the voluntary cessation doctrine is on the books as precedent and Nike could exploit the doctrine for its own gain. Although the unilateral nature of the covenant is not in the best interests of Already, the company would benefit from the fact that Nike would leave its allegedly infringing brands alone. Freedom from infringement lawsuits is a big benefit for corporations.

\textit{Potential Costs}: There are also costs to Nike that come from issuing a unilateral covenant. First, the judge may not accept it and the case will proceed. It may be overturned on appeal and Nike is back in the messy litigation. The unilateral nature of the covenant and the fact that it was forced on Already could alter Already’s desire to enter settlement talks after being sandbagged. Therefore, the chances of the case heading to trial are good if Nike’s covenant does not work and Already refuses to settle. The previous option evaluated the large ramifications of Nike losing at trial. Already, and companies of similar size, would be harmed whenever a larger, wealthier opposing party is able to unilaterally end a counterclaim that might have prevailed at trial. These costs loom large for both parties.

\textit{The potential costs of Nike issuing a unilateral covenant outweigh the benefits if the court does not accept the covenant or it is overturned on appeal and Nike is forced to litigate a questionable mark. Of course, in hindsight, the Supreme Court upheld the covenant. Keep in mind, however, that this result was far from certain at the time the decision to issue the covenant needed to be made.}

\textsuperscript{391} See 15 U.S.C. § 1064 (2010) (showing that there are limited ways to cancel a mark after it has been registered for five years).

\textsuperscript{392} The district court judge also made no indicated that the cancellation counterclaim would have been dismissed absent the unilateral covenant. See Nike, Inc. v. Already, LLC, 2011 U.S. Dist. LEXIS 9626, at *18-21 (S.D.N.Y. 2011). This does not mean that the counterclaim would not have been dismissed down the road on summary judgment or lose at a bench trial or in front of a jury. It might indicate, at least to Nike’s lawyers, that the judge found the claim to have some merit. This represents the quintessential problem with Utilitarianism -- reasoning from the great unknown.
Finally, Nike must choose the course of action that provides the greatest benefits to the greatest number of people after all the benefits and costs have been considered. The analysis above seems to indicate that a settlement of the case would provide the greatest good to the greatest number of Nike and Already stakeholders. Therefore, Nike’s issuance of the unilateral covenant was not the most ethical decision the company could have made.

(2) Deontological Analysis

Nike’s unilateral covenant can also be subjected to Kant’s Categorical Imperative. The first step is to restate the ethical dilemma into a maxim that encapsulates Nike’s desires. One such maxim would read: “Is it ethical for a company to issue a unilateral covenant designed to end litigation it initiated when it no longer feels threatened by the opponent and when it worries that it might lose something valuable if the litigation continues?” This maxim can then be depersonalized and translated into a more real-world dilemma: If I made a decision that time and circumstances prove unwise, I will unilaterally seek and exploit legal loopholes to escape its consequences?393

The second step in the CI is to determine whether everyone would be able take this same exemption without causing an irrational outcome. In other words, would the world still make sense if everyone acted this way? If everyone sought out perfectly legal loopholes to escape the consequences of bad decisions, many would succeed in discovering and exploiting them. The public policy underlying the rules being sidestepped would be diserved. The world, however, would still function somewhat rationally. In fact, there are currently many loopholes that people exploit. Think of the United States Tax Code. It has become somewhat of a game to locate and exploit tax breaks -- some of which are loopholes in the tax code. This process -- though resource intensive and often reserved to the wealthiest persons and corporations - has not broken down the societal structure to the point that there are no legal loopholes left to break rendering the maxim irrational. Rule makers (Congress, state legislatures, city councils, corporate management committees) often discover, remove or restrict the loopholes they identify as people seek to exploit them.

Since it is possible to imagine a world where people seek loopholes to escape the consequences of poor decisions, there is not a perfect duty to avoid this maxim. With no perfect duty involved, the analysis turns to the CI’s imperfect duty question: “Would you want to live in such a world?” The Nike case falls more easily into this category. Some decision makers may not want to live in a world where the powerful spend resources to exploit loopholes the ordinary person or business could rarely find or execute. These decision makers have an imperfect duty to determine when, where and how the company will exploit loopholes. It may not be possible to avoid exploiting every loophole in the business world but great care must be used when choosing to make such a decision. Others may hold the position that it is for the powers-that-be to eliminate loopholes and, until they do, it is perfectly ethical to seek and exploit them. These people would have no problem living in such a world and have no duty to avoid seeking loopholes to escape the consequences of a poor decision.

Therefore, Nike is not ethically prohibited from ever seeking and exploiting loopholes to remedy poor decisions under Deontology. That does not make Nike’s covenant ethical, however. The company will have to answer two questions: (1) whether management, acting rationally, would want to live in a world where everyone could escape poor decisions unilaterally by exploiting loopholes (considering Nike might find itself on the other end of a loophole one day) and (2) then, if the answer is no, determine when, where and how the company will choose to exploit such a loophole when it arises.394 Unless Nike delivered the covenant believing it did not violate an imperfect duty or the company did not have a duty in this instance, the covenant would be unethical under Deontology.

393 The maxim could also read: Do people have a duty to avoid seeking loopholes to escape the consequences of a poor decision?
394 It is interesting to use the example of Nike finding itself on the other end of a unilateral covenant because this involves a bit of Consequentialist thinking. This is also true when a person ponders whether living in such a world would be acceptable. By the way, the reactions elicited the first time this conversation comes up in the boardroom might prove a worthy segment for reality television.
(3) VIRTUE ETHICS ANALYSIS

The most apt virtues to analyze unilateral covenants not to sue are accountability, courage and fairness. This does not signify that other virtues are irrelevant to the Virtue Ethics conversation surrounding this issue. A thorough Virtue Ethics analysis would evaluate as many relevant virtues as possible to determine how a high-character decision maker would act.395 That process is time and space consuming. Therefore, this Part limits the discussion to three most apt virtues in this case.

a. ACCOUNTABILITY

Accountability is being “responsible to someone or for some action.”396 Accountability revolves around the idea that parties should use their power responsibly and then own the resulting consequences of their actions whether positive or negative.397 One way to identify a deficiency of accountability is through the concept of irresponsibility. Irresponsible decisions both before and during the crisis are considered “at risk.” Total litigation costs can hit $2.5 million. For a claim over $25 million, median legal costs are $650,000. When $1 million to $25 million is considered ‘at risk,’ total litigation costs can hit $2.5 million. For a claim over $25 million, median legal costs are $5 million.398

Nike’s decision falls more on the irresponsible side of the spectrum. Parties to a lawsuit must use their power responsibly. Merely because a party has the legal authority to take an action in litigation does not make such an action ethical. Lawsuits are expensive as well as resource intensive. A typical patent infringement lawsuit can cost millions of dollars to defend.400 Nike possesses accountability for initiating a lawsuit it now wishes to dismiss in an unconventional and unilateral manner. This does not mean that Nike has a moral obligation to settle or follow through with every case it files until a judgment is entered. Instead, Virtue Ethics evaluates how an accountable corporation would use its superior litigation power under these circumstances. First, an accountable corporation should determine the parties to which it is responsible. In the midst of litigation, it appears that Nike is accountable to two parties primarily: (1) the court and (2) Already.401 Nike is clearly accountable to the court -- the most powerful player in any legal case. Nike also bears some responsibility to a much smaller opponent it dragged into court in a case it helped move forward to discovery. This is especially true since Nike now wishes to dismiss the case in an unconventional and unilateral manner. Second, Nike must consider whether a unilateral covenant represents a responsible use of its power in terms of its accountability to Already.

395 Basically, the more virtues one practices the better chance that person acts morally. See, e.g., Manuel Velasquez, Claire Andre, Thomas Shanks, S.J., and Michael J. Meyer, Ethics and Virtue, SANTA CLARA UNIVERSITY MARKKULA CENTER FOR APPLIED ETHICS, http://tinyurl.com/lhcfgz (last visited June 13, 2013) (“Moreover, a person who has developed virtues will be naturally disposed to act in ways that are consistent with moral principles. The virtuous person is the ethical person.”).


398 See, e.g., Who is to Blame for the Subprime Crisis, INVESTOPEDIA.COM, http://tinyurl.com/dkqz8y (last visited June 13, 2013) (providing a good summary of the subprime crisis and pointing the finger and lenders and investment banks for making irresponsible decisions both before and during the crisis) and Mallen Baker, Four Factors that Create Irresponsible Businesses, MALLENBAKER.NET, (Jan. 25, 2010), http://tinyurl.com/2ezuf7a (discussing the idea that irresponsible business decisions can hurt enterprises even when not undertaken with evil intent).

399 These words are not the only words that define the deficiency and excess of accountability. Any synonym for the idea will work.

400 See Jim Kerstetter, How Much is that Patent Lawsuit Going to Cost You?, CNET.COM (Apr. 5, 2012), http://tinyurl.com/7wt5zk8 (“For a [patent infringement] claim that could be worth less than a $1 million, median legal costs are $650,000. When $1 million to $25 million is considered ‘at risk,’ total litigation costs can hit $2.5 million. For a claim over $25 million, median legal costs are $5 million.”).

401 Companies are always ethically accountable to other stakeholders (even in litigation) but the court and the opponent are the primary two accountability partners in a lawsuit.
The American Bar Association Model Rules of Professional Conduct provide guidance in analyzing this decision (at least for Nike’s lawyers). More specifically, the rules set forth six obligations which hold attorneys accountable to the opposing party and its counsel for litigation decisions. One obligation states that a lawyer shall not “unlawfully obstruct another party’s access to evidence or unlawfully alter, destroy or conceal a document or other material having potential evidentiary value. [And a] lawyer shall not counsel or assist another person to do any such act.” It is unlikely that Nike’s covenant would be considered a document with potential evidentiary value in the case. The covenant is not the kind of evidence the rule envisions (such as the discovery of exculpatory evidence favorable to the other side). Nike’s lawyers did not violate this rule of professional conduct. However, the spirit of this rule seems to indicate that transparency in disclosing important legal documents to an opponent is crucial -- especially when it comes to documents that have the potential to moot a case. A unilateral covenant not to sue seems to fit within this unwritten spirit of transparency. Accountability under these circumstances indicates that Nike and its lawyers negotiate with, or at the very least make Already aware of, the covenant not to sue before submission to the court. The problem is not necessarily with the covenant but with its unilateral nature -- it was a sneak attack. Nike put itself in a position whereby it became accountable to Already by filing and proceeding with a very serious and expensive lawsuit. This made the submission of the covenant only to the court a somewhat irresponsible use of Nike’s litigation power. Under these facts, Nike did not act as a fully accountable company would have acted in this situation.

**Figure 2 – Virtue Ethics Spectrum: Accountability**

![Golden Mean](image)

**Deficiency = Irresponsible**

**Accountability**

**Excess = Micro-Managed**

**b. Courage**

Courage is “the quality of mind or spirit that enables a person to face difficulty, danger, [or] pain, without fear.” A deficiency of courage is cowardice -- a trait that is generally easy to spot. For example, it is easy to imagine a situation where someone sees something highly unethical or illegal and takes no action. This happens all the time in crowds

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403 Id.

404 Id. at Rule 3.4(a) (emphasis added).

405 An interesting hypothetical example would be for Nike to issue the unilateral covenant soon after filing its complaint. This would be well before it did so at the discovery stage of this case. Perhaps Nike’s accountability to Already would decrease in this scenario because Already would not have invested so much in defending itself.


407 See, e.g., Christine Pelosi, *Penn State Knew and Looked the Other Way*, HUFFINGTON POST (July 13, 2012), http://tinyurl.com/lq6rmsu (stating that once: Joe Paterno learned that his former assistant coach Jerry Sandusky was showering with a young boy in the Penn State football locker room, he had two choices: think of the child as his own and call police. Or not. He chose the latter. . . . As we learned . . . “the most powerful leaders at the University . . . repeatedly concealed critical facts relating to Sandusky’s child abuse from the authorities, the University’s Board of Trustees, the Penn State community, and the public at large,” . . . They knew about Jerry Sandusky and looked the other way, leaving a monster free to prey, making the Penn State locker room an Abu Ghraib for young boys.).
and is styled the Bystander Effect.\textsuperscript{408} Cowardly decisions became all too clear in the Penn State football scandal when some of the most respected and authoritative voices on campus allegedly looked the other way when confronted with the awful truth of sexual abuse.\textsuperscript{409} On the other side, an excess of courage is foolhardiness. Examples of foolhardy decisions occur when someone hikes the Rocky Mountains in December in shorts or when a business rushes an unrefined product to market (recall Apple Maps).\textsuperscript{410}

Nike’s decision to issue the covenant fits more on the foolhardy side of the Courage spectrum. Already’s Merits Brief to the Supreme Court discussed the rash nature of Nike’s submission: “On March 19, 2010, respondent abruptly delivered a document styled ‘Covenant Not to Sue.’ As the district court noted, respondent’s unilateral covenant was delivered ‘[i]n the middle of discovery.’”\textsuperscript{411} This submission could have proven disastrous for Nike. There was a decent chance that the district court judge would rule against Nike either by: (1) failing to accept the covenant or (2) finding that this particular covenant failed to moot the case due to the formidable burden on the party seeking to voluntarily cease litigation.

In hindsight, the court did accept the covenant and dismissed the case. However, the issue was so close that it made its way to the United States Supreme Court. If the covenant had not worked as planned, Nike faced litigating Already’s counterclaim and the possibility that it might lose its valuable mark. This result was a serious risk for Nike because the company admitted that a genuine controversy existed as to the validity of the Air Force I mark.\textsuperscript{412} In addition, there was always a chance that the covenant would be struck down on appeal and/or that Already would be frustrated enough to forego any future settlement negotiations after having the unilateral covenant thrust upon it unexpectedly. A prolonged and costly trial, along with all of its potential consequences, could easily have resulted because of Nike’s somewhat foolhardy decision to issue the covenant.

This is not to say that a courageous company would never take risks in litigation (such as strongly defending its intellectual property, calling a controversial witness or advocating for precedent to be overruled). However, the odd posture of this case (the fact that Nike was mired in potentially unfavorable litigation it initiated against a company that was no longer a serious competitor) took the case out of the traditional situations where courageous litigation decisions are often made. A courageous company would have shown less courage in this instance and found a better way to protect its interests such as settlement. Nike’s decision to issue the unilateral covenant strayed from the Golden Mean of courage closer to its excess of foolhardiness.

\textbf{Figure 3 – Virtue Ethics Spectrum: Courage}

\begin{figure}
\centering
\includegraphics[width=\textwidth]{golden-mean-courage}
\end{figure}

\textsuperscript{408} See, e.g., Bystander Effect: What is the Bystander Effect?, PSYCHOLOGY TODAY, http://tinyurl.com/jyrbgny (last visited June 13, 2013) (“The bystander effect occurs when the presence of others hinders an individual from intervening in an emergency situation.”).

\textsuperscript{409} Id.

\textsuperscript{410} See, e.g., Tim Cook, To Our Customers Letter, APPLE.COM, http://tinyurl.com/9salscp (last visited June 3, 2013) (discussing the Apple Maps app that was rushed to market with major flaws and stating, “[a]t Apple, we strive to make world-class products that deliver the best experience possible to our customers. With the launch of our new Maps last week, we fell short on this commitment. We are extremely sorry for the frustration this has caused our customers and we are doing everything we can to make Maps better.”).

\textsuperscript{411} Brief for Respondent at 12, Already, 133 S. Ct. 731 (No. 11-982).

\textsuperscript{412} See id.
c. FAIRNESS

Fairness is the “state, condition, or quality of being free from bias or injustice.” ⁴¹³ This virtue is critically important when it comes to decision-making in the legal realm. Former Supreme Court Justice Potter Stewart went as far as to say, “Fairness is what justice really is.” ⁴¹⁴ A deficiency of fairness is known as injustice. Injustice occurs when people suffer a loss or hardship they do not deserve. ⁴¹⁵ Injustice is anathema in the American legal system. An excess of fairness, on the other hand, can be called cold impartiality. A decision maker operating at this extreme looks only to objective, verifiable facts and leaves important subjective and self-interest based considerations unanalyzed. Cold impartiality could lead, for example, to someone flipping a coin to choose a career or a spouse or to a world where machines replace trial judges and render coldly impartial sentences. Of course, decision makers should always be aware of and able to mitigate favoritism and bias. All the while, subjective considerations and self-interest are important factors in every decision. Fairness walks the middle ground.

It is important to note that fairness does not require equality. ⁴¹⁶ A decision may be found fair even where similarly situated people are treated differently. Parents must make this distinction constantly as children treated unequally often complain that a decision “just isn’t fair!” Instead, fairness requires that rules be applied without the favoritism and bias that often come when decisions are made entirely from self-interest. ⁴¹⁷ Bias and favoritism in decision-making can be fair, however, if justified in a rational manner that avoids injustice. For example, it is fair for a university to favor students with standardized test scores in the top one percent (a legitimate justification) over other applicants. It may be unfair for the same university to favor only students who can afford to pay full tuition.

Virtue Ethicists might ask two questions when pondering whether Nike acted fairly in issuing the covenant. First, how much self-interest did Nike exhibit under the circumstances? Second, if self-interest played a role, was injustice created under circumstances where Nike: (1) initiated a lawsuit; (2) desired to dismiss the lawsuit later on when the company discovered its opponent was no longer a competitive threat; (3) was unable to use the typical tactic of dismissing its claims; and (4) thereby avoid a worrisome counterclaim. The purpose of these questions is to determine whether the covenant moved Nike away from the Golden Mean of fairness towards injustice and, if so, how far. ⁴¹⁸ Justice Kennedy foreshadowed this potentially unjust outcome in his concurrence when he wrote: “It would be most unfair to allow the party who commences the suit to use its delivery of a covenant not to sue as an opportunity to force a competitor to expose its future business plans or to otherwise disadvantage the competitor and its business network, all in aid of deeming moot a suit the trademark holder itself chose to initiate.” ⁴¹⁹ This section evaluates the two key questions and ponders the accuracy of Justice Kennedy’s prediction.

Question #1 – How much self-interest did Nike exhibit in issuing the covenant?

Businesses that fail to look out for their self-interest in a competitive world suffer. ⁴²⁰ In fact, self-interest is an extremely beneficial economic trait. As Adam Smith declared centuries ago, it is most often self-interest that motivates competition and economic activity. ⁴²¹ Despite its negative connotation, there is nothing inherently unethical or greedy

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⁴¹⁶ See, e.g., A Fair Society Does Not Mean an Equal One, THE TELEGRAPH (Oct. 11, 2010), http://tinyurl.com/m5mctu8 (discussing the issue in the context of public policy).
⁴¹⁸ The cold impartiality excess is not at issue in this case.
⁴¹⁹ Already, 184 L. Ed. 2d 553, 568 (Kennedy, J. concurring) (emphasis added).
about self-interest. Someone desiring to be remembered posthumously, for example, could donate a life savings to a charity fighting malnutrition in Africa. Deontologists might find such action unethical because the motive was not one of duty. Utilitarians, Virtue Ethicists and most others, on the other hand, would certainly find such a self-interested gift ethical and generous. To be sure, a self-interested decision can be fair as long as its justifications are rational and others are not deprived of what they deserve. When evaluating the virtue of fairness, therefore, a decision maker must be able to analyze the issue impartially and then rationally consider the justifications for acting out of self-interest. This helps to ferret out unjustifiable favoritism and bias. The answer to this first question is obvious in this case -- Nike acted solely in its self-interest by issuing the covenant. The unilateral nature of the covenant, its abrupt filing, the trial court’s confusion on how to rule and Already’s angry response indicate that the tactic was not designed to satisfy anyone’s needs other than Nike’s. But was the decision to issue the covenant justified or was it unfair? In other words, was Already deprived of what it justifiably deserved? This is the subject of the second question.

**Question #2 – Does the unilateral covenant create injustice?**

Legal tactics create injustice when they allow for abuse of the system. This causes parties to suffer harm they do not deserve. Such abuse can be explicit such as destroying exculpatory evidence or coercing confessions. These are the easy scenarios to classify as unethical (and unlawful). This abuse can also be implicit, however, where parties exploit loopholes the system did not anticipate to violate the fairness it was designed to promote. These are the tougher ethical cases. The American legal system was structured in part to “form a more perfect union, establish justice . . . promote the general welfare, and secure the blessings of liberty.” These goals are not served when a bigger, more powerful party is allowed to sue a smaller competitor and then, in the middle of the expensive, time consuming litigation it initiated, bail out and unilaterally end the case.

The American legal system has predefined boundaries within which for a plaintiff may dismiss a complaint unilaterally. This must be done prior to the defendant serving an answer to the complaint or a motion for summary judgment; otherwise, all parties must agree. The Federal Rules of Civil Procedure further state that if “a defendant has pleaded a counterclaim before being served with the plaintiff’s motion to dismiss, the action may be dismissed over the defendant’s objection only if the counterclaim can remain pending for independent adjudication.” The basic idea is that the party desiring to dismiss the case remains accountable to answer for any counterclaims brought about by the lawsuit it initiated. This structure promotes efficiency as well as fairness in the system. Nike’s covenant operated outside of this normal manner of mooting a case. Thanks to Nike, further distortion of the system is likely as parties opposing covenants may now have to produce private business records even though the burden rests with the covenant issuer to show that the offending activity is not likely to recur.

Nike attempted to justify its self-interested covenant in the fact that Already now has blanket protection from future lawsuits. This is not an insignificant concession. Already rebutted that its future product lines might well infringe Nike’s mark and the parties would end up back in court. Either way, this serious distortion to the core principles of the legal system indicates that Nike’s reasoning was insufficient to justify the covenant. In the end, Nike did not explicitly abuse the system. A better explanation is that the system did not anticipate the unilateral covenant tactic under these circumstances. Nike exploited a loophole in the system. This forced the courts to undertake the awkward task of adapting the voluntary cessation doctrine to relatively unchartered territory. That process led to the unfairness

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422 Id. (“Is being self-interested greedy? Is it immoral? While the term self-interest has negative connotations, it does not necessarily imply greedy or immoral behavior. Self-interest just means that you seek your goals. In fact, your self-interest might lead you to study hard for your math test, give money to your favorite charity or volunteer at a local school.”).


425 Id. at 41(a)(1)(A)(i) & (ii).

426 Id. at 41(a)(2).
that Justice Kennedy predicted. Already deserved a hearing on its counterclaim, which was denied outside of the boundaries the system has in place.

If Nike desired to act more fairly, the company needed to be more aware of the fact that its justifications for issuing the covenant were inadequate considering the serious distortion to the system they might cause. This is especially true in a common law system where precedent is powerful. Litigants should take care to make sure that their self-interest in a particular case does not injure the broader goal of the legal system to “establish justice” and “promote the general welfare.” Nike’s self-interested covenant (and the court’s acceptance of it) is likely to create future unfair situations as predicted by Justice Kennedy. Weaker and smaller opposing parties are now more likely to be mired in lawsuits initiated by stronger parties who abide in the fact that they can later render the case moot via a covenant not to sue. Therefore, Nike’s decision to issue the unilateral covenant strayed from the Golden Mean of fairness closer to its deficiency of injustice.

**B. FEDERAL TRADE COMMISSION v. ACTIVIS: THE ETHICAL VERDICT**

At first glance, the reverse payment agreement in Actavis seems like the easiest tactic of the three to categorize as unethical. Reverse payment agreements appear on their face to be pure collusion to split artificially high monopoly profits in return for a promise not to compete.\(^{427}\) Payments flow from the company alleging patent infringement to the alleged infringer. Obviously, the money tends to flow in the other direction in more typical settlement situations.\(^{428}\) Further clouding the analysis, the prescription drug market seems to be the only arena where these types of reverse payment agreements occur.\(^{429}\) However, the drug companies make strong arguments that these deals do not provide any more protection than the brand name patent already provides. The drug companies might argue that it is ethical to keep prices at the same level as provided under the legally granted patent and that these agreements often provide for generic competition (and lower prices) prior to patent expiration. This section will analyze the reverse payment agreement tactic under the ethical frameworks.

(1) **UTILITARIAN ANALYSIS**

Utilitarians look first to the various courses of action that the drug companies could take when faced with this ethical dilemma. The decision tree in this case is rather simple as two realistic options exist: (1) Solvay keeps its monopoly status until its patent expires while the generics pursue the approval process to bring their cheaper variations to market (the Competitors Remain Competitors choice) (2) the parties execute a reverse payment agreement to delay the entry of

\(^{427}\) See FTC v. Actavis, No. 12-416, 2013 U.S. LEXIS 4545, at *15-16 (June 17, 2013) (”The [reverse] payment may instead provide strong evidence that the patentee seeks to induce the generic challenger to abandon its claim with a share of its monopoly profits that would otherwise be lost in the competitive market.”).

\(^{428}\) Id. at *13.

\(^{429}\) Id. at *2 (“Apparently most if not all reverse payment settlement agreements arise in the context of pharmaceutical drug regulation, and specifically in the context of suits brought under statutory provisions allowing a generic drug manufacturer . . . to challenge the validity of a patent”).
generic AndroGel and Solvay provides the generics more money than they would generate if their versions were approved and sold (the Competitors Cooperate choice).

The drug companies must then consider the consequences of each choice to the relevant stakeholders. This includes pondering the foreseeable benefits and costs and the odds that each may result. The companies’ primary stakeholders are similar to those in the Nike case and include employees and their families, customers, management, owners, suppliers, retailers and community members living near their production and sales outlets and company headquarters. Each of these groups of stakeholders is affected (some a great deal and others only marginally) by the fortunes of the drug companies. Before proceeding to the stakeholder analysis, it is important to discuss numbers. Utilitarianism does not require absolute precision as to numbers of people helped and harmed. In most cases, the conversation revolves around the more general sense of which option will produce the greatest good. In most cases, a lack of numerical precision works out. This is good news because it is difficult to identify precisely how many individuals count as company-related stakeholders with an interest in the reverse payment agreement. It is equally difficult to determine how many patients are affected by higher prices for AndroGel. The issue is further muddied by the fact that the reverse payment agreement at issue here was made in 2006 and must be evaluated at that date -- an eternity ago when it comes to collecting corporate data. This section uses 2006 data where available and supplements it with current figures to conduct the Utilitarian analysis.

Solvay manufactures chemicals and plastics and formerly manufactured pharmaceuticals (including AndroGel) until 2010 when it sold that business line to Abbott Laboratories. Solvay had 84.7 million shares outstanding in 2006. In addition, Solvay employed nearly 30,000 people in 2007. Watson Pharmaceuticals (renamed Actavis in 2013) had around 101 million shares outstanding in 2006. That year, Watson promoted an array of over 150 generic pharmaceutical products and 25 brand name products. Watson employed nearly 6,000 people in 2006. These numbers can be accumulated to show that at least 100,000 people had some interest in the drug companies’ financial fortunes in 2006. However,

431 See Larry Dobrow, All-Star Large Pharma Marketing Team of the Year: AndroGel, MEDICAL MARKETING & MEDIA, (Jan. 2, 2013), http://tinyurl.com/mbbht6x.
436 See Watson 2006 Annual Report, supra note 435. Recently, the company promoted an array of over 250 generic pharmaceutical products and 40 brand name products (AndroGel is one such brand promoted for Solvay under the reverse payment agreement). See Actavis, 2012 Form 10-K Annual Report 9-10 (2013), available at http://tinyurl.com/lxf57a7 (“Our U.S. portfolio of approximately 250 generic pharmaceutical product families includes the following key products which represented approximately 57% of total Actavis Pharma segment product revenues in 2012”).
438 This number is the author’s rough estimate based on around 35,000 total employees and around 200 million shares outstanding in 2006. A major assumption is that institutional investors own the bulk of the shares for their clients and that there are far fewer clients holding shares than there are shares outstanding. So, a company that has 100 million shares outstanding might
the degree of their interest is greatly decreased by the fact that Solvay’s AndroGel and Watson’s generic variation made up only a small piece of the companies’ business portfolios at the time and is still true today.

The drug companies must also analyze benefits and costs to consumers of all prescription medicines and, particularly, the people who hold prescriptions for AndroGel. The AndroGel customers alone likely number above one million. 12 million AndroGel prescriptions have been dispensed since 2001.439 It is difficult to translate the 12 million prescriptions to an actual number of AndroGel users. On that front, Solvay claimed that Low T (the condition treated by AndroGel) affects more than 13 million men but that 90 percent of cases exist undiagnosed.440 The diagnosis numbers combined with the prescription data paint a picture of around 1.3 million men diagnosed with Low T and presumably taking AndroGel (the only Low T drug on the market at the time). More broadly, in 2004 almost half of all Americans took at least one prescription medicine and one in six took three or more prescription medications.441 There were over 293 million Americans in 2006 meaning that over 145 million would benefit from lower prices.442 Discounting this figure because it is likely that many Americans took generic medications at lower prices, the number of brand name users was likely in the millions or higher. Therefore, it is fair to state that the number of AndroGel users (likely around one million) was greater in 2006 than the number of drug company stakeholders (likely around 100,000). Additionally, it is obvious that the number of Americans using prescription drugs in 2006 was much greater than the number of drug company stakeholders. This analysis is precise enough to make some decisions under Utilitarianism.

1. **The Competitors remain Competitors option -- Solvay enjoys monopoly profits until its patent expires and the generics pursue market entry as soon as possible:**

*Potential Benefits:* Solvay benefits because it still enjoys monopoly profits until its patent expires in 2020. Actavis, the first generic competitor that actually had its version approved by the FDA before the agreement will enjoy the 180-day exclusivity period to market its version of AndroGel.443 This is no small benefit; the Generic Pharmaceutical Association has stated that, “the vast majority of potential profits for a generic drug manufacturer materialize during the 180-day exclusivity period.”444 The other generic competitors benefit as well if they can prove (after the exclusivity period) that their products do not infringe Solvay’s patent or that Solvay’s patent is invalid. The generics have a decent chance to do so as indicated by the fact that Solvay was interested in settling the case, Solvay’s patent is for a topical application of the drug that the generics do not necessarily incorporate and Actavis’ version was approved. The odds of the generics prevailing seem possible under these facts. AndroGel users also benefit from this choice because generics are incentivized to pursue every legal option to bring their much cheaper products to market at drastically lower prices. Prescription drug users more generally will benefit by gaining trust that generic manufacturers have their best interests in mind as opposed to their own profit motive. This is especially true if the facts of reverse payment agreements are made available in plain English and people begin to realize their potentially anti-competitive effects. Finally, Congress will benefit because the system Hatch-Waxman envisioned will be utilized the way the law was envisioned.

have 100,000 total shareholders each holding an average of 1,000 shares. For simplicity, the stakeholder numbers of the other two generic companies in the case have been estimated and included in the overall count.

439 See What is AndroGel 1%, ANDROGEL.COM, http://tinyurl.com/jvven5 (last visited June 17, 2013) (discussing the 12 million number). 3.3 million prescriptions were dispensed in 2012. See Dobrow, supra note 431.


444 Id. at 4 (citations omitted).
Potential Costs: Each of the drug companies leaves money on the table by electing this option. The generics may well make more money under the reverse payment agreement than under direct competition. Solvay would generate revenue uninhibited by the threat of a generic gaining access to the market until 2015. Without this extra cash on hand for research and development, potential future drug development (an expensive process) could stall. Under this option, each company will be forced to spend time and resources fighting the patent infringement case filed by Solvay. Solvay will need to protect its patent and the generics forced its hand by filing the Abbreviated New Drug Application. Shareholders, executives and other monetarily interested stakeholders will suffer from the fact the share price could be higher with a reverse payment agreement. Finally, if Actavis’ product does not work as planned, is not as popular as AndroGel or the other generics are unsuccessful in their applications to the Food and Drug Administration, Solvay will continue to charge monopoly profits until its patent expires around 2020. This means that AndroGel users may face higher costs under this option for five and a half years longer than under the reverse payment agreement.

2. The Competitors Cooperate option -- The drug companies execute a reverse payment agreement:

Potential Benefits: The drug companies are likely to each receive more money overall than under the first option. This situation is clearly beneficial to the shareholders, employees and management of both companies as more profit can increase desperately needed research and development, raise share prices, create job security and expand employee benefits. This option also minimizes the legal resources that would be expended if the generics continued to seek legal approval under Hatch-Waxman. The patent infringement lawsuit would remain settled and Solvay would likely have little reason to file another. AndroGel customers benefit under this option only if Actavis’ product does not work out as planned and if a court holds that the other generics were unable to show that their versions of AndroGel did not infringe Solvay’s patent or that Solvay’s patent was invalid. Under these circumstances, the reverse payment agreement would bring lower prices to the market in 2015 (reverse payment agreements terms) instead of 2020 (patent expiration)

Potential Costs: Brand name drugs are much more expensive than their generic counterparts. This means that AndroGel users will pay higher prices until August 31, 2015 under the reverse payment agreement than they would pay if Actavis proceeded with its approved version. If more brand names and their generic competitors enter into these agreements at least partially because of the success of this agreement, around a million AndroGel patients and potentially hundreds of millions of Americans will pay much higher prices for their prescription medicines. This is a major monetary consequence that must be considered. Additionally, the courts, Congress or state legislatures could catch on and make serious attempts to end the practice legally or legislatively.

Finally, a Utilitarian analysis requires that the drug companies choose the course of action that provides the greatest benefits to the greatest number of people after all the benefits and costs (and their likelihood) have been considered. Overall, the benefits the Competitors remain Competitors option outweigh the costs to the relevant stakeholders IF Actavis’ approved version works as planned and the other generics eventually prove that their versions of AndroGel to not violate Solvay’s patent or that its patent is invalid. The facts show that the generics have a decent case and Hatch-Waxman is designed so that the FDA is inclined to approve their versions prior to 2020. If this occurs, over one million people will be directly helped via drastically lower AndroGel prices while around 100,000 will be slightly harmed because the drug companies receive less profit. The analysis becomes even easier if the hundreds of millions of American prescription drug users who pay higher prices under these agreements are also considered. The greatest number must prevail in a Utilitarian analysis. Therefore, entering into a reverse payment agreement in this case

445 Id. at 5.
446 Id. (stating that the reverse payment agreement would bar its generic signatories from bringing their versions of AndroGel to market until August 31, 2015 “unless someone else marketed a generic sooner”).
proves to be the less ethical alternative. Both options will deliver revenue to the drug companies but the

Competition remain Competitors option is the most ethical under Utilitarianism.

(2) DEONTOLOGICAL ANALYSIS

Reverse payment agreements in the prescription drug arena can also be subjected to Kant’s Categorical Imperative. The first step is to restate the ethical dilemma into a maxim that encapsulates the desires of the drug companies. One such maxim would read: Competitors may agree to share artificially high profits in a way that directly impacts third parties when one competitor possesses a monopoly and the other has an opportunity to sell the same product at much lower prices. This maxim can then be depersonalized, simplified and translated into a more generalized real-world dilemma: I may agree to increase my benefits even when I recognize that my agreement will directly cause others to expend more resources.447

The second step in the CI is to determine whether everyone can operate in this manner without causing an irrational outcome. In other words, would the world still make sense if everyone acted this way? The world would still function rationally if everyone contracted to increase their own benefits while correspondingly causing others to be worse off. True, people would begin to distrust others and their motives making negotiations more difficult. Third parties would become more suspicious of transactions in which they are impacted but not involved. This lack of trust would make agreements more inefficient and legally cumbersome. However, this environment accurately describes twenty-first century America in an eerie way. Distrust of contractors currently costs the Department of Defense billions of dollars each year.448 Adversarial relationships and vague contract terms designed to protect one party at the other’s expense are a reality in today’s business negotiations.449 A mere few years ago, certain mortgage bankers benefitted themselves by convincing unqualified homebuyers to sign up for subprime loans with variable rates and prepayment penalties. Certain bank underwriters then benefitted themselves by selling these questionable loans (which were repackaged and resold) to larger institutions.450 This process benefited some at the direct expense of others as buyers defaulted on loans and foreclosed on homes.451 Making matters worse, sixty percent of Americans say they have little or no trust in the media to report the news fully, accurately and fairly.452 Seventy-eight percent of Americans claim that they trust the government only some of the time or never.453 In a recent trust-in-government poll, Americans expressed frustration that members of Congress were employing the maxim being tested in this case; respondents said things like, “What’s good for the country isn’t good for Congress” and “politicians are set for . . . years, so they don’t think about us anymore.”454

447 The maxim could also read: Do people have a duty to avoid increasing benefits for themselves in exchange for directly and negatively impacting the benefits of others?
448 See Matthew Weigelt, Contract Distrust Costs DOD Billions, WASHINGTON TECHNOLOGY (July 13, 2012), http://tinyurl.com/letxpzl (“DOD’s distrust of defense contractors has led to the creation of a significant bureaucracy”).
449 Id. (“The adversarial relationships between buyers and suppliers have introduced costs in bidding and negotiations in contracts and slowed down the process of coming to acceptable terms and agreements. Think: standoff. In addition, vague contract requirements raise costs. Defense officials and contractors spend time ironing out differences in a changing interpretation of the requirements that could have been spelled out clearly sooner.”).
450 See, e.g., Subprime Lending: Helping Hand or Underhanded?, INVESTOPEDIA.COM (Feb. 26, 2009), http://tinyurl.com/cleheby (covering the good, the bad and the ugly of subprime lending).
451 Id.
452 See Lymari Morales, U.S. Distrust in Media Hits New High, GALLUP POLITICS (Sept. 21, 2012), http://tinyurl.com/9clf8s8 (“Distrust is up from the past few years, when Americans were already more negative about the media than they had been in years prior to 2004.”).
453 See Anthony Salvanto, Why Don’t Americans Trust Government?, CBS NEWS (Feb. 13, 2013), http://tinyurl.com/lhjkqg9 (“Skepticism about government is, in many respects, part of our national DNA. But surveys in the 1950s and 1960s showed most Americans expressed at least a basic trust that their government would do the right thing most or all the time. The 1970s and the tumultuous issues of Vietnam and Watergate eroded that sentiment, and the polling numbers on it have never really recovered.”).
454 Id.
These scenarios are all caused, at least in part, by the fact that decision makers serve their own needs while directly disregarding the needs of others. Yet . . . the country still functions rationally. People realize that their interests are often served while others are harmed. Yet society has not evolved to the point where people distrust each other enough to avoid negotiations and commerce. People still agree to transactions where they pay artificially high prices (prescription drugs, real estate and college tuition at some schools). In other words, it has not become irrational to ponder whether the maxim in this case is ethical. In fact, the issue is similar to the hypothetical Kant gave about the duty to be charitable. Kant found that the world would still function rationally even if no one ever engaged in charity. Today, around 40 million Americans are completely uncharitable (volunteering no time and making no donations). Yet their inaction has not broken down the societal structure to the point that it would not make sense to ask whether one has a duty to be charitable. Since it is possible to imagine a rationally functioning world where people agree to increase their benefits at the direct expense of others, there is not a perfect duty to avoid this maxim.

With no perfect duty involved, the analysis turns to the CI’s imperfect duty question: Would you want to live in such a world? The FTC v. Activis case seems to fall into the imperfect duty category. It is entirely logical that many people would have no desire to live in a world where people benefit themselves at the direct expense of others. Many in this category are uncomfortable with the idea of a zero-sum game where one party’s gains result in direct loss to another party. These feelings would likely apply to a world where competitors cooperate to keep drug prices artificially high. However, other decision makers may hold the opposite position, which is likely to manifest itself in three variations: (1) the free market will mitigate the artificially high profits generated by reverse payment agreements by forcing brand name prices lower; (2) government actors will take care of the problem over time by amending Hatch-Waxman or passing different legislation banning the practice; or (#) this world is one of the survival of the fittest and this maxim poses no problem at all. People holding these positions would have little problem living in such a world and, thereby, have no duty to avoid deals that benefit them but directly cause others to expend resources. To complete the Deontological analysis, the drug companies would need to ponder whether they would desire to live in such a world -- keeping in mind that a proliferation of these agreements may backfire and the practice itself become unlawful or obsolete. Assume that the drug companies decide they have an imperfect duty to avoid cooperating with competitors in situations that directly make others worse off. This does not mean that they must always avoid cooperation as they would under a perfect duty. This does mean, however, that they must decide when and where it is appropriate to cooperate.

(3) Virtue Ethics Analysis

The most apt virtues to analyze reverse payment agreements where potential competitors agree to share monopoly profits on brand name drugs are benevolence and honesty. The actions of the drug companies as they relate to each of these virtues will be analyzed in turn. Since each agreed in principle to the terms of the reverse payment agreement, the drug companies will be analyzed as one decision-making entity.

a. Benevolence

Benevolence is an “inclination or tendency to help or do good to others.” The deficiency of benevolence can be referred to as opportunism. This is the concern for one’s own welfare with little or no regard for others. Opportunism takes many forms. The least egregious occurrence occurs when people advance their interests and concurrently disregard

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456 Id.
457 See Raymund Flandez, A Growing Number of Americans Don’t Give to Charity, PHILANTROPY.COM, (Nov. 5, 2010), http://tinyurl.com/38h7864 (“More and more Americans have stopped donating to charities because of the bad economy, and many do not feel any personal responsibility to be involved with efforts to make the world a better place . . . A third of Americans said they were willing to get “extremely involved” or “give generously” to charities, but 13 percent said they give neither time nor money.”).
the interests of others (in a non-malicious manner). Such blind neglect occurs at the beginning of cross-country races as runners jostle and bump each other to gain position or when friends find themselves so engrossed in conversation that they neglect a partygoer standing alone. This goes slightly against the benevolence’s call to help others. The worst form of opportunism occurs when a party advances its interests by purposefully and directly causing others to suffer.\textsuperscript{460} This willful opportunism includes unlawful behavior such as fraud (such as Bernie Madoff’s Ponzi scheme) and lawful behavior (such as a deceitful political speech denigrating an opponent). On the other hand, the excess of benevolence may be referred to as over-giving. Over-givers tend to neglect their self-interest to an extreme and are often taken advantage of and used.

This case implicates a deficiency of benevolence -- more precisely the willful opportunism located at the far end of the spectrum. One would hope that pharmaceutical companies are at least partially in the business to help reduce suffering in society in a socially responsible manner. Many announce this mission in their core values employing statements such as: “We [at Actavis] are accountable and socially responsible”\textsuperscript{461} or “[We at Solvay are] driving towards sustainable solutions.”\textsuperscript{462} These are benevolent sounding statements. However, these sentiments are tough to jive with reverse payment agreements. A benevolent company would understand that agreeing with competitors to sustain artificially high prices in return for splitting the profits does not have the tendency to do good, help relieve suffering, or create sustainable solutions in a country where prescription drug prices are the highest in the world.\textsuperscript{463} This is so even after accepting the argument that the creation of new drugs is or create sustainable solutions.

Reverse payment agreements reek of opportunism of the worst kind. They are the ultimate form of willful self-interest that directly and negatively impacts the welfare of hundreds of millions of Americans (where four billion prescriptions were written in 2011).\textsuperscript{464} The American public, through their elected representatives in Congress, paved a path for generics to get their products to market quickly and often over the objection of patent holders. Agreements between generics and brand names to keep prices high and cheaper generics off the market seem far from what Hatch-Waxman’s sponsors desired. Both sponsors have since expressed their disapproval of reverse payment agreements. Representative Henry A. Waxman stated that Hatch-Waxman “has been turned on its head . . . [W]e were trying to encourage more generics and through different business arrangements, the reverse has happened.”\textsuperscript{465} Senator Orin Hatch declared that these agreements are “appalling” and made clear that “[w]e did not wish to encourage situations where payments were made to generic firms not to sell generic drugs and not to allow multi-source generic competition.”\textsuperscript{466} The worst part of the situation is that the opportunism was willful and undertaken by sophisticated parties who fully appreciated that a vast number of people would be hurt by the agreement.

The evidence indicates that reverse payment agreements strongly diverge from the Golden Mean of benevolence towards its deficiency of willful opportunism.

\textsuperscript{460} Suffering due to opportunism can occur immediately (the loner at the party example) or at some point in the future (the Bernie Madoff example).

\textsuperscript{461} Mission/Culture, ACTAVIS.COM (last visited June 16, 2013).

\textsuperscript{462} Strategy, SOLVAYCHEMICALS.COM (last visited June 16, 2013).

\textsuperscript{463} See, e.g., John Manuel-Andriote, Breaking the Cycle of Prescription Drug Costs, THE ATLANTIC (Oct. 9, 2012), http://tinyurl.com/kxgqmnl (stating that Americans are forced to “forage for themselves, as best they can, in a health insurance market stacked against them and a marketplace for prescription medications priced higher than anywhere else in the world.”).

\textsuperscript{464} See, e.g., Prescription Drug Costs: Background Brief, KAISER PERMANENTE (Dec. 2012), http://tinyurl.com/m6n2qhw. (“[F]rom 1999 to 2011, the number of prescriptions rose 43% (from 2.8 billion to 4 billion), outpacing U.S. population growth of 9%.”).

\textsuperscript{465} Sheryl Gay Stolberg and Jeff Gerth, Keeping Down the Competition: How Companies Stall Generics And Keep Themselves Healthy, N.Y. TIMES (July 23, 2000), http://tinyurl.com/19kywcy.

b. Honesty

Honesty is the tendency to tell the truth even under pressure to lie. Studies find that most people are comfortable telling lies -- especially when it suits their interests. An expert in the study of psychology and lying claims: "People almost lie reflexively. . . . We're trying not so much to impress other people but to maintain a view of ourselves that is consistent with the way they would like us to be." A deeper look at lying reveals that it is much easier to tell the truth in situations where little is at stake. The tougher cases occur when it would be far more comfortable, efficient or productive to tell a lie. In any case, a person who exhibits a deficiency of honesty is a liar. On the other hand, someone possessing too much honesty is often considered blunt.

Reverse payment agreements present an interesting case when evaluated under the virtue of honesty. These contracts are not generally made public though they must be submitted to the Federal Trade Commission and the Attorney General for antitrust inspection. This quasi-secret process makes it more likely that the American public will fair to fully realize that companies manufacturing their prescription medicines agree to keep prescription prices artificially high. This leads to two relevant questions useful to determine if drug companies stray from the Golden Mean of honesty by entering into the reverse payment agreements.

Question #1 – Would an honest company enter into a reverse payment agreement?

There is nothing dishonest about entering into a valid contract whose terms are fully disclosed and agreed to by all parties to the contract. This leads to the second question concerning how honest companies would deal with the contract once signed.

Question #2 – If so, should the terms of reverse payment agreements be disclosed to customers in plain English?

This question is reminiscent of the debate surrounding company website privacy policies and visitor tracking. The law has been slow to regulate online privacy standards and companies have taken full advantage by collecting and disseminating vast quantities of personally identifiable information. The public battle surrounding Google's privacy

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467 See also Honesty Definition, DICTIONARY.COM, http://tinyurl.com/5vmydo (last visited May 31, 2013) (defining honesty as "the quality or fact of being honest; uprightness and fairness.").
468 See Robin Lloyd, Why We Lie, LIVE SCIENCE.COM (May 15, 2006), http://tinyurl.com/7wakcmf (citing a study, published in the JOURNAL OF BASIC AND APPLIED PSYCHOLOGY, that “found that 60 percent of people had lied at least once during [a experiment where they were placed in a room and had a] 10-minute conversation, saying an average of 2.92 inaccurate things.”).
469 Id. (quoting University of Massachusetts psychologist Robert Feldman).
policy and the company’s policy to track users across all of its services is a prime example.\footnote{See, e.g., Brent Rose, How Will Google’s New Privacy Policy Affect You?, GIZMODO.COM (Jan. 25, 2012), http://tinyurl.com/8y7rmq8 (last visited June 16, 2013) (“One of the chief gripes about the change [in Google’s privacy policy] is that Google will “track” you across all of its services. Just to clarify: Google has always stored user data. . . . Well, now one Google application can see what you searched for in another”).} Online privacy law merely requires companies to be honest in their privacy policies. If a company says it will not collect data in a certain way then the company only finds trouble by violating that promise. The problem is that many are written in legalese and nearly impossible to understand. Many commentators believe that requiring such policies to be written in plain English and clearly disclosed prominently on webpages will help solve the problem in a way that balances privacy and commercial efficiency.\footnote{See generally Corey A. Ciocchetti, The Future of Privacy Policies: A Privacy Nutrition Label Filled with Fair Information Practices, 26 J. MARSHALL J. COMPUTER & INFO. L. 1 (2008).} The market will punish companies with poor privacy practices and reward companies with strong privacy practices.

Consumers need to know about artificially high prices from reverse payment agreements in the same way they need to know about a website’s privacy practices. An honest drug company that agrees with its own arguments that reverse payment agreements are legitimate should disclose their existence. The disclosure should be in plain English and make the terms of the deal clear. Prescription drug companies that enter into reverse payment agreements but neglect to disclose this fact in plain English to their customers stray from the Golden Mean of honesty to its deficiency of dishonesty.

\textbf{C. \textit{Nitro-Lift Technologies v. Howard: The Ethical Verdict}}

It is easy to make an ethical argument for the employees in the Nitro-Lift case. Their story can be recounted as the “little guy” versus the big company or the field-level employees up against an unfair contract of adhesion they were compelled to sign. However, as in most ethical analyses, it is important to evaluate both sides of the story. Nitro-Lift had its own compelling reasons for drafting the restrictive agreement. Most companies have compelling reasons to prefer arbitration of employment disputes to litigation and to ensure that the money, time and effort they spend training employees is not wasted -- especially when employees take their training and work for the competition. This section will examine the arguments from both camps in relation to the three ethical frameworks.

\textbf{(1) Utilitarian Analysis}

What were Nitro-Lift’s choices when faced with the ethical dilemma of how to draft its employment agreement? The company had a few promising options including: (1) draft a more employee-friendly employment agreement that still met the company’s needs in full, or (2) draft a employer-friendly agreement with a broad arbitration clause (forcing employees to arbitrations in other states) and a strict non-compete clause (banning, among other things, employment with competitors across the nation for two years). Management must then weigh their options considering the benefits created, harms caused and foreseeability of such outcomes actually occurring. This analysis must involve all relevant
stakeholders. Nitro-Lift has similar stakeholders to Nike, Already and the drug companies such as employees and their families, customers, management, owners and community members living near their production and sales outlets and company headquarters. Each of these stakeholders presumably benefits when Nitro-Lift is profitable and is harmed when former employees leave and share knowledge, trade secrets and other valuable skills with competitors. In the employment arena, the magnitude of these benefits and costs depends upon the employee who files a claim against the company or leaves. Key employees often provide larger benefits when they perform well and costs when they leave than do field-level employees. In addition, Nitro-Lift’s employees also count as stakeholders whose interests must be considered. These interests include an employee’s mental and physical wellbeing, financial security, job security, family and community. Analyzing Nitro-Lift’s two primary options while considering these stakeholders yields the following results:

1. **The Employee-Friendly Agreement option** -- Draft a fairer employment agreement that still meets Nitro-Lift’s needs:

   Potential Benefits: Nitro-Lift can still obtain the goals it desires with a more employee-friendly agreement. The company may always choose arbitration to settle disputes under the FAA as long as its lawyers draft a valid arbitration clause. The national policy favoring arbitration will almost guarantee that a judge will not adjudicate the underlying agreement -- ironically, the main lesson learned from the Nitro-Lift case. Companies generally hold the advantage in arbitration in terms of experience in representation, resources and the fact that the employer possesses a signed agreement. This is true regardless of where the arbitration is held -- this means that location a minor concern unless the company is trying to gain an unfair advantage in the process. Nitro-Lift’s agreement could have included the following language in its arbitration clause: “All claims and disputes arising from your job with Nitro-Lift must be settled by binding arbitration in the state of Oklahoma or, if you and the company can agree, another location. Please note: Nitro-Lift is based in Louisiana and so the arbitrator will be bound by Louisiana law even though the proceeding occurs in Oklahoma.” Nitro-Lift could still have chosen Louisiana law as binding and avoided the employee-friendly Oklahoma non-compete statute even though arbitrations were held in Oklahoma. These terms are more employee-friendly and generate the same result -- employment disputes will be arbitrated under Louisiana law. In the end, Nitro-Lift’s employees would benefit from the closer arbitration forum the plain English language and the fact that the company took their needs into account. In the end, the company would not be harmed by this choice. If fact, Nitro-Lift would likely receive the benefits of higher employee morale and increased trust.

   Nitro-Lift could also benefit from a less restrictive non-compete clause. Duly signed non-compete agreements are often held to be valid under the freedom of contract doctrine and will be enforced “if they are deemed necessary to protect an employer’s ‘legitimate interests’ and are ‘reasonable’ in terms of the restrictions imposed upon the employee.” Nitro-Lift’s two-year employment ban and nationwide geographic restriction on employment stand to be adjudicated as “unreasonable” by an arbitrator in any forum. Louisiana law allows for non-compete clauses that restrict competition for up to two years; however, the law seems to limit the geographic restriction to local municipalities and the cabin the choice of law provision as follows:

   The provisions of every employment contract or agreement . . . by which any foreign or domestic employer or any other person or entity includes a choice of forum clause . . . or attempts to enforce either a choice of forum clause or choice of law clause in any civil or

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475 The company has operations in Oklahoma and so should be equipped to handle disputes (including arbitration) in Oklahoma.

476 See, e.g., Freedom of Contract Definition, BUSINESS DICTIONARY, available at http://tinyurl.com/lds8e57 (last visited June 20, 2013) (“Right of an adult to make a legally binding mutual agreement with one or more other persons, without governmental interference as to what type of obligations he or she can take upon himself or herself.”).

administrative action involving an employee, shall be null and void except where the choice of forum clause or choice of law clause is expressly, knowingly, and voluntarily agreed to and ratified by the employee after the occurrence of the incident which is the subject of the civil or administrative action.\(^\text{478}\)

It is likely that the nationwide geographic restriction will be too restrictive under Louisiana law. It is debatable from the facts whether: (1) Nitro-Lift’s employees “knowingly and voluntarily” agreed to the choice of law provision and (2) the arbitrator will find that the agreement was executed before instead of “after the occurrence of the incident which is the subject of” the arbitration as required by Louisiana law. If this result occurs the employees, who faced a lengthy legal battle and were banned from seeing work until the clause was invalidated, and Nitro-Lift, now saddled with an invalid non-compete clause, will be harmed. This analysis demonstrates that Nitro-Lift’s situation becomes dicer unless it chooses this option. Nitro-Lift’s employees would benefit from this option because they could seek work more quickly even though such work may lie outside of the Oklahoma region.

The fairness issue overall merits a short discussion. Drafting a fairer agreement would benefit both Nitro-Lift and its employees. Employees are better off when they understand what they are signing and why such language makes it into an employment agreement. When companies take the time to ponder fair terms, they are more likely to draft the contract in a way their employees can understand and accept. If Nitro-Lift went one step further and undertook a campaign to help people understand the terms of the agreement, the company would likely generate the benefit of goodwill. Content and happy employees will theoretically be more productive which will benefit all company stakeholders.

Potential Costs: There are scenarios where Nitro-Lift could be harmed by drafting a fairer agreement. Situations may arise where key employees leave and take their considerable knowledge to a competitor within two years. With a more relaxed non-compete clause, these employees could join a competitor and hire other key Nitro-Lift employees away sooner. Nitro-Lift would need to analyze how many key employees would be capable of acting this way and injuring the company. In the facts of the case, however, Howard and Schneider did not seem to be key employees but, rather, field technicians. This position in Nitro-Lift minimizes the potential cost of a fairer agreement and the company could consider a different agreement for key employees. Finally, none of Nitro-Lift’s employees would suffer harm from a more employee-friendly agreement.

2. The Employer-Friendly Agreement option -- Draft an employment agreement with a broad arbitration clause (forcing employees to arbitrations in other states) and a strict non-compete clause (banning, among other things, employment with competitors across the nation for two years):

Potential Benefits: The FAA requires that valid non-compete clauses (those not entered into under duress or other contractual roadblocks) be honored. Therefore, under this option, an arbitrator in Houston would judge Nitro-Lift’s strict non-compete clause under Louisiana law. Oklahoma law and its public policy disfavoring non-compete clauses would be removed from the equation. The fact that the arbitration must be held in Houston means that most employees will not make the effort and likely give up. If a brave and financially-capable employee makes it to Houston, then Louisiana law is more favorable to Nitro-Lift than Oklahoma law. Employees from Oklahoma may understand that the law from their home state disfavors strict non-compete clauses but may not have the resources to analyze the nuances of Louisiana law in the area. This places employees at a disadvantage in the arbitration itself. In the end, this Employer-Friendly Agreement option is likely to represent a big cost saving to Nitro-Lift. The inability to sue in an Oklahoma court combined with the likely lack of energy or inability to afford the trip to Houston on the part of employees will allow the company to avoid spending much, if any, effort, time and money fighting employee disputes. The other stakeholders in the calculus, Nitro-Lift employees, benefit from this option by the fact that signing this agreement provides them a job in a tough economy.

Potential Costs: This option has the potential to cost Nitro-Lift both tangibly and intangibly. Tangibly, the decision is going to cost the company money defending a questionable non-compete clause in arbitration or in court. An employee at one of the company’s district operation centers in Oklahoma is likely to obtain advice that Oklahoma law looks disfavorably on Nitro-Lift’s employer-friendly non-compete clause. This may lead the employee to sue the company or defend against a demand for arbitration (perhaps convincing other employees to join) in an Oklahoma court. The employee may avoid court and head to Houston to present a compelling case to the arbitrator that the strict non-compete clause is invalid even under Louisiana law. If the non-compete is invalidated other employees with disputes will utilize the same tactic or begin working for competitors immediately upon leaving Nitro-Lift. This legal fiasco will cost Nitro-Lift money, time and effort that could be better spent running the company. Intangibly, employee morale is likely to decrease after word gets out that all disputes must be handled in this employer-friendly manner.

In any Utilitarian analysis, management must choose the course of action that provides the greatest benefits to the greatest number of stakeholders after all the benefits and costs have been considered. This analysis shows that Nitro-Lift would provide the greatest good to the greatest number of people by choosing the Employee-Friendly Agreement option and drafting the agreement with less restrictive terms. The irony is that the company would obtain all of its goals under the employee-friendly option AND its employees would be better off. Option one is a win-win and the obvious choice.

(2) Deontological Analysis

Employment agreements containing broad arbitration clauses and strict non-compete clauses, like the other two tricky business tactics discussed above, can be subjected to Kant’s Categorical Imperative. The first step, as always, is to restate the ethical dilemma into a maxim that encapsulates the desires of employers when drafting employment agreements. One such maxim would read: May employers require employees to agree to conditions that drastically benefit the employer in return for the privilege of work when the employer can achieve similar goals with more employee-friendly terms? This maxim can then be depersonalized, simplified and translated into a more generalized real-world dilemma: Is it ethical for a party in a position of power to require weaker parties to agree to unfavorable terms when similar goals can be achieved with less restrictive and fairer terms?

The second step in the CI is to determine whether everyone can take this exemption without causing an irrational outcome. In other words, would the world still make sense if everyone acted this way? If everyone in a position of power took advantage of their power to impose unfair conditions on weaker parties when they can achieve their goals with fairer conditions, the world would still function rationally. This situation occurs all the time when it comes to employment, real estate transactions, courtrooms and even in the classroom. Parties with power tend to exploit that power or so goes the famous quote: “Power tends to corrupt and absolute power corrupt absolutely.” However, in today’s world, people continue to seek work and sign unfavorable employment agreements. Buyers still pay too much for homes in a seller’s market and vice versa. Experienced attorneys take advantage of more inexperienced

479 And, of course, this is exactly what occurred in the actual case.
480 The maxim could also read: Do people in a position of power have a duty to avoid unfair terms in contracts of adhesion?
482 This can partially be explained by the fact that employees do not understand the legalese in employment agreements that they are forced to sign. See, e.g., Alexander Eichler, Bosses Will Exploit Workers if Workers Don’t Know It’s Happening, HUFFINGTON POST (July 6, 2012), http://tinyurl.com/dxt84bt.
483 See, e.g., Jenifer B. McKim, Buyers and Sellers Devise New Tactics as Bidding Wars Heat Up, BOSTON GLOBE, available at http://tinyurl.com/mbjv6ng ("With bidding wars for choice homes in the Boston market as common as crocuses in spring, buyers and their agents are resorting to unusual tactics to stand out in the crowd. Fueled by a perfect storm of market forces - very low interest rates, an improving economy, and limited supply of homes - eager buyers are bidding up home values in metro Boston and leaving an increasingly larger pool of frustrated shoppers on the losing end.")
counterparts.\textsuperscript{484} And teachers have been known to use their superior power to bully students.\textsuperscript{485} Of course, not everyone lives by this maxim and the situation has not evolved to the point where people stop transacting with parties who take advantage of power. This world is not ideal but it is still rational to ponder the maxim. This moves the discussion to the next step.

Since it is possible to imagine a world where people in positions of power impose unfair conditions on weaker parties, there is not a perfect duty to avoid this maxim. With no perfect duty involved, the analysis turns to the CI’s imperfect duty question: Would you want to live in such a world? The Nitro-Lift case falls into this category. Some people may not want to live in a world where powerful parties impose their will even though they could achieve their objectives with fairer terms. Others may hold the position that powerful parties like employers have reasons to include the terms they do in employment agreements. These managers understand their business better than anyone. These people would have little problem living in such a world and have no duty to avoid imposing their will on others. Therefore, management must deliberate whether it would desire to live in such a world. If management determines it has an imperfect duty in these situations, they are not categorically prohibited from requiring employees to sign employer-friendly agreements. However, they have an imperfect duty to tweak these agreements to provide fairer benefits to employees in weaker positions.

\textbf{(3) VIRTUE ETHICS ANALYSIS}

The most apt virtue to analyze a broad arbitration clause in an employment contract with a strict non-compete clause is fairness. Keep in mind that this agreement could be scrutinized under many different virtues. For example, employees should act loyally towards their employees, treat them with the respect due all human beings and seek a trust-based employer/employee relationship. A proper analysis could, therefore, have included the virtues of loyalty, respect and trustworthiness. For sake of space and because the reader is likely becoming familiar with the analysis required under Virtue Ethics, this section will conclude with the evaluation of the agreement under only one virtue: fairness.

\textbf{a. FAIRNESS}

As discussed in the Nike case, fairness is the “state, condition, or quality of being free from bias or injustice.”\textsuperscript{486} A deficiency of fairness can be called injustice whereas an excess of fairness can be called cold impartiality. Virtue Ethicists would ask the same two questions as in the Nike case when pondering whether Nitro-Lift acted fairly in drafting its employment agreement. First, how much self-interest did Nitro-Lift exhibit under the circumstances? Second, if self-interest played a role, was injustice created under circumstances where Nitro-Lift: (1) drafted an employment agreement containing a broad arbitration clause forcing employees to travel away from their home state; which also (2) contains a strict non-compete clause with terms that are strongly disfavored in the employee’s home state. The purpose of these questions is to determine whether the employment agreement moved Nitro-Lift away from the Golden Mean of fairness towards injustice and, if so, how far.\textsuperscript{487}

\textbf{Question \#1 – How much self-interest did Nitro-Lift exhibit in drafting the employment agreement terms?}

\textsuperscript{484} See, e.g., Legal Urban Legend Myth Buster \#5: OUTSIDETHELAWSCHOOLSCAM.BLOGSPOT.COM (May 14, 2013), http://tinyurl.com/n3eqlub ("Now practicing law is nothing more than a hyper-partisan, full-contact, blood sport. More experienced attorneys routinely take advantage of personality intangibles to gain an advantage over the younger inexperienced attorneys. It is common to witness attorneys bullying and being unreasonable simply for the sake of being unreasonable and trying to gain an intangible advantage quite unrelated to the merits of the case itself. Today when you sit through a deposition the testimony is incidental to the proceeding. It is all about attorneys sniping, obstructing and objecting at each other.").

\textsuperscript{485} See, e.g., Bullying Teachers, BULLYINGSTATISTICS.ORG, http://tinyurl.com/lbc94w7 (last visited June 20, 2013).

\textsuperscript{486} Fairness Definition, supra note 413.

\textsuperscript{487} The cold impartiality excess is not at issue in this case.
The facts indicate that Nitro-Lift acted primarily in its self-interest drafting the terms of the employment agreement. The fact that employees were required to sign the agreement, the restrictive non-compete terms and the purposeful evasion of Oklahoma law hint that the tactic was designed to satisfy Nitro-Lift’s needs. But was the decision to draft these terms into the agreement justified or was it unfair? In other words, were Howard and Schneider deprived of what they justifiably deserved as Nitro-Lift employees? This is a much more difficult quandary in this case and the subject of the second question.

Question #2 – Does the employment agreement create injustice?

Injustice can occur when parties receive treatment they do not deserve (recall Already’s treatment in the Nike case). Injustice can also occur when one party takes unfair advantage of another party. The employment arena is ripe for more powerful employers to take unfair advantage of employees in much weaker positions. This imbalance is apparent in the immigration context where some employers take advantage of a broken immigration system to treat immigrant workers unfairly. The employment relationship will always be a bit unbalanced and this can be justified because employers provide payment, resources and security in return for work and must be allowed to set the terms. However, the situation becomes unfair when employer preference turns into unfair advantage.

Companies will usually have an advantage in arbitration as well regardless of where the proceeding is held. Most businesses can afford to send a seasoned professional (i.e., experienced arbitration professional) whereas most employees entering arbitration represent themselves and find themselves in unfamiliar territory. A fair arbitration clause, therefore, need not force employees to distant locations to be effective. The imbalance of resources between Nitro-Lift and the Howard/Schneider team would have given Nitro-Lift a representation advantage even in Oklahoma. There is a good argument that Nitro-Lift would have acted fairly by continuing to insist that Louis Liftech would have acted fairly by continuing to insist that Louis

An unfair advantage occurs when employers use their power to

A similar argument can be made for non-compete clauses. The reasons why employers desire to prevent former employees from competing in nearby markets are obvious and management should be allowed to protect, to some extent, the resources and time spent training former employees from benefiting its competitors. However, restricting employees from competing in far-away markets for extended periods of time is excessive. Courts tend to find excessive terms in non competes to be unlawful restraints on trade. Regional employers like Nitro-Lift can gain the same benefits with a more narrowly tailored non-compete clause. Nitro-Lift’s non-compete clause banned employees from working, loaning money to or soliciting employees to join a competitor for two years from the time that employee left the company. Two years is a long time when it comes to seeking employment. Making matters worse, the employees were restricted from working in the field anywhere in the United States. Former employees deserve a chance to gain employment after leaving an employer. An unfair advantage occurs when employers use their power to ban former employees from seeking work nationwide for two years in a field where they have experience.

488 Injustice Definition, THE FREE DICTIONARY, http://tinyurl.com/ktedrh8 (last visited June 19, 2013) (discussing the idea that a party taking unfair advantage of another can be seen as acting unjustly).
489 See New Report Exposes How Employers Take of Broken Immigration System To Exploit Workers, NATIONAL NETWORK FOR IMMIGRANT AND REFUGEE RIGHTS (Feb. 26, 2013), http://tinyurl.com/lpedlbn (“With immigration reform under serious consideration in Congress, a report released . . . by the National Employment Law Project exposes how current immigration policies intended to stop employers from hiring undocumented workers have instead allowed unscrupulous employers to evade both immigration and labor laws.”) (citations omitted).
490 See, e.g., Arbitration Basics, NOLO.COM (last visited June 19, 2013) (“Companies and retailers nearly always hire lawyers to represent their interests in arbitration.”).
491 Id. (“Parties sometimes hire attorneys to help them through the arbitration process. If the dispute involves $10,000 or less, most individuals opt to handle the process alone, with guidance from the arbitrator or arbitration organization.”).
494 Id.
Finally, the agreement also requires that employees “agree and acknowledge that the limitations as to time, geographical area and scope of activity to be restrained as set forth [in this section] are reasonable and do not impose any greater restraint than is necessary to protect the legitimate business interests of Nitro-Lift.” Employees who refused to agree to this statement would assumedly not be employed by Nitro-Lift. This legalese, in a contract of adhesion of this nature, takes unfair advantage of employees who likely have little idea what the terms legally imply. For example, the employees believed that the clause banned them from “working anywhere in the world for a period of two-years” while the Eleventh Circuit clarified that the restriction was only throughout the United States.

Employers deserve a fair chance to work after leaving employment and to make their case to an arbitrator located within the state where they are employed. Nitro-Lift could have accomplished its goals of required arbitration, the application of Louisiana law and freedom from competition for period of time under less restrictive terms. Forcing employees to sign this excessively restrictive and confusing agreement took unfair advantage of the employer’s superior bargaining power. Therefore, the employment agreement falls on the injustice side of the fairness spectrum.

**Figure 7 – Virtue Ethics Spectrum: Fairness**

![Virtue Ethics Spectrum](image)

**V. CONCLUSIONS**

Laws alone are a poor substitute for morality. The greatest blessing of living in a free society is that we have the ability to steer ourselves. Once we give up that ability, that privilege, we risk losing sight of the ethical spirit and the law becomes a cage. We’ll do, as so many others have done in this century, just what we’re told to do. The world can no longer afford that kind of obedience. -- JOHN CASEY

The time is always ripe to do what is right. -- MARTIN LUTHER KING, JR.

The three tricky business tactics evaluated in this article all found safe harbor in the law. At the same time, each of the three was found to be ethically suspect under three major ethical frameworks. Appendix One summarizes the results of this legal and ethical evaluation. The old adage that declares, “Just because something is legal does not make it ethical” rang true in these cases. However, this difference of opinion between legal and ethical legitimacy is more than just a wise quip, the difference really does matter. It does not matter in the sense that courts should strive to consistently implement the ethical frameworks of Utilitarianism, Deontology and Virtue Ethics in their decision-making processes and opinions. In fact, this inconsistency between law and ethics is not the fault of judges stuck with precedent that

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495 Id. at 25.
500 This issue is often brought up in the legal literature. See e.g., Clark, *supra* note 18, at 757 (discussing this issue and stating, “I do not mean that virtue ethics per se should be applied as a tool within the law - an endeavor that I think is destined for mixed success.”).
has not anticipated these tricky tactics. As stated in the Introduction, the American Bar Association’s Model Code of Judicial Conduct implies that judges should “uphold and apply the law” and not intersperse ethical frameworks into legal decision-making.\(^{501}\) Instead, the task of considering ethical implications in these situations and acting accordingly is morally required of legislators (and the citizens who elect them), lawyers, and, most importantly, business professionals who confront the business ethics dilemmas on a regular basis. These groups must consider the ethical implications of their actions and do so more consistently. In fact, it is likely that the business managers responsible for these three tricky practices would have (and should have) acted differently upon deeper ethical introspection.

Nike should have entered into settlement talks or, at the very least, discussed the covenant with Already. Either of these decisions would have been more ethical under all three frameworks and potentially led to a similar outcome. The drug companies should have considered the needs of other stakeholders (the millions of prescription drug users) more seriously before agreeing to cooperate instead of compete at their expense. The agreement is now front-page news thanks to the Supreme Court and people will surely become more educated about its anticompetitive details. It is only a matter of time before Congress honors the spirit of Hatch-Waxman and bans these types of agreements as violations of antitrust law. Finally, Nitro-Lift should have drafted a fairer employment agreement. The company could have obtained each of the results it desired without treating its employees as means to an end.

In the end, doing the right thing is not always easy. This is especially true when a company’s profits are on the line and the ethically suspect practice is perfectly legal. The third question in Kant’s Categorical Imperative provides an appropriate way to end this article. It is important to take time and ponder whether one really wants to live in a world where these tricky business practices become commonplace merely because they are legal. If the answer to that question turns out to be “no” then a moral obligation exists to think more deeply beyond the legality of any business decision and then act accordingly.

<table>
<thead>
<tr>
<th>Trick</th>
<th>Legal?</th>
<th>Ethical under Utilitarianism?</th>
<th>Ethical under Deontology?</th>
<th>Ethical under Virtue Ethics?</th>
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</thead>
<tbody>
<tr>
<td>Unilateral Covenant</td>
<td>Yes</td>
<td>• Ethically Suspect</td>
<td>• Ethically Suspect</td>
<td>• Ethically Suspect</td>
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<td></td>
<td></td>
<td>• A settlement is more likely to produce the greatest good for the greatest number of people</td>
<td>• No perfect duty to always avoid loopholes</td>
<td>• Falls on the irresponsible side of accountability</td>
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<td></td>
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<td>• But . . . a potential imperfect duty to face the consequences of bad decisions</td>
<td>• Falls on the foolhardy side of courage</td>
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<td>• Falls on the injustice side of Fairness</td>
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<tr>
<td>Reverse Payment Agreement</td>
<td>Yes</td>
<td>• Ethically Suspect</td>
<td>• Ethically Suspect</td>
<td>• Ethically Suspect</td>
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<td>• Fair competition is more likely to result in the greatest good for the greatest number of people</td>
<td>• No perfect duty to always avoid cooperating with competitors</td>
<td>• Falls on the opportunism side of Benevolence</td>
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<td>• But . . . a potential imperfect duty to compete fairly</td>
<td>• Falls on the liar side of Honesty</td>
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<tr>
<td>Broad Arbitration Clause</td>
<td>Yes</td>
<td>• Ethically Suspect</td>
<td>• Ethically Suspect</td>
<td>• Ethically Suspect</td>
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<tr>
<td></td>
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<td>• Local arbitration venues and less severe non-compete clauses are more likely to result in</td>
<td>• No perfect duty to always avoid employer-friendly agreements</td>
<td>• Falls on the injustice side of Fairness</td>
</tr>
<tr>
<td></td>
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<td>the greatest good for the greatest number of people</td>
<td>• But . . . a potential imperfect duty to consider fairer employment terms</td>
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</tbody>
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