

No. 11-982

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IN THE  
**Supreme Court of the United States**

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ALREADY, LLC d/b/a YUMS,

*Petitioner,*

*v.*

NIKE, INC.,

*Respondent.*

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ON PETITION FOR A WRIT OF CERTIORARI TO THE  
UNITED STATES COURT OF APPEALS  
FOR THE SECOND CIRCUIT

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**REPLY BRIEF**

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The petition for certiorari presents a straightforward situation in which two circuit courts have confronted the identical constitutional issue, have applied different legal tests to resolve that issue, and have reached different results in the specific context of a trademark case. Moreover, the later of the two circuit courts—the court below—expressly disagreed with the reasoning of the earlier circuit court. Those two circuits (the Ninth and Second) have the largest trademark dockets, together accounting for nearly half of the nation’s trademark cases. The relevant constitutional issue has also arisen in patent cases and has divided the judges of the Federal Circuit along precisely the same lines as the circuit split.

Respondent begins its brief in opposition by inaccurately reframing the question presented, and the inaccuracies continue thereafter. Among respondent’s most strikingly inaccurate assertions is its claim that courts within the Ninth Circuit supposedly have “routinely” declined to follow the Ninth Circuit decision in *Bancroft & Masters, Inc. v. Augusta National, Inc.*, 223 F.3d 1082 (9<sup>th</sup> Cir. 2000). See Opp. at 17. Yet not one of respondent’s citations—neither in the text, nor in the footnote—stands up to scrutiny. Respondent’s opposition brief is, in a word, unreliable.

1. *Respondent misstates the question presented.* Respondent’s restated question wrongly suggests that this case is a “declaratory judgment suit.” Opp. at i. It is not. This is an *infringement* suit that *respondent* initiated, and in which petitioner interposed a compulsory counterclaim challenging the validity of the federal trademark registration that respondent’s complaint had asserted. The question (as cor-

rectly stated in the petition) is thus whether respondent's unilateral abandonment of its claims "divested" the district court of Article III jurisdiction over petitioner's compulsory counterclaim. Pet. at i.

The significance of this first inaccuracy goes to the heart of the conflict in the lower courts. Under the Ninth Circuit's approach, a district court is not divested of its pre-existing jurisdiction in such circumstances "unless it is absolutely clear that the defendant will never renew its allegedly wrongful behavior." *Bancroft*, 223 F.3d at 1085. This "absolutely clear" test comes directly from this Court's mootness jurisprudence. See *United States v. Concentrated Phosphate Export Ass'n*, 393 U.S. 199, 203 (1968) (articulating the "absolutely clear" test)). By contrast, the Second Circuit's approach does not apply this Court's mootness jurisprudence, but applies the standard for determining whether a declaratory judgment plaintiff has established jurisdiction initially. Indeed, the decision below mentions mootness only in a paragraph that expressly disagrees with the reasoning of *Bancroft*. Pet. App. 19a.

The difference between the standard for mootness and that for establishing initial declaratory judgment jurisdiction is also precisely the basis for the conflict in opinions in the parallel context of patent infringement cases. As Judge Dyk clearly explained in his dissenting opinion in *Benitec Australia, Ltd. v. Nucleonics, Inc.* 495 F.3d 1340 (Fed. Cir. 2007) (Dyk, J., dissenting), "a different test for determining whether there is a case or controversy applies when the allegation of infringement is withdrawn during the course of litigation," *id.* at 1350; that "different test" comes from Supreme Court

precedent on mootness, *id*; and “the majority’s approach erroneously applies the same standard for judging continuing declaratory jurisdiction as for judging original declaratory jurisdiction.” *Id.* at 1351.

Respondent’s restated question presented also glosses over the important point that the petitioner’s counterclaim presents a “challenge to the validity” of respondent’s trademark (Pet. at i) and does not seek merely a declaration of *noninfringement*. Again, the omission is significant. This Court’s precedents have repeatedly emphasized the public importance of resolving questions of the validity of claimed intellectual property rights. *See, e.g., Cardinal Chem. Co. v. Morton Int’l, Inc.*, 508 U.S. 83, 100 (1993). But respondent’s misstated question misses more than just that policy point. Where a pre-existing controversy concerns *only* the question whether a *certain* activity *infringes* an admittedly valid trademark, a covenant not to challenge *that* activity *does* render the infringement question moot.

An example is provided by *Nike, Inc. v. Adidas America, Inc.*, No. 05-CV-541-BR, 2006 WL 3716754 (D. Or. Dec. 14, 2006), which is cited by respondent. In that case, the plaintiff sought a declaratory judgment that its sale of certain shoe products did not infringe a trademark (Adidas’s three stripe mark) whose validity was unchallenged. *See id.* at \*1. In such a case, a registrant’s covenant not to sue leaves the court with nothing left to adjudicate unless it is willing to “speculate as to whether future designs or patterns created by [the plaintiff] might infringe [the defendant’s] trademark.” *Id.* at \*6. By contrast, a registrant’s covenant not to sue does nothing to render moot a counterclaim challenging the *validity*

of an asserted registration, and under the Ninth Circuit approach, such a counterclaim cannot be dismissed unless it is “absolutely clear” that allegedly invalid trademark would not be asserted again.

2. *The courts in the Ninth Circuit are not ignoring Bancroft.* Once respondent’s erroneous misstatement of the question presented is rejected, it is easy to see through respondent’s extraordinary claim that the courts in the Ninth Circuit are “routinely” declining to follow the Ninth Circuit’s decision in *Bancroft*. Opp. at 17-18 & n.2. Extraordinary claims require extraordinary evidence, but here respondent has not a shred.

In none of the cases cited by respondent did a court hold that the case had been rendered moot (and thus the court divested of pre-existing jurisdiction) despite a continued challenge to the validity of the asserted intellectual property right. In the case cited in the text and the first two cases in the footnote (Opp. at 18 & n.2), the courts were deciding whether declaratory judgment plaintiffs had established jurisdiction *initially* (and in two of the three cases, the courts held the covenants not to sue did not defeat jurisdiction). The third and fourth cases in the footnote (*Nike* and *Paramount Pictures Corp. v. Replay TV*, 298 F. Supp. 2d 921 (C.D. Cal. 2004)) involved no challenges to the validity of the underlying intellectual property rights. And the last case in the footnote is a patent case governed by Federal Circuit, not Ninth Circuit, law.

The respondent’s failure to cite any case whatsoever to support its claim of intra-circuit defiance shows that the courts, and the parties, understand Ninth Circuit law. Trademark owners understand

that, when they invoke federal court jurisdiction by bringing an infringement action in the Ninth Circuit, they cannot avoid challenges to the validity of their trademark rights merely by giving up on their existing infringement claims.

3. *The Article III jurisdictional issue here is not fact-bound.* Respondent wrongly claims that the petition presents merely a fact-bound issue concerning the precise scope of the wording of respondent’s covenant not to sue. The Second and Ninth Circuit plainly applied different *standards* to resolve the jurisdiction issue, with the Ninth Circuit correctly applying the “absolutely clear” standard from this Court’s mootness precedents and the Second Circuit incorrectly applying the standard applicable for deciding whether declaratory judgment jurisdiction initially exists.

The facts of the case serve only to highlight the importance of the difference. In *Bancroft*, Augusta National waived all trademark claims against Bancroft excepting only trademark claims that might arise in the future if Bancroft went into “the golf business.” 223 F.3d at 1085. Bancroft was “a small California corporation that sells computer and networking products and support services,” and there was no evidence in the case that it had any plans to enter the golf business. *Id.* at 1084-85. Still, the Ninth Circuit held that Augusta’s waiver did not render the case moot because Augusta—not Bancroft—bore the burden of “showing that it is absolutely clear that it will never seek to prevent B & M from using its domain name in the future.” *Id.* at 1085.

By contrast, petitioner and respondent are direct competitors in the athletic shoe business, and respondent's covenant applies only to shoe products that existed prior to March 19, 2010, and "colorable imitations" thereof. Petitioner was sued for selling shoes that embody the design below:

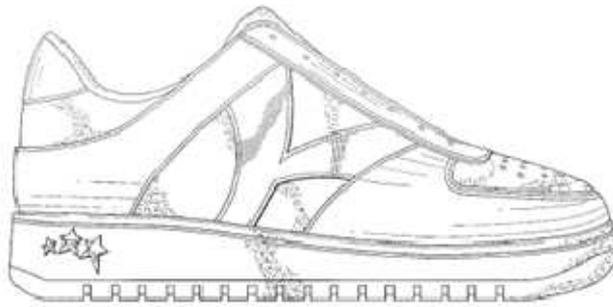


FIG. 3

Under the covenant, if petitioner markets a new shoe that does not look like a colorable imitation of the above shoe—if, in other words, petitioner brings out a shoe that looks like a *new* shoe—then all bets are off, and the respondent is free to re-assert the so-called "trademark" depicted below:



Given the nature of respondent’s alleged trademark (structural shoe features devoid of anything like a swoosh mark), it is easy to see why the ‘905 Registration significantly constrains petitioner’s freedom to design and sell new athletic shoe styles.

The Ninth and Second Circuit standards also differ as to which party bears the burden of proof. This difference is extremely important, as Judge Dyk’s dissent correctly recognized in the parallel patent context. *See* 495 F.3d at 1352. No competitor already a defendant in an infringement case is going to want to put in “record evidence that [it] intends to make any arguably infringing shoe,” as the Second Circuit’s test requires (Pet. App. 15a n.5). That standard puts the accused infringer into the untenable position of arguing that it “intends” to produce shoes that are “arguably infringing.” Such argumentation would not only undermine the defendant’s ability to argue that its planned new shoes are not in fact infringing if the trademark is upheld, but would also increase its exposure to enhanced damages or attorneys fees under 15 U.S.C. § 1117(a).

4. *The Ninth Circuit’s holding on the cancellation claim is not dictum.* The split between the Ninth and Second Circuit is established even without the Ninth Circuit alternative holding concerning the cancellation claim. It is nonetheless worth noting that respondent errs in characterizing the Ninth Circuit’s reasoning on the cancellation claim as dictum.

The Ninth Circuit gave two independent reasons for sustaining jurisdiction in *Bancroft*. As this Court has held, where a case “might have been decided on either of two independent grounds favorably to [one party]” and the court resolves the case on both

grounds, “the judgment rest[s] as much upon the one determination as the other” and the precedent “is effective for both.” *Massachusetts v. United States*, 333 U. S. 611, 623 (1948).

Under the legal standard applied in *Bancroft*, the scope of a registrant’s covenant not to assert a registered mark is irrelevant to Article III jurisdiction to hear a challenge to the registration’s validity, because an invalid registration can, of its own force, operate as a “scarecrow.” *Cardinal Chem.*, 508 U.S. at 96 (quoting *Bresnick v. United States Vitamin Co.*, 143 F.2d 239, 242 (2d Cir. 1943) (L. Hand, J.)).

Nothing in *Bancroft* supports respondent’s assertion (Opp. at 24) that the Ninth Circuit reached the wrong result on an Article III issue because the judges were under the misimpression that the statute authorizing federal courts to award cancellation relief, 15 U.S.C. § 1119, was “jurisdictional.” The issue in *Bancroft* and in this case is a constitutional issue, and no statute can modify or alter the requirements of the Constitution. It is bizarre to suggest that the judges of the Ninth Circuit sub silentio based their constitutional analysis on the semantic characterization of a statute.

Also baseless is respondent’s assertion that “the Ninth Circuit simply surmised that the challenger’s request for cancellation [w]as a remedy for past trademark misuse.” Opp. at 15. In fact, *Bancroft* nowhere says this or even mentions the word “misuse.” Similarly unreliable and irrelevant is respondent’s argument that the covenant in *Bancroft* was given “post-judg-ment.” Opp. at 15. Again, the Ninth Circuit did rely at all on that circumstance, and with good reason: The district court had simply dismissed

the case for lack of personal jurisdiction and the Ninth Circuit was reversing that ruling. The case was thus going back down for trial, and nothing in the Ninth Circuit opinion suggests that on remand the trademark owner could get a different result merely by renewing its promise not to assert the allegedly invalid registration at issue.

5. *Considerations of administrative law support granting certiorari.* Respondent repeatedly points to administrative cancellation as an alternative remedy, but administrative law provides additional reasons for granting, not denying, certiorari.

First, the doctrine of exhaustion of administrative remedies formed no part of the Second Circuit's ruling, nor could it have. The exhaustion doctrine is founded on "the general rule that parties exhaust prescribed administrative remedies *before seeking relief from the federal courts.*" *McCarthy v. Madigan*, 503 U.S. 140, 144-45 (1991) (emphasis added). That doctrine is simply inapplicable where, as here, a party is haled into federal court as an infringement defendant.

Second, if the Second Circuit ruling is correct, then the petitioner would be unable to establish Article III jurisdiction to obtain judicial review of a PTO decision not to cancel the challenged registration. Worse still, the availability of judicial review would be asymmetric, with the respondent able but the petitioner unable to obtain review. The Second Circuit's holding thus makes the administrative process wildly unattractive: the petitioner would be relegated to the agency that made the allegedly unlawful registration with merely the possibility that

the agency might change its mind and no hope of judicial scrutiny if it does not.<sup>1</sup>

Finally, administrative law precedents confirm that there are “critical” differences between the standards for initial standing and mootness, *Friends of the Earth, Inc. v. Laidlaw Envtl. Servs., Inc.* 528 U.S. 167, 180 (2000), and that, *at a minimum*, the differences encompass “realistic evidentiary presumptions.” *Id.* at 214 (Scalia, J., dissenting). The difference between initial standing and mootness—and especially the different “evidentiary presumptions” that apply to the two situations—go to the heart of the circuit split in the trademark context and to the key division between the judges of the Federal Circuit in the patent context.

6. *The patent cases cited by respondent, to the extent relevant, provide a reason in favor of granting certiorari.* In the second paragraph of its opposition, respondent cites five cases to support the broadly stated proposition that “[t]his Court has repeatedly denied petitions challenging the use of covenants not to sue to resolve *intellectual property disputes*.” *Opp.* at 11 (emphasis added). All five of these cases represent one species of “intellectual property disputes”—they are *patent cases* coming from the Federal Circuit. Because the Federal Circuit has exclu-

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<sup>1</sup> As a direct competitor of respondent in the athletic footwear business, petitioner is a target of the governmental regulation at issue here, not merely some collateral beneficiary of regulation and certainly not, as respondent inaccurately claims, merely an interested member of the public seeking “to vindicate a generalized public interest in enforcement of the law.” *Opp.* at 28.

sive jurisdiction over patent cases, a circuit split in patent cases is not possible.

The cited petitions do, however, tend to confirm two truths that are stated in the petition here: First, the Article III jurisdictional issue presented “arises in both the patent and trademark contexts and is generally important to the system of presumptively valid intellectual property rights administered by the PTO.” Pet. at 13. Second, strategic use of covenants to shut off invalidity challenges “is a recurring and widespread problem.” *Id.* at 18.

Although two of the cited petitions have little or nothing to do with the legal issue in this case,<sup>2</sup> the remaining three—*Chase Packaging Corp. v. Super Sack Mfg. Corp.*, No. 95-805; *Fort James Corp. v. Solo Cup Co.*, No. 05-712; and, most recently, *Nucleonics, Inc. v. Benitec Australia, Ltd.*—are relevant. As Judge Dyk thoroughly explained in his dissent in the last of these cases, the Federal Circuit precedent on whether covenants not to sue can moot existing patent litigation are “inconsistent with the Supreme Court precedent” and “conflict with each other.” *Benitec*. 495 F.3d at 1354 (Dyk, J., dissenting).

7. *Policy considerations support a grant of certiorari.* In *Cardinal Chemical, supra*, this Court em-

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<sup>2</sup> In *Spectronics Corp. v. H.B. Fuller Co., Inc.*, No. 91-682, the question was whether a patent case was rendered moot when the patentee gave a covenant not to sue and also filed papers in the PTO that voluntarily cancelled all of the patent claims relevant to the suit. Here, in sharp contrast, respondent has *not* cancelled the challenged ‘905 registration. *Forest Labs, Inc. v. Caraco Pharm. Labs, Ltd.*, No. 08-624, involved the FDA’s complex administrative process for approving generic drugs, which has nothing to do with this case.

phasized “the importance to the public at large” in resolving challenges to the validity of PTO-issued intellectual property rights and found that public interest sufficiently weighty to support a general rule favoring the exercise of intermediate appellate jurisdiction over such challenges even where such jurisdiction might not be mandatory. 508 U.S. at 99-100. Similarly, in exercising its discretionary jurisdiction here, this Court may appropriately consider the underlying public importance of federal court jurisdiction to decide validity issues as a reason favoring certiorari. Indeed, in *Cardinal Chemical* itself, where the mootness issue was inherently splitless (because it arose from the Federal Circuit’s exclusive patent jurisdiction), this Court still granted certiorari because the jurisdictional issue was “a matter of special importance to the entire Nation.” *Id.* at 89.

This case presents an even stronger case for certiorari. Here, unlike *Cardinal Chemical*, there is a clear circuit split. The split is on a constitutional issue and it engages the circuits having the most active trademark dockets in the nation (and combined have almost half of all trademark cases). And in the parallel patent context, the same constitutional issue has produced a spirited conflict in judicial opinions in the Federal Circuit. This case presents an excellent vehicle for the Court to resolve this commercially important conflict on the scope of Article III jurisdiction.

**CONCLUSION**

The petition should be granted.

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