

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

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**BRIEF FOR PETITIONER**

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**QUESTION PRESENTED**

Whether a federal district court is divested of Article III jurisdiction over a party's challenge to the validity of a federally registered trademark if the registrant promises not to assert its mark against the party's then-existing commercial activities.

**RULE 29 STATEMENT**

Pursuant to this Court's Rule 29.6, petitioner states that it has no parent corporation and no publicly held company owns 10% or more of petitioner's stock.

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Petitioner respectfully submits this brief in support of its petition for reversal and judgment that, on the record of this case, the district court had Article III jurisdiction to adjudicate whether petitioner is entitled to the relief sought in paragraphs (ii)-(vi) and (viii) of its compulsory counterclaim filed November 19, 2009. *See* Joint Appendix (“JA”) 55a-58a.

### **OPINIONS BELOW**

The opinion of the Court of Appeals (Pet. App. 1a-20a) is reported at 663 F.3d 89. The opinion of the District Court (Pet. App. 21a-40a) is unreported.

### **JURISDICTION**

The Court of Appeals entered final judgment on November 10, 2011. No petition for rehearing was filed. On February 8, 2012, petitioner timely filed a petition for a writ of certiorari, which this court granted on June 25, 2012. This Court’s jurisdiction is invoked under 28 U.S.C. § 1254(1).

The district court had subject matter jurisdiction to hear and determine the entirety of this case, including petitioner’s compulsory counterclaim, under at least 28 U.S.C. §§ 1331 and 1367(a). The Second Circuit had appellate jurisdiction under 28 U.S.C. § 1291.

### **CONSTITUTIONAL AND STATUTORY PROVISIONS INVOLVED**

Article III of the United States Constitution provides in relevant part:

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 . . . .

28 U.S.C. § 1331 provides:

The district courts shall have original jurisdiction of all civil actions arising under the Constitution, laws, or treaties of the United States.

28 U.S.C. § 1367(a) provides in part:

[I]n any civil action of which the district courts have original jurisdiction, the district courts shall have supplemental jurisdiction over all other claims that are so related to claims in the action within such original jurisdiction that they form part of the same case or controversy under Article III of the United States Constitution.

15 U.S.C. § 1119 provides:

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. Decrees and orders shall be certified by the court to the Director, who shall make appropriate entry upon the records of the Patent and Trademark Office, and shall be controlled thereby.

### **STATEMENT OF THE CASE**

Petitioner designs and markets athletic footwear, shirts, caps, and other apparel products under the registered trademark YUMS. Supplemental Appendix (“SA”) 121-130. Between 2007 and 2010, petitioner developed approximately forty-five (45) different lines or styles of athletic shoes and brought five of these to market under the sub-brands “Sweet,” “Jelly Bean,” “Boss Boggs,” “FlyTop,” and “BAY.” JA172a-173a.

On August 20, 2007, petitioner filed an application with the United States Patent and Trademark Office (“PTO”) seeking issuance of a design patent on the novel, original, ornamental, and non-obvious<sup>1</sup> design of the athletic shoes that would constitute the “Sweet” shoe line. Petitioner eventually was granted U.S. Patent No. D584,040 entitled “Shoe” (the “McDade ‘040 Patent”; SA2-6). Figure 3 of petitioner’s design patent is reproduced below (SA5):

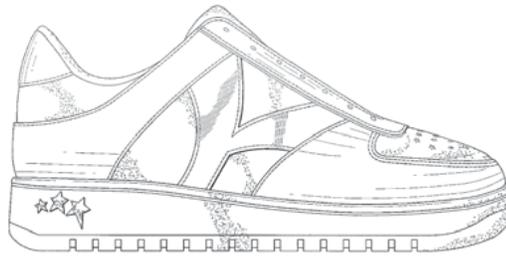


FIG. 3

In selling its men’s and women’s “Sweet” shoe models in commerce, petitioner identified itself as their origin with (i) the YUMS registered trademark, (ii) tags bearing petitioner’s corporate signature logo (SA131); (ii) the letter “Y” sewn onto the shoes’ side panels (*id.*); and (iv) distinctive point-of-sale packaging (SA132). The bottoms of YUMS “Sweet” shoes feature clear material overlaying original graffiti-style artwork. SA22; SA129; JA169a; JA179a.

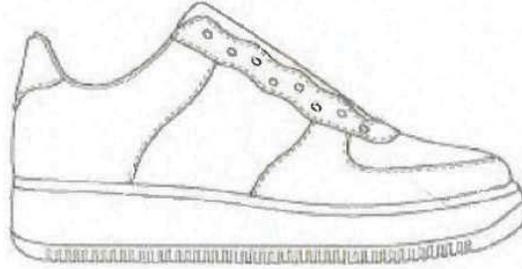
### **Respondent Initiates Registration Proceedings**

Less than a year before the commercial launch of petitioner’s “Sweet” shoe line, on December 1, 2006, respondent filed an application with the United States

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<sup>1</sup> Federal Circuit precedent has long interpreted the design patent statute, 35 U.S.C. § 171, as incorporating the “non-obvious subject matter” condition for patentability prescribed in 35 U.S.C. § 103. *See In re Borden*, 90 F.3d 1570, 1574 (Fed. Cir. 1996).

Patent and Trademark Office (“PTO”) seeking “registration” on the PTO “principal register,”<sup>2</sup> as a purported “trademark used in commerce,” 15 U.S.C. § 1051(a)(1),<sup>3</sup> the three-dimensional shoe configuration drawn below (SA31):



The drawing in respondent’s application depicted the configuration of an athletic shoe model that respondent has sold under the sub-brand “Air Force 1”, but without any of the origin-indicating markings (*e.g.*,

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<sup>2</sup> The PTO maintains two distinct and different “registers,” the “principal register” (15 U.S.C. § 1051(a)(1)) and the “supplemental register” (15 U.S.C. § 1091). The principal register is limited to “marks” that are “used in commerce” as those terms are defined in 15 U.S.C. § 1127. The supplemental register, by contrast, permits registration of broader range of subject matter, including “configuration of goods,” 15 U.S.C. § 1091(c), in part to facilitate non-United States registration of subject matter that is not recognized as trademark-eligible subject matter in the United States.

<sup>3</sup> To be “used in commerce” on “goods” like sneakers, a “trademark” must be “placed . . . on the goods or their containers or displays associated therewith or on the tags or labels affixed thereto.” 15 U.S.C. § 1127. One of the underlying substantive issues remaining to be litigated in this case is whether the term “mark,” and the phrase “placed . . . on,” can be so broadly construed as to describe integral features of a shoe, which make the shoe what it is. If the case is remanded, petitioner will contend that the statutory language cannot be so broadly construed, and that the statutory language is one of the reasons why respondent’s registered trademark is invalid.

a “swoosh” device; the word NIKE) which appear on the actual goods. Respondent claims to have sold shoes embodying the above design since 1982. JA130a. Respondent appears never to have sought patent protection for the design, and any design patent issued to respondent in 1982 would have expired by not later than 1996. 35 U.S.C. § 173.

Respondent’s application for trademark registration candidly stated: “The mark consists of a shoe.” SA26. Respondent submitted a verified statement that it “believe[d]” itself “to be the owner of the trademark/service mark sought to be registered”<sup>4</sup> and that “to the best of [its] knowledge and belief no other person, firm, corporation, or association has the right to use the mark in commerce, either in the identical form thereof or in such near resemblance thereto as to be likely, when used on or in connection

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<sup>4</sup> In contrast with patents, *see* 35 U.S.C. § 154(a)(1) (“Every patent shall contain . . . a grant to the patentee. . . of the right to exclude others from making, using, offering for sale, or selling the invention throughout the United States . . .”), the Trademark Act does not purport to “grant” rights to exclude use of “trademarks.” Rather, 15 U.S.C. § 1051(a) permits a person who *already is* the “owner” of a trademark to seek “registration” of its ownership claim on the “principal register” and thereby to secure certain additional rights by operation of federal law. Initial “ownership” of a trademark can and often does arise by operation of state common law. *See United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90, 98 (1918) (“Property in trade-marks and the right to their exclusive use rest upon the laws of the several States. . .”). This fundamental difference between patent law and trademark law traces back to this Court’s decision in *The Trade-Mark Cases*, 100 U.S. 82 (1879), which held that Congress did not have power under the Patent and Copyright Clause of the Constitution (Art. I, § 8, cl. 8) to regulate trademarks. Subsequent federal regulation of trademarks has been based on the Interstate Commerce Clause, and Congress has not sought to displace all of the state law that creates private rights in trademarks.

with the goods/services of such other person, to cause confusion, or to cause mistake, or to deceive.” SA30.

Respondent’s claim to be the owner of the shoe configuration depicted above was in deep tension with this Court’s precedents. *Cf. Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 231-33 (1964) (federal patent law barred a claim to perpetual trademark protection for the pole lamp design disclosed in U.S. Patent D180,251); *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234, 237-38 (1964) (federal patent law barred a claim to perpetual trademark protection for the lighting fixture design disclosed in U.S. Patent D176,367, notwithstanding district court findings that the subject design was “nonfunctional” and had “secondary meaning” in the sense that trademark law uses those terms.).<sup>5</sup>

Nevertheless, on June 24, 2008, the PTO granted respondent’s application and registered, on its “principal register” (15 U.S.C. § 1051(a)(1)), respondent’s claim that it owned the claimed trademark represented by the solid lines (not the dashed lines) in the amended

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<sup>5</sup> This Court has long held that “on the expiration of a patent the monopoly granted by it ceases to exist, and the right to make the thing formerly covered by the patent becomes public property.” *Kellogg Co. v. Nat’l Biscuit Co.*, 305 U.S. 111, 120 (1938) (quoting *Singer Mfg. Co. v. June Mfg. Co.*, 163 U.S. 169, 185 (1896)). “*Sears* and *Compco* extended that rule to potentially patentable ideas which are fully exposed to the public.” *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.* 489 U.S. 141, 165 (1989). *See Sears*, 376 U.S. at 231 (“An unpatentable article, like an article on which the patent has expired, is in the public domain and may be made and sold by whoever chooses to do so.”); *Compco*, 376 U.S. at 237-38 (“Day-Brite’s fixture has been held not to be entitled to a design or mechanical patent. Under the federal patent laws it is, therefore, in the public domain and can be copied in every detail by whoever pleases.”).

drawing below, which is the drawing of U.S. Reg. No. 3,451,905 (the “905 Registration”; see SA1):



During the prosecution of its application for trademark registration, respondent deleted its original statement that “[t]he mark consists of a shoe” (SA26) and recharacterized the claimed “trademark” as follows:

The mark consists of the design of the stitching on the exterior of the shoe, the design of the material panels that form the exterior body of the shoe, the design of the wavy panel on top of the shoe that encompasses the eyelets for the shoe laces, the design of the vertical ridge pattern on the sides of the sole of the shoe, and the relative position of these elements to each other. The broken lines show the position of the mark and are not claimed as part of the mark. SA91.

Respondent also submitted a one-page declaration in support of its application which stated in part: “The mark has become distinctive of the goods/services through applicant’s substantially exclusive and continuous use in commerce for at least the five years immediately before the date of this statement.” SA48. The PTO apparently accepted this declaration as sufficient to permit registration of respondent’s

ownership claim under 15 U.S.C. § 1052(f) (the ‘905 Registration bears the notation “SEC. 2(f)”); *see* SA1).<sup>6</sup>

### **Respondent Sues Petitioner**

Having been armed with Government-issued “prima facie evidence” of its claimed mark’s validity,<sup>7</sup> respondent filed multiple lawsuits to stop petitioner and others from selling what respondent called “infringing shoes.” JA137a.

On July 16, 2009, respondent filed a 5-count complaint against petitioner (JA31a-47a & SA1) seeking broad injunctive relief (including “destruction of all Infringing Shoes”), actual damages, punitive damages, and attorneys’ fees (JA44a-45a), based on petitioner’s sale of YUMS-branded athletic shoes that embodied the McDade ‘040 Patent design. A side-by-side comparison

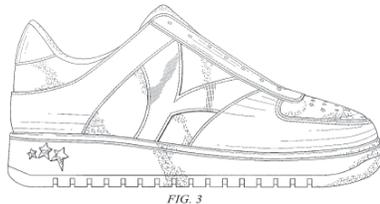
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<sup>6</sup> 15 U.S.C. § 1052(f) provides that “[t]he Director may accept as prima facie evidence that the mark has become distinctive, as used on or in connection with the applicant’s goods in commerce, proof of substantially exclusive and continuous use thereof as a mark by the applicant in commerce for the five years before the date on which the claim of distinctiveness is made.” The text of the Trademark Act here once again distinguishes between “goods,” on the one hand, and a “mark” that is “used on or in connection with the applicant’s goods,” on the other.

<sup>7</sup> When the PTO registers a trademark on the “principal register,” its action is “admissible in evidence and shall be prima facie evidence of the validity of the registered mark and of the registration of the mark, of the registrant’s ownership of the mark, and of the registrant’s exclusive right to use the registered mark in commerce . . . .” 15 U.S.C. § 1115(a). *Cf. Microsoft Corp. v. i4i Ltd. P’ship*, 131 S. Ct. 2238 (2011) (construing corresponding provision of Patent Act, 35 U.S.C. § 282, which provides that claimed inventions disclosed in issued patents are “presumed valid.”). Here, the ‘905 Registration purported to evidence, among other things, respondent’s claim to own state law rights to prevent “dilution” of the claimed “trademark” depicted therein.

of the accused YUMS shoes and the claimed trademark asserted by respondent appears below:

McDade '040 Patent



Nike '905 Registration



Respondent characterized petitioner's sale of YUMS shoes as constituting unlawful "use of colorable imitations of the NIKE Mark" (JA37a, JA39a, JA41a), the phrase "colorable imitation" being a trademark law term of art<sup>8</sup> and the phrase "NIKE Mark" being expressly defined by respondent as referring to "NIKE's federal and common law trademark rights in the design of the Air Force 1 shoe." JA34a. As thus defined in respondent's complaint, the term "NIKE Mark" referred to respondent's claimed state and federal law rights to exclude use of the structural shoe features shown in the '905 Registration.

Respondent also characterized petitioner's sale of shoes embodying the McDade '040 Patent design as constituting unlawful "use" of a "symbol, or device" "on or in connection with" "goods," 15 U.S.C. § 1125(a)(1)<sup>9</sup>

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<sup>8</sup> The statutory phrase "colorable imitation," 15 U.S.C. § 1114(1), historically was used to describe a mark placed on goods "which requires careful inspection to distinguish the spurious trade-mark from the genuine." *McClean v. Fleming*, 96 U.S. 245, 255 (1878). The *McClean* case involved use of a name ("Dr. McLean's Universal Pills") placed on medicament packages.

<sup>9</sup> The statutory terms "symbol" and "device" historically referred to marks that were placed on or "affixed" to goods. *E.g.*, *Elgin Nat'l*

and as unfair competition under New York common law.

Respondent further alleged that the shoe depicted in the '905 Registration was a “famous” “mark” (JA39a); and from this premise, respondent characterized petitioner’s sale of shoes embodying the McDade '040 Patent as constituting “use of a mark or trade name in commerce that is likely to cause dilution.” 15 U.S.C. § 1125(c)(1). JA40a. Respondent asserted a similar claim for “dilution” under New York General Business Law § 360-1. JA42a-44a.

### **Petitioner’s Answer and Counterclaim**

Petitioner served an answer to respondent’s complaint, denied infringement, and asserted a compulsory counterclaim (*see* Fed. R. Civ. P. 13(a)(1)) for judgment (i) declaring that respondent does not own any valid state or federal trademark rights to exclude use of the

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*Watch Co. v. Illinois Watch Co.*, 179 U.S. 665, 673 (1900) (“It may consist in any *symbol* or in any form of words” whose “office is to point out distinctively the origin or ownership of the articles to which it is *affixed*”) (emphasis added); *McClean*, 96 U.S. at 254 (“Stamps or trade-marks of the kind are employed to point out the origin, ownership, or place of manufacture or sale of the article to which it is *affixed*” and “may consist of a name, *symbol*, figure, letter, form, or *device*”) (emphasis added). The current day affixation requirement for trademarks is found in the statutory definition of “use in commerce” in 15 U.S.C. § 1127. A design may constitute a “mark” if it is physically or conceptually separable from the “goods” on which it is “placed.” *Cf. Wal-Mart Stores, Inc. v. Samara Bros., Inc.*, 529 U.S. 205, 207 (2000) (asserted design comprised “appliqués of hearts, flowers, fruits, and the like” which were placed on clothing items). For “mechanical configurations,” by contrast, this Court has held that patent law standards “insure competition in the sale of identical or substantially identical products.” *Goldstein v. California*, 412 U.S. 546, 569-70 (1973). *Cf. Dastar Corp. v. Twentieth Century Fox Film Corp.*, 539 U.S. 23, 37 (2003) (rejecting interpretation of trademark law that would create “a species of perpetual patent”).

shoe configuration disclosed and claimed in the '905 Registration, and (ii) awarding appropriate injunctive relief including cancellation of the '905 Registration. Petitioner's counterclaim alleged in part (JA55a-56a):

47. The purported "mark" depicted and described in the '905 Registration is not, in fact, a "trademark" within the meaning of 15 U.S.C. § 1127.

48. The purported "mark" depicted and described in the '905 Registration is not a "symbol" or a "device" used "on" or "in connection with" "goods" within the meaning of 15 U.S.C. § 1125(a)(1), but rather consists of integral features of "goods" sold by plaintiff.

In concluding paragraphs (ii)-(viii) of its counterclaim, petitioner prayed that the court (JA57a-58a):

(ii) Declare, adjudge, and decree that the purported "mark" depicted in the '905 Registration is not a valid trademark under federal or New York state law;

(iii) Declare, adjudge, and decree that the design of the shoe depicted in paragraph 10 of respondent's Complaint herein is not a valid trademark under federal or New York state law;

(iv) Declare, adjudge, and decree that Yums has not infringed any rights that Nike may have in the purported "mark" depicted in the '905 Registration;

(v) Declare, adjudge, and decree that Yums has not infringed any rights that Nike may have in the configuration of the shoe depicted in paragraph 10 of the Complaint herein;

(vi) Order cancellation of the '905 Registration under 15 U.S.C. § 1119;

(vii) Award defendants their costs, disbursements and attorneys' fees as allowed by law; and

(viii) Award such other and further relief as the Court may deem just and proper.

In December 2009, respondent served an answer to petitioner's counterclaim. JA72a-80a. Respondent denied petitioner's allegations challenging the validity of the purported trademark depicted in the '905 Registration. Respondent did, however, specifically admit that (i) "[a]n 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 of 1946, as amended, or under New York state statutory or common law", and (ii) "[a]n actual controversy exists between Yums and Nike regarding whether the '905 Registration is valid." JA77a.

#### **Litigation Activity in the District Court**

On November 13, 2009, the parties jointly submitted a case management plan to the district court which called for all fact discovery to be completed by April 2, 2010, and all expert discovery to be completed by May 28, 2010. *See* JA82a-83a. That same month both sides served written interrogatories under Federal Rule of Civil Procedure 33 and requests for production of documents under Federal Rule of Civil Procedure 34. JA84a-85a.

On December 9, 2009, respondent moved for leave to file a motion to strike petitioner's first and second affirmative defenses. JA59a-64a. Those defenses asserted that respondent's claims were barred, in whole or in part, by federal patent law and applicable precedents of this Court. JA54a. Petitioner opposed respondents' motion and, in the alternative, sought

leave to cross move for summary judgment in its favor on the subject defenses. JA65a-70a.

On January 20, 2010, the parties appeared before the district court for a pretrial conference under Federal Rule of Civil Procedure 16. The district court ordered that all fact discovery be completed by June 10, 2010, and that all expert discovery be completed by August 2, 2010. JA13a. The January 2010 conference also included the following colloquy:

THE COURT: Mr. Dabney, you are not going to show your props?

MR. DABNEY: I had wanted, your Honor. I thought it would be helpful for your Honor to see what the case actually was about.

THE COURT: I don't mind looking at the props. . . . You have a photograph on the first page of your December 14 letter [JA66a] as well as attachments [SA2-6] that I guess are from –

MR. DABNEY: I think perhaps your Honor can appreciate why the defendant viewed this as an exceptional case if your Honor could just look at the packaging and the products. We do not believe that -- I don't think that there could be two more different appearing products in the marketplace, both in terms of the packaging that the customer sees, or in terms of the actual physical shoes which have their own distinct markings on them.

THE COURT: I think that was apparent from your letter. I guess I can ask plaintiffs. What is it, they both have laces? . . . .

MR. RENK: Your Honor, it's the overall appearance of the shoe as described in the trade-

mark registration, the panel configuration in combination with the eyelet stays, in combination with the outsole serration. It's the overall appearance of the shoe, the configuration of the shoe, Your Honor, that's at issue.

THE COURT: I'm not about to resolve that now. I'm not sure I'll ever have to resolve it. They sure look different to me. . . . (JA86a-87a).

The district court set a deadline for filing respondent's proposed motion to strike (JA87a-88a) and granted petitioner leave to cross-move for summary judgment in its favor on the issues respondent proposed to raise. JA88a. The district court also rejected respondent's request that it be permitted to withhold pre-tests of survey instruments. JA89a-92a. The district court subsequently issued a protective order of confidentiality for discovery materials. JA15a.

### **Respondent Delivers a Covenant Not to Sue**

On March 19, 2010, respondent abruptly delivered a document styled "Covenant Not to Sue." JA95a-97a. As the district court noted, respondent's unilateral covenant was delivered "[i]n the middle of discovery." Pet. App. 23a. The covenant was delivered approximately eight (8) weeks after the district court had listened to respondent's trial counsel attempt to answer the question, "What is it, they both have laces?" and had stated "they sure look different to me." JA87a.

In its unilateral covenant, respondent undertook to "refrain" from asserting its claimed mark or the '905 Registration against "any of Already's *current* and/or *previous* footwear product designs, and any colorable imitations thereof, regardless of whether that footwear is produced, distributed, offered for sale, advertised, sold, or otherwise used in commerce before or after the

Effective Date of this Covenant [March 19, 2010].”  
JA96a-97a (emphasis added).

The covenant also included the following prefatory assertions:

NIKE represents and warrants that it *owns federal and common law trademark rights* in the design of NIKE’s Air Force 1 low shoe, including United States Trademark Registration Number 3,451,905, . . . collectively . . . referred to as the “NIKE Mark;” and

Already’s actions complained of in the Complaint no longer infringe or dilute the NIKE 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 the NIKE Mark.

JA96a (emphasis added).

The covenant thus reasserted respondent’s disputed claim of state and federal law rights to exclude use of the purported trademark depicted in the ‘905 Registration and in paragraph 10 of respondent’s complaint (JA33a), and asserted that the reason for respondent’s sudden abandonment of its lawsuit against petitioner, after nine months of litigation, was a purported belief that petitioner’s complained of “actions” were “no longer . . . at a level” that “warrant[ed]” the expense of obtaining any relief against petitioner, its successors, or assigns. JA96a-97a.

Respondent’s openly-acknowledged purpose in delivering this covenant was to try and divest the district court of subject matter jurisdiction. Immediately following delivery of its “covenant,” respondent moved the district court for an order (i) dismissing respondent’s own complaint against petitioner with prejudice, and

(ii) dismissing petitioner’s compulsory counterclaim for alleged lack of subject matter jurisdiction, ostensibly on the basis that petitioner’s counterclaim was somehow rendered moot by respondent’s unilateral post-suit act. JA132a-133a.

Respondent’s motion invoked “Rule 41(a)(2), Fed. R. Civ. P.” JA132a. Respondent took the contradictory positions that (i) the district court had jurisdiction to dismiss respondent’s claims against petitioner “with prejudice,” thereby rendering a judgment on the merits, *see Semtek Int’l Inc. v. Lockheed Martin Corp.*, 531 U.S. 497, 505 (2001), but that (ii) the district court supposedly lacked jurisdiction to render judgment on the merits of petitioner’s compulsory counterclaim.

On April 26, 2010, petitioner opposed respondent’s motion and objected to dismissal of this *action* (as distinct from respondent’s *claims* in this action) in view of petitioner’s pending counterclaim. Petitioner argued that respondent bore the burden of demonstrating that its unilateral covenant had rendered petitioner’s counterclaim moot, and that respondent had failed to carry this burden.

### **The District Court’s Decision**

On January 20, 2011, without holding any evidentiary hearing,<sup>10</sup> the district court granted respondent’s motion to dismiss its own complaint “with prejudice.” JA197a-198a. As noted above, a dismissal “with prejudice” is a form of adjudication on the merits. *See Semtek*, 531 U.S. at 505. The district court’s dismissal of

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<sup>10</sup> The Second Circuit opinion states that the district court acted “[a]fter a hearing.” Pet. App. 5a. The “hearing” referred to was a *pre-motion* hearing held April 2, 2010 (JA98a), before respondent’s motion to dismiss had even been filed. No evidence was submitted or received at this pre-motion “hearing.”

respondent’s complaint “with prejudice” was thus an *exercise* of judicial jurisdiction and granted the relief that petitioner had sought in prayer (i) of its counterclaim, *i.e.*, that the court “[d]ismiss the plaintiff’s Complaint with prejudice.” JA57a.

After having thus dismissed respondent’s complaint with prejudice and awarded a portion of the relief sought by petitioner, the district court held that it lacked jurisdiction to award the declaratory and injunctive relief sought in prayers (ii)-(vi) and (viii) of petitioner’s counterclaim Pet. App. 32a-38a. The district court appeared to acknowledge that the ‘905 Registration was a source of continuing injury to petitioner, but concluded that “in the present posture of this case, the Patent and Trademark Office is the proper venue for Defendant to seek cancellation.” Pet. App. 37a n.3.<sup>11</sup> The district court acknowledged that its reasoning was contrary to that which the Ninth Circuit applied in *Bancroft & Masters, Inc. v. August National Inc.*, 223 F.3d 1082, 1085 (9th Cir. 2000). *See* Pet. App. 36a (“some courts in other districts have agreed with Defendant’s argument”) (citing *Bancroft*).

The dismissal of respondent’s complaint “with prejudice” rendered petitioner “the prevailing party” (15 U.S.C. § 1117(a)) and thus potentially entitled to

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<sup>11</sup> 15 U.S.C. § 1064 provides that “[a] petition to cancel a registration of a mark . . . may . . . be filed . . . by any person who believes that he is or will be damaged . . . by the registration.” PTO decisions in such cancellation proceedings are subject to district court review under 15 U.S.C. § 1071(b), and potentially *de novo* review when new evidence is introduced on a disputed issue of fact. *Cf. Kappos v. Hyatt*, 132 S. Ct. 1690 (2012) (construing the patent law counterpart to § 1071(b)). Thus, district court’s reasoning seemed to suggest that petitioner’s counterclaim for cancellation would be subject to district court jurisdiction if presented in a direct review proceeding under 15 U.S.C. § 1071(b).

recover attorneys' fees if this case were deemed "exceptional." *Id.* Petitioner's prayer for attorneys' fees was specifically set forth in paragraph (vii) of its counterclaim. JA58a. The district court concluded that "this case, in which Plaintiff moved to voluntarily dismiss its claims at an early stage of litigation, is not exceptional such that Defendant is entitled to attorney's fees and costs under Section 1117." Pet. App. 39a. The district court adjudicated this portion of petitioner's counterclaim without considering or deciding whether, as petitioner alleged in the counterclaim, respondent had asserted invalid state and federal trademark claims against petitioner.

### **The Second Circuit's Decision**

Petitioner timely appealed the dismissal of its compulsory counterclaim to the Second Circuit. Petitioner argued that its compulsory counterclaim seeking cancellation of the '905 Registration and appropriate awards of injunctive and declaratory relief was independent of petitioner's right to raise invalidity as a defense to respondent's infringement claims; that the jurisdictional standard was the "absolutely clear" standard that this Court stated and applied in *Friends of the Earth, Inc. v. Laidlaw Environmental Services (TOC), Inc.*, 528 U.S. 167, 190 (2000); and that respondent had not met this standard, just as the registrant in *Bancroft* had not.

Petitioner further argued that there was no principled difference between its position in this case and the position of the counterclaimant in *Cardinal Chemical Co. v. Morton International, Inc.*, 508 U.S. 83 (1993), wherein this Court held that a judgment of non-infringement did not divest a federal court of jurisdiction to hear a counterclaim for judgment declaring that the non-infringed patent was invalid. *Id.* at 96, 99-103.

The Second Circuit stated that *Cardinal Chemical* was “inapposite” to this case because it concerned the jurisdiction of “an intermediate appellate court, not a trial court.” Pet. App. 16a (quoting *Giese v. Pierce Chem. Co.*, 43 F. Supp. 2d 98, 112 n.14 (D. Mass. 1999)). The court further stated: “The Supreme Court’s decision in *Cardinal Chemical* is limited to the specific facts of that case.” *Id.* (quoting *Lamb-Weston, Inc. v. McCain Foods, Ltd.*, 78 F.3d 540, 546 (Fed. Cir. 1996)).

The Second Circuit also stated that “Section 1119 . . . creates a *remedy* for *trademark infringement*,” Pet. App. 18a (emphasis added); and from this premise (which neither side advocated below),<sup>12</sup> the court held that “a claim for trademark cancellation under § 1119 is insufficient to support federal jurisdiction where a covenant not to sue has *resolved* the underlying *infringement* action.” Pet. App. 19a (emphasis added). The court did not analyze whether 28 U.S.C. § 1367(a) supported petitioner’s compulsory counterclaim for cancellation of the ‘905 Registration and appropriate awards of injunctive and declaratory relief.

Finally, the Second Circuit affirmed the district court’s denial of attorneys’ fees. In its brief to the Second Circuit, respondent expressly relied on the ‘905 Registration as supporting its argument that this case ought not be deemed “exceptional” for purposes of awarding attorneys’ fees under 15 U.S.C. § 1117(a). See Resp. C. A. Br. at 39 (arguing that attorneys’ fees were not appropriate “[a]t least because **NIKE**

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<sup>12</sup> Section 37 of the Lanham Act vests district courts with authority to “rectify the register” maintained by the PTO, not to remedy “infringement.” The unlawful registration of trademark-ineligible subject matter is not an act of “infringement,” and cancellation of such a registration is not a “remedy” for “infringement.” The Second Circuit’s contrary statement was incorrect.

*possesses a federal trademark registration . . . .*”) (bold and italics in original).

### SUMMARY OF THE ARGUMENT

The Court should reverse the judgment of the Second Circuit in this case for several reasons.

First, this case involves a claim of “postcommencement mootness.” *Friends of the Earth*, 528 U.S. at 174. It is undisputed that as of March 18, 2010 (the day before respondent delivered its unilateral covenant not to sue), the district court in this case had jurisdiction over petitioner’s counterclaim for judgment (i) declaring that respondent does not own any valid state or federal trademark rights to exclude use of the shoe configuration depicted in the ‘905 Registration, and (ii) awarding appropriate injunctive relief including cancellation of the ‘905 Registration. Respondent has not renounced the claim of trademark ownership that petitioner challenged in this case, but respondent nevertheless contends that its voluntary post-suit covenant divested the district court of jurisdiction to adjudicate petitioner’s claim. Under this Court’s precedents, *respondent* bore a stringent burden of proving that (i) it was “absolutely clear” petitioner would never again be adversely affected by respondent’s allegedly false claim of trademark ownership, and that (ii) respondent had “irrevocably eradicated” the effects of its past allegedly unlawful conduct. *County of Los Angeles v. Davis*, 440 U.S. 625, 631 (1979). (Part I, *infra*).

Second, respondent wholly failed to carry its heavy burden of demonstrating mootness. Respondent’s registered claim of state and federal trademark law rights purports to impose a direct, continuing restraint on the conduct of petitioner’s athletic footwear business. The ‘905 Registration nationally advertises and gives color to respondent’s disputed claim of right to exclude use of

the shoe configuration depicted therein. Respondent's registered claim disadvantages petitioner, both procedurally and substantively, in efforts to attract investment and compete with respondent in the marketplace. As a company engaged in the business of designing and marketing athletic shoes, petitioner plainly has a legitimate interest in obtaining a judgment declaring that the shoe configuration depicted in the '905 Registration is "in the public domain and can be copied in every detail by whoever pleases." *Compco*, 376 U.S. at 237-38. (Part II, *infra*).

Third, the decision below is deeply inconsistent with "the strong federal policy favoring the full and free use of ideas in the public domain." *Lear, Inc. v. Adkins*, 395 U.S. 653, 674 (1969). In light of that policy, this Court has repeatedly disapproved case law doctrines, like the one applied below, which have restricted litigants' ability to maintain federal court challenges to the validity of claimed rights to exclude use of design and utilitarian conceptions. This case presents a similar circumstance. The jurisdictional rule applied below purports to limit the authority of federal courts to hear legitimate challenges to the validity of claimed trademarks and to the legality of PTO registration decisions. To the extent that a federal trademark registrant can unilaterally divest a federal court of jurisdiction to hear a challenge to the validity of an asserted registered trademark, the registration can remain on the PTO principal register as a "scarecrow," *Cardinal Chem.*, 508 U.S. at 96 (quoting *Bresnick v. United States Vitamin Corp.*, 139 F.2d 239, 242 (2d Cir. 1943) (L. Hand, J.)), and a basis for commencing meritless but costly trademark litigation. Such scarecrow registrations injure not only the interests of consumers, but also the specific business interests of competitors that are active in the particular industry. (Part III, *infra*.)

**I. RESPONDENT BORE A HEAVY BURDEN TO ESTABLISH THAT ITS VOLUNTARY ACTIONS RENDERED THIS CASE MOOT.**

It is undisputed that the filing of respondent's complaint in this action commenced a civil action over which the district court had original jurisdiction under at least 28 U.S.C. § 1331. It is also undisputed that, at the time petitioner answered respondent's complaint, the district court had supplemental jurisdiction to hear petitioner's compulsory counterclaim under at least 28 U.S.C. § 1367(a). Petitioner's counterclaim challenged the validity of respondent's claim that it owns state and federal law trademark rights to exclude use of the shoe configuration depicted in the '905 Registration. The counterclaim sought declaratory and injunctive relief against respondent and an order directing the cancellation of the '905 Registration.

Because the district court concededly had jurisdiction to adjudicate petitioner's counterclaim at the time it was filed, respondent's motion to dismiss that counterclaim for lack of subject matter jurisdiction was governed by this Court's precedents on "postcommencement mootness." *Friends of the Earth*, 528 U.S. at 174. At issue here is whether respondent's voluntary conduct—the delivery of a covenant not to sue petitioner based on the appearance of certain shoe designs that existed on or prior to March 19, 2010—mooted petitioner's counterclaim.

In these circumstances, it was *respondent* that bore the burden of *disestablishing* the district court's jurisdiction on mootness grounds. *See, e.g., Adarand Constructors, Inc. v. Slater*, 528 U.S. 216, 221 (2000) (per curiam) (reversing judgment where Tenth Circuit "confused mootness with standing . . . and as a result placed the burden of proof on the wrong party.")

(quoting *Friends of the Earth*, 528 U.S. at 189); *Cardinal Chem.*, 508 U.S. at 98 & n.20.

Respondent's burden in this case was at least as heavy as the burden articulated by this Court's case law governing "voluntary cessation of a challenged practice." *Friends of the Earth*, 528 U.S. at 189 (quoting *City of Mesquite v. Aladdin's Castle, Inc.*, 455 U.S. 283, 289 (1982)). We say "at least as heavy" as that burden, because this case involves at most only *partial* voluntary cessation of the challenged activity.

The challenged activity in this case is not merely respondent's assertion of meritless infringement or dilution claims. To the contrary, petitioner's counterclaim challenges the validity of respondent's claimed ownership of state and federal trademark law rights to exclude competitors, in perpetuity, from selling a broad class of athletic shoe products, including any shoe whose sale could plausibly be characterized as likely to cause "dilution by blurring" (15 U.S.C. § 1125(c)(1)) of the shoe configuration depicted in the '905 Registration. Petitioner's counterclaim seeks judicial relief against respondent's false and invalid ownership claims, including declaratory and injunctive relief as well as cancelation of the '905 Registration.

As this Court held in *Altvater v. Freeman*, 319 U.S. 359, 363 (1943), "[t]hough the decision of non-infringement disposes of the bill [i.e., the complaint] and answer, it does not dispose of the counterclaim which raises the question of validity." This case is highly similar to the situation in *Altvater* where, despite an adjudication of noninfringement in the lower courts, the Court held that the validity issues "raised by the present counterclaim were justiciable and that the controversy between the parties did not come to an end . . . on the dismissal of the bill for non-

infringement, since their dispute went beyond the single claim and the particular accused devices involved in that suit.” *Id.* at 363-64.

Here, as in *Altvater*, petitioner’s counterclaim goes “beyond” the infringement and dilution claims that respondent asserted; it challenges the validity of the purported trademarks that respondent asserted. Respondent’s unilateral covenant does not renounce or withdraw its disputed claims of trademark ownership. To the contrary, respondent’s unilateral covenant expressly *reasserts* respondent’s disputed claim that it “owns federal and common law rights in the design of NIKE’s Air Force 1 low shoe, including United States Trademark Registration Number 3,451,905.” JA96a.

Respondent’s unilateral covenant amounted in substance to an attempt to make petitioner an involuntary licensee under respondent’s disputed “trademark.” *Cf. De Forest Radio Tel. Co. v. United States*, 273 U.S. 236, 241-42 (1927) (consent to use of claimed invention constituted a “license”); *TransCore, LP v. Elec. Transaction Consultants Corp.*, 563 F.3d 1271, 1275 (Fed. Cir. 2009) (“this court and its predecessors have on numerous occasions explained that a non-exclusive patent license is equivalent to a covenant not to sue”).

Moreover, nothing in the covenant bars respondent from claiming that *new* shoes created by petitioner (where by “new” we mean shoes that are not colorable imitations of old designs) can be challenged as infringing or diluting the claimed trademark depicted in the ‘905 Registration. Because respondent ceased only a portion of the activity that petitioner’s counterclaim challenged, its burden to establish mootness must be at least as high as the burden for complete cessation.

As this Court has explained, a party’s voluntary cessation of a challenged practice does not necessarily

moot a pending case because “[a] controversy may remain to be settled in such circumstances, . . . *e.g.*, a dispute over the legality of the challenged practices.” *United States v. W.T. Grant Co.*, 345 U.S. 629, 632 (1953). That is precisely the circumstance here, where the parties continue to dispute—and to dispute hotly—the validity of respondent’s claim that it owns perpetual state and federal rights to exclude competitors from selling shoes that embody the configuration set forth in the ‘905 Registration, and similar configurations, according to the standards of trademark law.

Furthermore, this Court has repeatedly explained that the high burden applied to voluntary cessation cases is necessary because otherwise “the courts would be compelled to leave [t]he defendant . . . free to return to his old ways.” *Friends of the Earth*, 528 U.S. at 189 (quoting *City of Mesquite*, 455 U.S. at 289 n.10 (quoting *W.T. Grant*, 345 U.S. at 632))). So here, when it sought dismissal of petitioner’s counterclaim, respondent made it very clear that it considers that it still has valid state and federal law rights to exclude imitation of the shoe configuration depicted in the ‘905 Registration and stands ready to assert those rights in the future as it has aggressively done in the past. In many respects respondent has not ceased its challenged activity at all, but has merely purported to license petitioner to sell certain 2+ year old shoe models that purportedly infringe or dilute the claimed trademark depicted in the ‘905 Registration.

Even if respondent were entitled to the establish mootness under the voluntary cessation doctrine, the “the standard . . . for determining whether a case has been mooted by the defendant’s voluntary conduct is stringent: ‘A case might become moot if subsequent events made it absolutely clear that the allegedly wrongful behavior could not reasonably be expected to

recur.” *Friends of the Earth*, 528 U.S. at 189 (quoting *United States v. Concentrated Phosphate Export Ass’n, Inc.*, 393 U.S. 199, 203 (1968)). As the *Friends of the Earth* Court noted, satisfaction of the “absolutely clear” test proves only that the case “might” be moot. *Id.*

The complete mootness test, as articulated by this Court in *County of Los Angeles v. Davis*, 440 U.S. 625 (1979), involves two prongs, both of which must be satisfied: “[J]urisdiction, properly acquired, may abate if the case becomes moot because (1) it can be said with assurance that “there is no reasonable expectation . . .” that the alleged violation will recur . . . , and (2) interim relief or events have completely and irrevocably eradicated the effects of the alleged violation.” 440 U.S. at 631. It is also absolutely clear that this burden is on the respondent. *See Friends of the Earth*, 528 U.S. at 189 (“The ‘heavy burden of persua[ding]’ the court that the challenged conduct cannot reasonably be expected to start up again lies with the party asserting mootness”).

Respondent here fails both prongs of the test articulated in *Davis*. With respect to this first part of the test, respondent continues to assert that it owns and stands willing to enforce its claimed state and federal trademark rights to exclude use of the shoe configuration depicted in the ‘905 Registration. Indeed, as discussed in part II, *infra*, the affidavits respondent submitted below show that (i) shoes embodying the claimed design are highly popular in the marketplace; (ii) numerous firms in the industry, including petitioner, have both the capability and economic interest in making a wide variety of shoes that respondent has asserted infringe its claimed rights; and (iii) such shoes are being kept off the market as a result of respondent taking aggressive enforcement actions under the color of the ‘905 Registration.

In multiple ways, respondent has also failed to prove that its unilateral covenant satisfied the second prong of the *Davis* test – that the covenant has “completely and irrevocably eradicated the effects of the alleged violation.” 440 U.S. at 631. First, respondent has failed to demonstrate that its claimed state and federal trademark rights impose no meaningful restriction on the business operations of firms, like petitioner, that remain active in the athletic footwear industry. To the contrary, the record shows that respondent has taken aggressive actions to enforce its purported trademark rights and stands ready and willing to do so in the future.

Second, respondent has not asked the PTO to cancel the ‘905 Registration. Petitioner’s counterclaim in this case alleged that respondent’s procurement of the ‘905 Registration was itself a violation of federal law. The effects of that violation of law will continue unless and until the ‘905 Registration is canceled and respondent agrees or is enjoined not to assert such purported trademark rights again in the future.

Third, in the courts below, petitioner requested an award of attorney’s fees to compensate it for the expenses of having to defend against respondent’s assertion of an invalid, federally registered trademark. In arguing against such an award, respondent relied on—and indeed, placed special emphasis on—its possession of a federal trademark registration as one reason for denying such an award. *See* Resp. C.A. Br. at 39 (arguing that attorney’s fees should not be awarded to petitioner “because ***NIKE possesses a federal trademark registration***) (italics and bold in original). Respondent’s reliance on the ‘905 Registration in opposing petitioner’s request for attorney’s fees is but one of many ways in which respondent is continuing to use that registration to harm petitioner.

The case law of this Court provides additional bases for imposing the burden of establishing mootness on respondent and for holding that, as a matter of law, respondent has failed to satisfy that burden. Even beyond the “voluntary cessation” line of cases, this Court has held that a party moving for dismissal bears the burden of establishing mootness. As explained by the Court in *Cardinal Chemical*, “while the initial burden of establishing the trial court’s jurisdiction rests on the party invoking that jurisdiction, once that burden has been met courts are entitled to presume, absent further information, that jurisdiction continues.” 508 U.S. at 98. Thus, in the circumstances of *Cardinal Chemical*, this Court explained: “If a party to an appeal suggests that the controversy has, since the rendering of judgment below, become moot, that party bears the burden of coming forward with the subsequent events that have produced that alleged result.” *Id.*

The court of appeals below and the Federal Circuit have held *Cardinal Chemical* to be “limited to the specific facts of that case.” Pet. App. 16a (quoting *Lamb-Weston, Inc. v. McCain Foods, Ltd.*, 78 F.3d 540, 546 (Fed. Cir. 1996)). The Second Circuit’s theory for limiting *Cardinal Chemical* is that the case should be construed as applying only to “the jurisdiction of an intermediate appellate court, not a trial court.” *Id.* (internal quotations omitted). Such a distinction is not theoretically sound. Article III of the Constitution imposes the same limits on the jurisdiction of all federal courts. There is not one case or controversy doctrine for intermediate appellate courts and another for trial courts. Indeed, constitutionally, both intermediate appellate courts and trial courts are “inferior Courts” that are wholly creatures of statute. Nothing in the text of the Constitution suggests that

appellate inferior Courts should have more leeway to issue advisory opinions than trial inferior Courts.

This Court's precedents have also held that a case does not become moot "[a]s long as the parties have a concrete interest, however small, in the outcome of the litigation." *Knox v. Serv. Emp. Int'l Union, Local 100*, 132 S. Ct. 2277, 2287 (2012) (quoting *Ellis v. Railway Clerks*, 466 U. S. 435, 442 (1984)). Here the parties have a very substantial concrete interest in the outcome of this litigation, and indeed one that is far more substantial than the interest held sufficient in *Knox*. The issue in *Knox* was "whether the First Amendment allows a public-sector union to require objecting nonmembers to pay a special fee for the purpose of financing the union's political and ideological activities." *Id.* at 2284. While *Knox* was pending in this Court, the respondent union "sent out a notice offering a full refund [of the challenged union fees] to all class members" in the case. Still, the case was not moot, this Court held, because there was a dispute about the format of the notice sent to the class members. The continuing injury of the union members was purely about information, *i.e.*, the manner in which the union "advertises" the availability of the refund.

At least as much remains at stake in this case. Respondent's federal registration continues to "advertise" its assertion of state and federal rights in what petitioner claims is trademark-ineligible subject matter. Indeed, the very covenant not to sue delivered by respondent also reasserts the validity of respondent's claimed trademark. As this Court has noted in *Cardinal Chemical*, a desire to avoid the threat of a presumptively valid "scarecrow" patent may itself be sufficient to establish even *initial* federal court

jurisdiction under the Declaratory Judgment Act. 508 U.S. at 96 (quoting *Bresnick*, 139 F.2d at 242).<sup>13</sup>

A judgment ordering cancelation of the ‘905 Registration and declaring invalid respondent’s asserted state and federal trademark rights will therefore offer meaningful relief to petitioner, and that is more than sufficient to establish a continuing case or controversy under *Knox*. See 132 S. Ct. at 2287 (holding that a case does not become moot where a court can grant “any effectual relief whatever”).

## II. RESPONDENT FAILED TO PROVE THAT THIS CASE, WHICH IT INITIATED, WAS RENDERED MOOT BY ITS COVENANT.

Under this Court’s precedents, “Article III of the Constitution limits the federal judicial power to ‘Cases’ or ‘Controversies,’ thereby entailing as an ‘irreducible minimum’ that there be (1) an injury in fact, (2) a causal relationship between the injury and the challenged conduct, and (3) a likelihood that the injury will be redressed by a favorable decision.” *United Food & Commercial Workers Local 751 v. Brown Group, Inc.*, 517 U.S. 544, 551 (1996).<sup>14</sup>

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<sup>13</sup> In the *Bresnick* case, the plaintiff had asserted just one of the eight claims of U.S. Patent No. 2,007,108 entitled “Medicinal Preparation.” The Second Circuit nonetheless considered and “disposed of” other, unasserted claims, in recognition of the practical reality that the mere existence of an invalid patent can have anticompetitive effects, in the same way that a scarecrow can mislead birds. Precisely the same is true of an invalid trademark registration.

<sup>14</sup> *Accord Friends of the Earth*, 528 U.S. at 180-81; *Northeastern Fla. Chapter of the Assoc. Gen. Contractors of Am. v. City of Jacksonville*, 508 U.S. 656, 663-68 (1993); *Lujan v. Defenders of Wildlife*, 504 U.S. 555, 560 (1992); *Havens Realty Corp. v. Coleman*, 455 U.S. 363, 373-74 (1982); *Valley Forge Christian College v.*

In this case, petitioner contends that the ‘905 Registration represents unlawful Government agency action that invades petitioner’s “federal right to ‘copy and to use’ . . . potentially patentable ideas which are fully exposed to the public,” *Bonito Boats*, 489 U.S. at 165, and that gives false color to state and federal trademark claims which expose petitioner’s business to substantial and unpredictable risks – as this case graphically demonstrates.

Not only does the ‘905 Registration constitute “prima facie evidence of . . . the registrant’s exclusive right to use the registered mark in commerce on or in connection with the goods or services specified in the registration,” 15 U.S.C. § 1115(a),<sup>15</sup> but as this case illustrates, an athletic shoe can embody *none* of the structural features claimed in the ‘905 Registration and yet *still* be deemed by this respondent to constitute a “colorable imitation” (15 U.S.C. § 1114(1)(a)) of the so-called “trademark” depicted in the ‘905 Registration.

More than this, respondent contends that the purported trademark depicted in the ‘905 Registration is a “famous mark” and, as such, is entitled to protection against “dilution by blurring . . . , regardless of the presence or absence of actual or likely confusion, of competition, or of actual economic injury.” 15 U.S.C. § 1125(c)(1). In contending that an unpatented shoe configuration is a “trademark” and, as such, entitled to

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*Americans United for Separation of Church and State, Inc.*, 454 U.S. 464, 471-76 (1982); *Duke Power Co. v. Carolina Environmental Study Group, Inc.*, 438 U.S. 59, 72-73 (1978).

<sup>15</sup> The text of 15 U.S.C. § 1115(a), like other provisions of the Trademark Act, illustrates how a “mark” must be distinct from “goods” on which it is placed. What the PTO did here was register “goods,” not a “mark” that exists separately and independently of the “goods” to which it is applied.

the same perpetual protection against imitation as a mere word might be, this respondent claims extremely far-reaching, indeterminate, and perpetual rights of exclusion which plainly invade and conflict with petitioner's rights under federal patent law.

In *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (1964), this Court considered an unfair competition claim identical, in principle, to the one that respondent asserted in this case. In *Sears*, the petitioner had copied Stiffel's then popular "pole lamp" design. Stiffel sought relief under state unfair competition law on the theory that "by selling copies of Stiffel's lamp Sears had caused confusion in the trade as to the source of the lamps and had thereby engaged in unfair competition under [state] law." *Id.* Stiffel prevailed in district court, which enjoined "Sears 'from unfairly competing with [Stiffel] by selling or attempting to sell pole lamps identical to or confusingly similar to' Stiffel's lamp." *Id.*

This Court reversed and held, not merely that the state unfair competition claim was invalid, but that it invaded the federal rights of Stiffel's competitors:

What Sears did was to copy Stiffel's design and to sell lamps almost identical to those sold by Stiffel. *This it had every right to do under the federal patent laws.* That Stiffel originated the pole lamp and made it popular is immaterial. "Sharing in the goodwill of an article unprotected by patent or trademark is the exercise of a right possessed by all—and in the free exercise of which the consuming public is deeply interested."

376 U.S. at 231 (emphasis added) (quoting *Kellogg Co. v. Nat'l Biscuit Co.*, 305 U.S. 111, 122 (1938)). See also *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234, 238 (1964) (patent laws entitled petitioner to copy and

sell lighting fixtures embodying the design disclosed in invalid U.S. D176,367, notwithstanding district court findings that design was “nonfunctional” and had “secondary meaning”).

Petitioner presented evidence to the district court that the continued existence of the ‘905 Registration has tended to deter investment in petitioner’s athletic shoe business notwithstanding respondent’s covenant (JA 168a-170a; JA178a-180a, JA 181a-183a) and that respondent’s disputed claim of right to exclude sales of athletic shoes that resemble the shoe depicted in the ‘905 Registration has tended to deter retailers from buying petitioner’s “Sweet” shoe line. JA175a-177a. These commercial injuries were over and above the procedural disadvantages that the ‘905 Registration imposes on petitioner, including the PTO’s registration decision being “admissible in evidence” against petitioner, 15 U.S.C. § 1115(a), its constituting “prima facie evidence of the validity of the registered mark,” *id.*, its relieving respondent of evidentiary burdens of proof, 15 U.S.C. § 1125(a)(3), and its granting respondent the ability to seek “incontestable” rights in the claimed mark after 5 years. 15 U.S.C. § 1065. *See See Park ‘N Fly, Inc. v. Dollar Park and Fly, Inc.*, 469 U.S. 189, 193-203 (1985) (“incontestable” registration held not subject to cancellation under 15 U.S.C. § 1119 where ground of cancellation was not available under 15 U.S.C. § 1064).

Registration of a mark on the PTO “principal register” further constitutes “constructive notice of the registrant’s claim of ownership thereof.” 15 U.S.C. § 1072. The ‘905 Registration is thus an official public record that nationally advertises the disputed claim of trademark ownership that respondent induced the PTO to register, and is incubating a new federal claim of right to “incontestable” status after June 24, 2013. No

covenant, no matter how broad, can eradicate the effects of such a registration, not least because it is impossible to know the identity of all persons who see the registration and draw conclusions from it.

Under this Court's precedents, mere *disadvantage* in business is sufficient to constitute "injury" that a federal court has authority to redress. *Cf. Northeastern Fla. Chapter of the Assoc. Gen. Contractors of Am. v. City of Jacksonville*, 508 U.S. 656, 664-66 (1993) (competitor had standing to challenge minority set-aside ordinance, whether or not competitor could establish that it would have actually been awarded a contract but for the ordinance); *Super Tire Eng'g Co. v. McCorkle*, 416 U.S. 115, 122 (1974) (claim challenging a statute entitling striking workers to public assistance not moot despite settlement of strike, where "brooding presence" of statute altered economic relationship between employer and employees). Establishing a mere *reserve* against a potential future claim has also been held to constitute "injury" sufficient to give rise to an Article III "controversy." *See Aetna Life Inc. Co. v. Haworth*, 300 U.S. 227, 239-44 (1937).

For its part, respondent submitted declarations to the district court (JA135a-167a; SA7-25) which tended to show that the controversy that concededly existed between the parties between July 16, 2009, and March 18, 2010, was rendered anything but "moot" by respondent's self-serving covenant. Respondent's declarations stated, not that the shoe configuration shown in the '905 Registration had no value, such that petitioner would not be adversely affected even though it was blocked from copying or using it, but to the contrary, that the claimed "trademark" was respondent's "best selling sneaker with sales of over approximately 100,000 pairs per month." JA130a.

Respondent's declarations further stated, not that respondent had renounced or abandoned the disputed trademark, but to the contrary, that petitioner had "served 15 cease and desist letters relating to the NIKE Mark" and "[t]he majority of these letters were served and complied with by summer 2009." JA137a. Respondent further stated that it had "secured three settlement agreements" which "removed four different brands and dozens of different colorways of infringing shoes from the marketplace." *Id.* Respondent also stated that it obtained a "consent judgment" and a "default judgment" against two other footwear companies. *Id.*

In asserting that the district court supposedly lacked jurisdiction to adjudicate petitioner's compulsory counterclaim, respondent did not even argue, and the courts below did not hold, that petitioner's counterclaim failed to allege (i) injury in fact, (ii) causation, and (iii) redressability, the three basic elements of an Article III "case" or "controversy" under this Court's precedents.

Instead, respondent argued, and the court below held (Pet App. 15a), that in order to remain in court on its compulsory counterclaim, petitioner bore the unusual burden of demonstrating the *opposite* of what its counterclaim sought to establish, namely, that respondent purportedly held some live non-frivolous claim against petitioner to which an affirmative defense of invalidity could be interposed. The Second Circuit faulted petitioner for not pre-disclosing new shoe product designs to respondent and identifying an "arguably infringing shoe." Pet. App. 15a n.5.

Contrary to the decision below, this Court's decision in *MedImmune* not only does not "require" (Pet. App. 16a), but actually rejects the mode of

analysis that was applied below. The plaintiff in *MedImmune* was a party to a patent license agreement with the defendant. During the term of the agreement, a dispute arose over whether the plaintiff owed royalties on account of a certain patent (the “Cabilly II patent”). The *MedImmune* plaintiff contended that invalidity of one or more Cabilly II patent claims excused any payment of royalties on account of that patent; the defendant expressed a contrary view. The plaintiff then paid the disputed royalties “under protest” and filed suit seeking, among other things, a declaratory judgment that its activities did not infringe the Cabilly II patent and so did not attract any royalty payment obligation. 549 U.S. at 121-22.

The *MedImmune* plaintiff complained of (1) injury in fact (overpayment of royalties under protest), (2) causation (the issuance of the Cabilly II patent induced the plaintiff to make the disputed royalty payments), and (3) redressability (a judgment invalidating the defendant’s patent claim would eliminate any purported obligation to pay royalties). The *MedImmune* plaintiff’s claim thus easily satisfied the three-part test for Article III standing set forth in *Friends of the Earth* and other of this Court’s Article III precedents cited in note 14 *supra*. In a 2005 panel decision, however, the Court of Appeals for the Federal Circuit, applying an unusual and controversial case law doctrine of its own making,<sup>16</sup> held that the *MedImmune* plaintiff purportedly lacked “standing to bring a declaratory challenge to the validity of the Cabilly II

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<sup>16</sup> See generally Lisa A. Dolak, *Declaratory Judgment Jurisdiction in Patent Cases: Restoring the Balance Between the Patentee and the Accused Infringer*, 38 B.C. L. Rev. 903, 903 (1997) (“the Federal Circuit has unduly impeded accused infringers’ access to the declaratory judgment remedy”).

patent” because it was “under no threat or apprehension of suit.” *MedImmune, Inc. v. Genentech, Inc.*, 427 F.3d 958, 965 (Fed. Cir. 2005), *rev’d*, 549 U.S. 118 (2007).

This Court granted *certiorari* in *MedImmune*, reversed the Federal Circuit’s judgment, and upheld the plaintiff’s Article III standing to maintain the action. 549 U.S. at 128-32 & nn. 8-11. This Court specifically disapproved and criticized what was then called “the Federal Circuit’s ‘reasonable apprehension of suit’ test.” *Id.* at 132 n.11. Ironically, it was this now-discredited Federal Circuit “reasonable apprehension of suit test” that gave birth to the evasive maneuver that respondent has attempted in this case: a post-suit “covenant” that eliminates “apprehension” of suit for alleged infringement and thus, supposedly, eliminates jurisdiction to award declaratory relief. *See Super Sack Mfg. Corp. v. Chase Packaging Corp.*, 57 F.3d 1054, 1058-59 (Fed. Cir. 1995) (applying the “reasonable apprehension of suit” test to hold that covenants not to sue for existing products can render moot counterclaims for patent invalidity).

Petitioner’s claim to Article III jurisdiction for its counterclaim is at least as good as the plaintiff’s claim to jurisdiction in *MedImmune*. Indeed, for several reasons, petitioner’s claim here is even better. First, petitioner here asserts a *compulsory counterclaim* in a civil action that the district court *partially adjudicated*.<sup>17</sup> By filing a complaint for alleged

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<sup>17</sup> “A dismissal with prejudice has the effect of a final adjudication on the merits favorable to defendant and bars future suits brought by plaintiff upon the same cause of action.” *Samuels v. Northern Telecom, Inc.*, 942 F.2d 834, 836 (1991) (quoting *Nemaizer v. Baker*, 793 F.2d 58, 60 (2d Cir. 1986)). The district court also adjudicated on the merits *part* of petitioner’s counterclaim (the statutory

infringement of the purported trademark depicted in the '905 Registration, respondent unquestionably commenced “an action involving a registered mark” within the meaning of 15 U.S.C. § 1119. The *nature* of this action as being one “involving a registered mark” (*id.*) did not change merely because respondent conceded defeat on its existing infringement claims. The district court’s authority to adjudicate petitioner’s compulsory counterclaim was not at all dependent on the fate of respondent’s complaint. *See Cardinal Chem.*, 508 U.S. at 96, 99-103 (affirmance of judgment of non-infringement did not render moot defendant’s counterclaim seeking judgment declaring asserted patent invalid); *Altvater*, 319 U.S. at 364-66 (same); *Moore v. New York Cotton Exchange*, 270 U.S. 593, 607-610 (1926) (dismissal plaintiff’s federal antitrust complaint did not impair court’s continuing jurisdiction to hear the defendant’s state law compulsory counterclaim).

Second, unlike the *MedImmune* plaintiff, petitioner does not here assert a mere *defense* to a *putative* claim that respondent might assert in the future, but rather invokes the court’s equity jurisdiction to award an *injunction* setting aside allegedly unlawful Government agency action and declaring that respondent has no valid state or federal rights to exclude use of the shoe configuration depicted in the '905 Registration. As compared with the claim that this Court held sufficient, in *MedImmune*, to make out an Article III “case” or

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claim to attorneys’ fees). Respondent has never attempted to explain how the district court could properly *exercise* jurisdiction to dismiss respondent’s complaint with prejudice and to reject a portion of petitioner’s compulsory counterclaim, and then turn around and conclude that it lacked jurisdiction to hear the rest of petitioner’s counterclaim.

“controversy,” petitioner’s counterclaim for injunctive relief presents an even clearer “controversy.”

Third, petitioner here asserts a right to relief that exists independently of any putative claim that respondent may have surrendered by virtue of its covenant not to sue, or that may have been extinguished by the district court’s dismissal of respondent’s complaint in this action with prejudice. PTO registration decisions have long been recognized as adversely affecting persons who have legitimate commercial interests in using a registered mark, both in civil actions falling within 15 U.S.C. § 1119, *see Bascom Launder Corp. v. Telecoin Corp.*, 204 F.2d 331, 335-36 (2d Cir. 1953) (ordering cancellation of a registration of generic term, “LAUNDERETTE”, notwithstanding the absence of any actual or threatened claim for alleged infringement), and in civil actions challenging trademark registration decisions under 15 U.S.C. § 1071(b). *See Aktieselskabet AF 21 v. Fame Jeans Inc.*, 525 F.3d 8, 13-14 (D.C. Cir. 2008). In neither situation is federal court jurisdiction dependent on a plaintiff showing that the registrant holds some non-frivolous claim for infringement or dilution

On multiple grounds, then, the record clearly establishes that the district court had jurisdiction to adjudicate whether petitioner was entitled to the relief sought in prayers (ii)-(vi) and (viii) of its compulsory counterclaim (JA57a-58a), just as the district court adjudicated and *awarded* petitioner the relief sought in prayer (i) of its counterclaim and adjudicated and *denied* the relief sought in prayer (vii) of its counterclaim seeking attorneys’ fees under 15 U.S.C. § 1117(a). The “Cases” requirement of Article III plainly did not prevent the district court from adjudicating the whole of petitioner’s compulsory counterclaim.

### III. THE RULE APPLIED BELOW SUBVERTS FEDERAL COURTS' IMPORTANT ROLE IN THE ADMINISTRATION OF FEDERAL PATENT AND TRADEMARK LAW.

The decision below is deeply inconsistent with “the strong federal policy favoring the full and free use of ideas in the public domain.” *Lear, Inc. v. Adkins*, 395 U.S. 653, 674 (1969). As this Court noted in *Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation*, 402 U.S. 313, 335 (1971), the presumptive validity of PTO grant decisions can create significant practical hurdles for competitors that seek to challenge the validity of such decisions. Registration of claims to trademark protection, like allowance of claims to patent protection, can lead to “considerable harassment” and “nuisance settlements.” *Id.* at 342. As a result, this Court has long followed a policy “encourag[ing] authoritative testing” of PTO decisions which follow an *ex parte* examination process. *Id.* at 344. *See also Cardinal Chem.*, 508 U.S. at 100 (relying on *Blonder-Tongue* to demonstrate that the Court has “emphasized the importance to the public at large of resolving questions” involving the validity of PTO grant decisions).

In light of this longstanding policy, this Court has repeatedly disapproved case law doctrines, like the one applied below, which restricted litigants’ ability to challenge in federal court the validity of claimed legal rights to exclude use of design and utilitarian conceptions. *See, e.g., MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 132 n.11 (2007) (overturning doctrine that federal court lacked jurisdiction to hear invalidity challenge if challenger was not in “reasonable apprehension of suit” for alleged infringement); *Cardinal Chem.*, 508 U.S. 83, 100-01 (overturning doctrine that validity challenge was rendered moot by af-

firmance of judgment of non-infringement); *Lear*, 395 U.S. at 670-71 (overturning doctrine that licensee was estopped from challenging validity of licensed patent); *Scott Paper Co. v. Marcalus Mfg. Co.*, 326 U.S. 249, 256-58 (1945) (holding assignor should not be estopped from arguing that assigned patent was invalid in light of a previously expired patent).

Like the arguments and doctrines rejected in the cases cited above, the jurisdictional rule applied below imposes an improper and unnecessary limit on the authority of federal courts to hear legitimate challenges to the validity of claimed trademarks and to the legality of PTO registration decisions. As Circuit Judge Dyk wrote in *Benitec Australia, Ltd. v. Nucleonics, Inc.*, 495 F.3d 1340, 1352 (Fed. Cir. 2007) (Dyk, J., dissenting):

(i) there is “a strong public interest” in permitting accused infringers to challenge the validity of claimed intellectual property rights, *id.* at 1350:

(ii) under this Court’s precedents, “once declaratory jurisdiction has been established, the burden shifts to the party seeking to divest the court of jurisdiction to prove that there is no longer a current case or controversy,” *id.* at 1352;

(iii) “[i]t is particularly inappropriate to place the burden of establishing continuing jurisdiction on [the party opposing dismissal] where, as here, the claim of mootness is the result of the opposing party’s acts designed, at least in part, to defeat declaratory jurisdiction,” *id.* at 1353; and

(iv) “[T]here is an important public interest in protecting the legal system against manipulation by parties, especially those prone to involvement in repeat litigation, who might contrive to moot cases that

otherwise would be likely to produce unfavorable precedents.” *Id.* (quoting Hart and Wechsler, *The Federal Courts and the Federal System* 204 (5th ed. 2003)).

The jurisdictional rule applied below severely weakens the authority of federal courts to police statutory limits on what can and cannot rightly be the subject of perpetual trademark protection. *Cf. Dastar Corp. v. Twentieth Century Fox Film Corp.*, 539 U.S. 23, 37 (2003) (rejecting interpretation of trademark law that would create “a species of perpetual patent”). The underlying claim to be adjudicated in this case raises important issues concerning the limitations that the federal patent law imposes on what can and cannot rightly be constituted a valid trademark and protected against imitation in perpetuity.

It has long been the law that a patentee cannot “secure, to any extent, a continuation of his monopoly by resorting to the trademark law and registering as a trademark any particular descriptive matter appearing in the specifications, drawing, or claims of the expired patent.” *Scott Paper*, 326 U.S. at 256. “*Sears and Compc* extended that rule to potentially patentable ideas which are fully exposed to the public.” *Bonito Boats*, 489 U.S. at 165. *See also Dastar*, 539 U.S. at 34 (“federal right to ‘copy and to use’” supported interpretation of 15 U.S.C. § 1125(a) which permitted free use of motion picture whose copyright had expired).

The present case well illustrates the importance of upholding traditional principles of federal court jurisdiction as applied to a challenge to an allegedly invalid trademark registration. Under federal patent law, the shoe structures depicted in the ‘905 Registration are “in the public domain and can be

copied in every detail by whoever pleases.” *Compco*, 376 U.S. at 238. Yet by registering those shoe structures as a purported trademark, the PTO has given color to a claim of right to exclude competition that is both (i) perpetual in duration and (ii) far broader and more vague than any valid patent rights could ever be, being unbounded by prior art or claim limitations.

Under the rule applied below, a person can secure federal registration of a false and invalid claim of trademark ownership, assert the invalid claim in federal court litigation, and then, if it appears that the claim is at risk of being exposed as invalid, unilaterally “pull the plug” on the entire litigation, thereby maintaining the registration as a “scarecrow,” *Cardinal Chem.*, 508 U.S. at 96 (quoting *Bresnick*, 143 F.2d at 242 (L. Hand, J.)), and preserving its practical utility as a means of deterring lawful competition and giving color to lawsuits that might otherwise attract sanctions. In this very case, even after delivery of its covenant, respondent cited the ‘905 Registration as justification for its failed lawsuit in the context of opposing an award of statutory attorneys’ fees under 15 U.S.C. § 1117.

The alleged “trademark” at issue is a shoe configuration that, under federal patent law, entered the public domain nearly 30 years ago. Whether that shoe configuration can rightly be deemed a “trademark,” and as such protected against imitation in perpetuity, is a question in which “the consuming public is deeply interested,” *Sears*, 376 U.S. at 231 (quoting *Kellogg*, 305 U.S. at 122), and that Article III of the Constitution permits a federal court to answer. The decision below takes an unduly restrictive view of Article III jurisdiction, and should be reversed.

**CONCLUSION**

For the reasons set forth above, this Court should reverse the judgment of the Second Circuit and hold that, on the record of this case, the district court had Article III jurisdiction to adjudicate whether petitioner is entitled to the relief sought in prayers (ii)-(vi) and (viii) of its compulsory counterclaim filed November 19, 2009.

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