

No. 11-982

IN THE
Supreme Court of the United States

ALREADY, LLC D/B/A YUMS,
Petitioner,

v.

NIKE, INC.,
Respondent.

**On Writ of Certiorari
to the United States Court of Appeals
for the Second Circuit**

**BRIEF OF
INTELLECTUAL PROPERTY PROFESSORS
AS *AMICI CURIAE* IN SUPPORT OF PETITIONER**

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TABLE OF CONTENTS

	Page
TABLE OF AUTHORITIES	ii
INTEREST OF <i>AMICI CURIAE</i>	1
INTRODUCTION AND SUMMARY	1
ARGUMENT.....	5
I. A COVENANT NOT TO SUE DOES NOT DIVEST THE COURTS OF JURISDICTION TO ADJUDICATE THE VALIDITY OF INTELLECTUAL PROPERTY	5
A. This Court’s Cases Support Broad Initial Standing To Challenge The Validity Of Intellectual Property	6
B. A Covenant Not To Sue Does Not Moot A Previously Justiciable Invalidity Claim.....	17
II. ACCESS TO THE COURTS TO TEST THE VALIDITY OF INTELLECTUAL PROPERTY IS CRITICAL FOR SOUND POLICY	25
A. Courts Provide An Essential Forum For Determining The Validity Of Intellectual Property	25
B. Administrative Remedies Are Not Adequate Substitutes For Declara- tory Relief.....	29
CONCLUSION.....	31
APPENDIX	1a

TABLE OF AUTHORITIES

	Page
CASES	
<i>Allen v. Wright</i> , 468 U.S. 737 (1984).....	7
<i>Arizonans for Official English v. Arizona</i> , 520 U.S. 43 (1997)	17, 18
<i>Arrowhead Indus. Water, Inc. v. Ecolochem, Inc.</i> , 846 F.2d 731 (Fed. Cir. 1988)	11
<i>Association for Molecular Pathology v. USPTO</i> , No. 2010-1406, 2012 WL 3518509 (Fed. Cir. Aug. 16, 2012).....	16, 29
<i>Bancroft & Masters, Inc. v. Augusta Nat’l Inc.</i> , 223 F.3d 1082 (9th Cir. 2000)	24
<i>Baur v. Veneman</i> , 352 F.3d 625 (2d Cir. 2003).....	10
<i>Benitec Australia, Ltd. v. Nucleonics, Inc.</i> , 495 F.3d 1340 (Fed. Cir. 2007).....	2, 13, 20, 21, 22, 24, 25
<i>Blonder-Tongue Labs., Inc. v. University of Illinois Found.</i> , 402 U.S. 313 (1971)	17, 25, 28
<i>Bonito Boats, Inc. v. Thunder Craft Boats, Inc.</i> , 489 U.S. 141 (1989).....	8, 26
<i>Bresnick v. United States Vitamin Corp.</i> , 139 F.2d 239 (2d Cir. 1943).....	11
<i>Cardinal Chem. Co. v. Morton Int’l, Inc.</i> , 508 U.S. 83 (1993)	5, 6, 10, 11, 12, 16, 20, 22, 25, 28
<i>Dastar Corp. v. Twentieth Century Fox Film Corp.</i> , 539 U.S. 23 (2003)	5, 26
<i>Dow Jones & Co. v. Ablaise Ltd.</i> , 606 F.3d 1338 (Fed. Cir. 2010).....	2, 20

<i>FEC v. Akins</i> , 524 U.S. 11 (1998)	14
<i>Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.</i> , 535 U.S. 722 (2002)	8
<i>Franchise Tax Bd. v. Construction Laborers Vacation Trust for Southern California</i> , 463 U.S. 1 (1983)	6
<i>Friends of the Earth, Inc. v. Laidlaw Env'tl. Servs. (TOC), Inc.</i> , 528 U.S. 167 (2000)	4, 7, 23
<i>Graham v. John Deere Co.</i> , 383 U.S. 1 (1966)	9, 28
<i>Knox v. Service Emps. Int'l Union, Local 1000</i> , 132 S. Ct. 2277 (2012)	17, 18, 23, 24
<i>Lear, Inc. v. Adkins</i> , 395 U.S. 653 (1969)	25, 28, 31
<i>Lujan v. Defenders of Wildlife</i> , 504 U.S. 555 (1992)	3, 7, 9, 10, 14, 15, 16
<i>Massachusetts v. EPA</i> , 549 U.S. 497 (2007)	9, 10
<i>MedImmune, Inc. v. Genentech, Inc.</i> , 549 U.S. 118 (2007)	6, 7, 12, 15, 21, 22, 28
<i>Merck KGaA v. Integra Lifesciences I, Ltd.</i> , 545 U.S. 193 (2005)	13
<i>Microsoft Corp. v. i4i Ltd. P'ship</i> , 131 S. Ct. 2238 (2011)	9
<i>Miller Brewing Co. v. Falstaff Brewing Corp.</i> , 655 F.2d 5 (1st Cir. 1981)	17
<i>Minnesota Mining & Mfg. Co. v. Norton Co.</i> , 929 F.2d 670 (Fed. Cir. 1991)	16
<i>National Park Hospitality Ass'n v. Department of Interior</i> , 538 U.S. 803 (2003)	14

<i>Natural Res. Def. Council v. EPA</i> , 464 F.3d 1 (D.C. Cir. 2006).....	10
<i>Park 'N Fly, Inc. v. Dollar Park & Fly, Inc.</i> , 469 U.S. 189 (1985)	9
<i>Precision Instrument Mfg. Co. v. Automotive Maint. Mach. Co.</i> , 324 U.S. 806 (1945).....	25
<i>Qualitex Co. v. Jacobson Prods. Co.</i> , 514 U.S. 159 (1995)	8
<i>Revolution Eyewear, Inc. v. Aspex Eyewear, Inc.</i> , 556 F.3d 1294 (Fed. Cir. 2009)	2, 20, 21
<i>Sears, Roebuck & Co. v. Stiffel Co.</i> , 376 U.S. 225 (1964)	26
<i>Starter Corp. v. Converse, Inc.</i> , 84 F.3d 592 (2d Cir. 1996)	2
<i>Summers v. Earth Island Inst.</i> , 555 U.S. 488 (2009)	7
<i>Super Sack Mfg. Corp. v. Chase Packaging Corp.</i> , 57 F.3d 1054 (Fed. Cir. 1995).....	20, 21
<i>TrafFix Devices, Inc. v. Marketing Displays, Inc.</i> , 532 U.S. 23 (2001)	25
<i>Two Pesos, Inc. v. Taco Cabana, Inc.</i> , 505 U.S. 763 (1992)	5, 27
<i>United States Parole Comm'n v. Geraghty</i> , 445 U.S. 388 (1980)	17
<i>Village of Elk Grove Village v. Evans</i> , 997 F.2d 328 (7th Cir. 1993).....	10
<i>Walker Process Equip., Inc. v. Food Mach. & Chem. Corp.</i> , 382 U.S. 172 (1965).....	14

CONSTITUTION, STATUTES, AND RULES

U.S. Const. Art. III	6, 10, 30
Declaratory Judgment Act, 28 U.S.C. §§ 2201- 2202.....	6, 16, 20
28 U.S.C. § 2201(a).....	6, 15
Lanham Act, 15 U.S.C. § 1051 <i>et seq.</i>	5, 9, 29
15 U.S.C. § 1064	29
15 U.S.C. § 1064(3).....	9, 30
15 U.S.C. § 1064(5).....	9
15 U.S.C. § 1065	9
15 U.S.C. § 1071(a).....	30
15 U.S.C. § 1071(b).....	30
15 U.S.C. § 1114(1).....	8
15 U.S.C. § 1115(a).....	5, 8
15 U.S.C. § 1115(b).....	9
15 U.S.C. § 1117(a).....	13
15 U.S.C. § 1119	2, 28
15 U.S.C. § 1125(a).....	8
15 U.S.C. § 1127	5, 15, 19
Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 (2011)	30
§ 6, 125 Stat. 299	30
§ 6(f)(2)(A), 125 Stat. 311.....	30
Patent Act (35 U.S.C.):	
35 U.S.C. § 112.....	15
35 U.S.C. § 141(c)	30

35 U.S.C. § 271(a)	8
35 U.S.C. § 282(a)	8
35 U.S.C. § 284.....	13
35 U.S.C. § 311(b)	30
35 U.S.C. § 319.....	30
35 U.S.C. § 321(c).....	30
35 U.S.C. § 329.....	30
Sup. Ct. R. 37.6.....	1

ADMINISTRATIVE MATERIALS

Fed. Trade Comm'n, <i>To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy</i> (Oct. 2003), available at http://www.ftc.gov/os/2003/10/innovation_rpt.pdf	11, 13
U.S. Patent & Trademark Office, <i>Performance and Accountability Report: Fiscal Year 2011</i> (2012), available at http://www.uspto.gov/about/stratplan/ar/2011/USPTOFY2011PAR.pdf	27

OTHER MATERIALS

John R. Allison & Mark A. Lemley, <i>Empirical Evidence on the Validity of Litigated Patents</i> , 26 AIPLA Q.J. 185 (1998)	27
Barton Beebe, <i>Is The Trademark Office a Rubber Stamp?</i> , 48 Hous. L. Rev. 751 (2011)	27

James Bessen & Michael J. Meurer, <i>Patent Failure: How Judges, Bureaucrats, and Lawyers Put Innovators at Risk</i> (2008)	27
F. Andrew Hessick, <i>Probabilistic Standing</i> , 106 Nw. U. L. Rev. 55 (2012)	10
Megan M. La Belle, <i>Patent Law as Public Law</i> , 20 Geo. Mason L. Rev. (forthcoming 2012), available at http://ssrn.com/abstract=2053798	26
Mark A. Lemley, <i>Rational Ignorance at the Patent Office</i> , 95 Nw. U. L. Rev. 1495 (2001)	27
Christopher R. Leslie, <i>Patents of Damocles</i> , 83 Ind. L.J. 133 (2008)	11
J. Thomas McCarthy, <i>McCarthy on Trademarks and Unfair Competition</i> (4th ed. 2012):	
Vol. 3	30
Vol. 4	19
Kimberly A. Moore, <i>Judges, Juries, and Patent Cases – An Empirical Peek Inside the Black Box</i> , 99 Mich. L. Rev. 365 (2000)	27

INTEREST OF *AMICI CURIAE*¹

Amici are law professors who write and teach in the areas of intellectual property, trademark law, patent law, civil procedure, and federal jurisdiction. A full list of *amici* can be found in the Appendix to this brief. Although we have diverse perspectives on the substance of trademark law, we are uniformly concerned about the development of the law of justiciability as it relates to causes of action challenging the validity of government-granted or recognized exclusive rights pursuant to the trademark and patent statutes. We submit this brief to express our views concerning the proper legal analysis of standing and mootness questions as they arise in challenges to the validity of intellectual property.

INTRODUCTION AND SUMMARY

This case concerns the justiciability of federal court actions that challenge the validity of intellectual property. The question who has standing to challenge the validity of an exclusive right is a constitutional question. It arises both in trademark and, even more frequently, in patent litigation. As the court of appeals below recognized, the legal framework for answering the question is common to the

¹ Pursuant to Supreme Court Rule 37.6, counsel for *amici* represent that no counsel for a party authored this brief in whole or in part and that none of the parties or their counsel, nor any other person or entity other than *amici* or their counsel, made a monetary contribution intended to fund the preparation or submission of this brief. Counsel for *amici* also represent that all parties have consented to the filing of this brief, and letters reflecting their consent have been filed with the Clerk.

two regimes.² And the costs of overly stringent justiciability rules are common to the two regimes as well. Both the court of appeals below and the Federal Circuit in a series of recent patent cases have erred in their analyses of the justiciability of actions seeking a declaration that a particular trademark or patent is invalid.³

In this case, petitioner Already, LLC (“Already”) seeks – by way of a counterclaim⁴ – a declaration that certain trademarks held and asserted by respondent Nike, Inc. (“Nike”) are invalid as a matter of federal and state trademark law. *See* Pet. App. 2a-3a, 23a. Already also seeks cancellation of a Nike mark (the “’905 Registration”) registered with the U.S. Patent and Trademark Office (“PTO”) in accordance with 15 U.S.C. § 1119.

Already has standing to pursue this action because Nike’s intellectual property claims pose a continuing threat to Already’s ability to innovate and to invest in new product design. Nike’s unilateral covenant not to sue over Already’s current products does nothing to reduce this threat, or thereby to moot Already’s counterclaim. Indeed, in the absence of

² *See* Pet. App. 12a (“[P]rinciples applicable to declaratory judgment actions involving patents are generally applicable with respect to trademarks.”) (quoting *Starter Corp. v. Converse, Inc.*, 84 F.3d 592, 596 (2d Cir. 1996) (per curiam)); *id.* at 12a-15a & 13a n.2 (relying on *Revolution Eyewear, Inc. v. Aspex Eyewear, Inc.*, 556 F.3d 1294 (Fed. Cir. 2009)).

³ *See* Pet. App. 9a-19a; *Dow Jones & Co. v. Ablaise Ltd.*, 606 F.3d 1338, 1348 (Fed. Cir. 2010); *Revolution Eyewear*, 556 F.3d at 1296-1300; *Benitec Australia, Ltd. v. Nucleonics, Inc.*, 495 F.3d 1340, 1345-49 (Fed. Cir. 2007).

⁴ For clarity, this brief will refer to a party that raises a declaratory judgment counterclaim as a “declaratory judgment plaintiff.”

declaratory relief, Nike remains free to continue to assert its intellectual property claims against Already or others while simultaneously shielding them from validity challenges in court. Already therefore continues to have standing to clear the field so that it and other competitors may be certain of the validity of Nike's asserted rights.

I. A declaratory judgment plaintiff challenging the validity of a trademark (or a patent) must – like any other plaintiff – demonstrate standing. The existence of a trademark or a patent in a particular field creates a present risk to the ongoing economic activities of participants in that field. That risk constitutes an “injury in fact” when it deters participants from engaging or investing in activity that may fall within the scope of the exclusive right. The risk is “fairly traceable” to a trademark or patent owner’s actions to acquire, hold, and maintain the intellectual property. And the risk can be eliminated – the injury is “redress[able]” – by a judicial finding that the right is invalid. *Lujan v. Defenders of Wildlife*, 504 U.S. 555, 560-61 (1992) (alterations omitted). Just as a developer of real property need not put up a building before clearing title to the land he seeks to develop, participants in the relevant industry need not risk capital before seeking to clear potentially adverse intellectual property rights.

A unilateral promise by the right holder not to assert the right against a declaratory judgment plaintiff’s *then-existing* products or activities does not moot an action that is justiciable in the manner described above. While such a covenant may immunize a declaratory judgment plaintiff against liability for a particular activity that currently infringes the trademark or patent, it does nothing to remove the

risk and uncertainty associated with the plaintiff's ongoing and future investments. It may remedy the injury associated with a particular claim of *infringement* – the present threat of infringement liability – but it does not remedy the ongoing risk and uncertainty associated with the *validity* of an intellectual property right.

At the very least, this Court's mootness precedents require the party seeking to avoid an adjudication of the validity of its intellectual property to demonstrate that it is "absolutely clear" that the threat posed by its intellectual property to the plaintiff's activities will not recur. *Friends of the Earth, Inc. v. Laidlaw Envtl. Servs. (TOC), Inc.*, 528 U.S. 167, 190 (2000).

II. Access to courts to test the validity of trademarks and patents is essential to ensuring that only those marks and inventions that qualify for protection under the relevant statutes are the subject of exclusive rights. As this Court has recognized, invalid intellectual property rights limit the public's freedom to use articles, ideas, or marks, but do not confer the social benefits that the intellectual property laws are meant to bring about. Neither initial administrative review of intellectual property claims nor post-grant administrative review procedures adequately substitute for judicial determinations of validity. When plaintiffs are deterred from engaging in innovative activity by the threat of potentially invalid intellectual property claims and are willing to challenge the validity of those claims, the rules of justiciability should not allow the right holder unilaterally to avoid suit.

ARGUMENT**I. A COVENANT NOT TO SUE DOES NOT DIVEST THE COURTS OF JURISDICTION TO ADJUDICATE THE VALIDITY OF INTELLECTUAL PROPERTY**

This Court has squarely held that “[a] party seeking a declaratory judgment of invalidity presents a claim independent of” the intellectual property holder’s “charge of infringement.” *Cardinal Chem. Co. v. Morton Int’l, Inc.*, 508 U.S. 83, 96 (1993). A claim that a trademark or a patent is invalid is distinct from a claim that a declaratory judgment plaintiff’s particular activity does not infringe an existing trademark or patent. Plaintiffs claiming invalidity assert that a registered trademark or patent was improperly granted or that an unregistered trademark was not validly asserted as a matter of law.⁵ It is a claim that they and the public at large “may use the invention or work at will and without attribution,” *Dastar Corp. v. Twentieth Century Fox Film Corp.*, 539 U.S. 23, 34 (2003), rather than a fact-specific

⁵ A trademark need not be registered with the PTO to be asserted against a putative infringer. *See, e.g., Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 767-68 (1992). Registration of a mark constitutes “prima facie evidence of the validity of the registered mark,” 15 U.S.C. § 1115(a), and affords the registrant certain favorable privileges and presumptions. But the underlying legal question whether a mark constitutes a “trademark” subject to protection, *see id.* § 1127, is the same for registered and unregistered marks. *See Two Pesos*, 505 U.S. at 768 (“[T]he general principles qualifying a mark for registration under § 2 of the Lanham Act are for the most part applicable in determining whether an unregistered mark is entitled to protection under § 43(a).”). This brief uses the term “validity” in the context of trademarks to refer to that common question; in this case, Nike asserted both registered and unregistered trademarks against Already. *See* JA34a-35a.

claim that they may engage in particular activity without running afoul of the right. The justiciability of an invalidity claim therefore depends on the initial and continuing presence of an injury that arises from the existence *vel non* of the allegedly invalid right, rather than on any particular assertion of the right or activity of the right holder. So long as that injury remains, an invalidity action is not moot even “in the absence of an ongoing dispute between the parties over *infringement*.” *Cardinal Chem.*, 508 U.S. at 95 (emphasis added).

A. This Court’s Cases Support Broad Initial Standing To Challenge The Validity Of Intellectual Property

1. The Declaratory Judgment Act provides that, “[i]n a case of actual controversy within its jurisdiction, . . . any court of the United States . . . may declare the rights and other legal relations of any interested party seeking such declaration.” 28 U.S.C. § 2201(a). This Court has explained that an action for a declaratory judgment, like an action for other legal or equitable relief, must qualify as a “[c]ase” or “[c]ontroversy” under Article III of the Constitution to be justiciable. *See MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 126-27 (2007) (“[T]he phrase ‘case of actual controversy’ in the [Declaratory Judgment] Act refers to the type of ‘Cases’ and ‘Controversies’ that are justiciable under Article III.”).

Determining whether a declaratory judgment action is justiciable is therefore no different from determining whether an action seeking other relief is justiciable. *See Franchise Tax Bd. v. Construction Laborers Vacation Trust for Southern California*, 463 U.S. 1, 17 (1983) (“[T]he Declaratory Judgment Act was intended to affect only the remedies available in a

federal district court, not the court’s jurisdiction.”). A declaratory judgment plaintiff must satisfy “[t]he several doctrines that have grown up to elaborate” the case or controversy requirement. *Allen v. Wright*, 468 U.S. 737, 750 (1984). Those doctrines include standing, mootness, and ripeness. *See id.*

To be sure, the Court has noted that questions of standing and ripeness can overlap in declaratory judgment cases. In *MedImmune*, the Court noted that “[t]he justiciability problem that arises” in declaratory judgment cases “can be described in terms of standing . . . or in terms of ripeness.” 549 U.S. at 128 n.8. Nevertheless, “the core component of standing is an essential and unchanging part of the case-or-controversy requirement.” *Lujan v. Defenders of Wildlife*, 504 U.S. 555, 560 (1992). The court of appeals held “that it had no actual case or controversy before it.” Pet. App. 14a. But it failed correctly to analyze the nature of the initial case or controversy with respect to validity and therefore erred in finding that case or controversy moot.

2. A plaintiff has standing to sue when he has demonstrated that he has suffered or is “under threat of suffering ‘injury in fact’ that is concrete and particularized; the threat must be actual and imminent, not conjectural or hypothetical; it must be fairly traceable to the challenged action of the defendant; and it must be likely that a favorable judicial decision will prevent or redress the injury.” *Summers v. Earth Island Inst.*, 555 U.S. 488, 493 (2009) (quoting *Friends of the Earth, Inc. v. Laidlaw Envtl. Servs. (TOC), Inc.*, 528 U.S. 167, 180-81 (2000)). In an action seeking a declaration that a trademark or a patent is invalid, the injury is a present restraint on economic activity created by the risk and uncertainty

that surrounds a potentially invalid exclusive right. That injury is caused by the right holder's acquiring, holding, and maintaining a potentially invalid exclusive right. And the injury is redressed by a determination of the legal question whether the exclusive right is valid.

Trademarks and patents are exclusive rights. See *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722, 730-31 (2002); *Qualitex Co. v. Jacobson Prods. Co.*, 514 U.S. 159, 162 (1995). They are negative rights that allow their holders to keep others from engaging in activities that fall within their boundaries. See 15 U.S.C. §§ 1114(1), 1125(a); 35 U.S.C. § 271(a). Conversely, and from the perspective of third parties working in the same field as the right holder, a trademark or a patent regulates their activity. Absent a grant of intellectual property, "ideas once placed before the public . . . are subject to appropriation without significant restraint." *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 156 (1989). Trademarks and patents, by contrast, represent a restraint on otherwise lawful activity. In the absence of a defense such as prior use or fair use, others working in the field must avoid activities that fall within the scope of the right or must secure permission, usually accompanied by a fee, to use the protected works.

But the validity of a trademark or a patent remains uncertain until it is tested in court. Although their respective statutes provide that the registration of a trademark "shall be prima facie evidence of the validity of the registered mark," 15 U.S.C. § 1115(a), and that issued patents "shall be presumed valid," 35 U.S.C. § 282(a), the "ultimate question of . . . validity is one of law" that a court decides in litigation.

Microsoft Corp. v. i4i Ltd. P'ship, 131 S. Ct. 2238, 2242-43 (2011) (quoting *Graham v. John Deere Co.*, 383 U.S. 1, 17 (1966)).⁶

Because the validity of an intellectual property right is not certain, economic actors face a risk of liability if they wish to engage in activity that may fall within the boundaries of the right. Indeed, that risk may be significant enough to deter valuable activity. When a person is deterred from undertaking valuable economic activity by the risk that the activity may encroach on another's exclusive right, that person has incurred an actual, concrete, and particularized injury.

This Court has recognized that increased risk can constitute an injury in fact sufficient to support standing. In *Massachusetts v. EPA*, 549 U.S. 497 (2007), the Court held that an increased risk of harm from climate change created by the failure of the Environmental Protection Agency ("EPA") to regulate carbon dioxide emissions was a cognizable injury in fact. *See id.* at 521-23. Such injuries are "actual." *Lujan*, 504 U.S. at 560 (internal quotation marks omitted). Risk of harm is a presently occurring fact

⁶ The Lanham Act provides that, when a mark has been registered and subsequently is "in continuous use for five consecutive years" without a successful or pending challenge to the validity of the mark in court or in the PTO, the mark "shall be incontestable" if the mark's owner files an appropriate affidavit. 15 U.S.C. § 1065. The registration of a mark that has become incontestable is "conclusive evidence of the validity of the registered mark," *id.* § 1115(b), and the grounds on which its validity may be cast in doubt are narrowed, *id.* §§ 1064(3), (5), 1115(b). *See Park 'N Fly, Inc. v. Dollar Park & Fly, Inc.*, 469 U.S. 189, 196-97 (1985). In this case, the '905 Registration has not become incontestable. Even if it had, some grounds for challenge would remain. *See id.*

that – as described below – often results in changes in behavior on the part of the injured party. These injuries also are “concrete and particularized.” *Id.* They are experienced by individuals or firms, and a reduction in or elimination of the risk redresses the injury. See *Massachusetts*, 549 U.S. at 525 n.23; *Natural Res. Def. Council v. EPA*, 464 F.3d 1, 6-7 (D.C. Cir. 2006) (recognizing that “increases in risk can at times be ‘injuries in fact’ sufficient to confer standing” and finding standing to challenge EPA rule that increased risk of cancer); *Baur v. Veneman*, 352 F.3d 625, 634 (2d Cir. 2003) (holding that “enhanced risk . . . injuries are cognizable for standing purposes” in food and drug safety suits “where the plaintiff alleges exposure to potentially harmful products”); *Village of Elk Grove Village v. Evans*, 997 F.2d 328, 329 (7th Cir. 1993) (“[E]ven a small probability of injury is sufficient to create a case or controversy – to take a suit out of the category of the hypothetical – provided of course that the relief sought would, if granted, reduce the probability.”); F. Andrew Hessick, *Probabilistic Standing*, 106 Nw. U. L. Rev. 55, 65-70 (2012) (arguing that “probabilistic injuries present an actual case or controversy”).

With respect to intellectual property, the Court has explained in similar terms the nature of the injury that is sufficient to sustain an invalidity action. In *Cardinal Chemical*, the Court held that a judgment of noninfringement does not moot a counterclaim for a declaratory judgment of invalidity. See 508 U.S. at 96. In describing the injury that gave rise to a separate Article III case or controversy with respect to validity, the Court focused on the present and ongoing risk that a potentially invalid patent caused for others working in the field. “A company once

charged with infringement,” the Court explained, “must remain concerned about the risk of similar charges if it develops and markets similar products in the future.” *Id.* at 99-100.

But intellectual property owners need not file infringement suits to create or maintain that “concern[],” *id.* at 100. See Christopher R. Leslie, *Patents of Damocles*, 83 Ind. L.J. 133, 142-60 (2008) (cataloguing means of extra-judicial enforcement). As the Federal Circuit has observed, the presence of an adverse intellectual property right can “infect the competitive environment of the business community with uncertainty and insecurity,” as the holder “brandish[es] a Damoclean threat with a sheathed sword.” *Arrowhead Indus. Water, Inc. v. Ecolochem, Inc.*, 846 F.2d 731, 735 (Fed. Cir. 1988).

In fact, right holders need not take any action at all to enjoy the deterrent effect of their intellectual property. Judge Learned Hand recognized long ago that intellectual property can function as a “scarecrow,” deterring activity even by its mere presence in a field of endeavor. *Bresnick v. United States Vitamin Corp.*, 139 F.2d 239, 242 (2d Cir. 1943); see *Cardinal Chem.*, 508 U.S. at 96 & n.18. As the Federal Trade Commission (“FTC”) found with respect to patents, the risk of liability often will lead firms to “avoid infringing questionable patents” by “refrain[ing] from entering or continuing with a particular field of research that such patents appear to cover.” FTC, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy*, Exec. Summary at 5 (Oct. 2003) (“FTC Report”), available at <http://www.ftc.gov/os/2003/10/innovationrpt.pdf>. Consistent with these observations, this Court concluded in *Cardinal Chemical* that “[m]erely the desire to avoid the threat

of a ‘scarecrow’ patent . . . may therefore be sufficient to establish jurisdiction under the Declaratory Judgment Act.” 508 U.S. at 96.

That principle is especially true because investments in intellectual works often must be made over time. Those investments are just as subject to the risk posed by invalid intellectual property as investments made close to the time of actual infringement. As the Court wrote in *MedImmune*, “[t]he rule that a plaintiff must destroy a large building, bet the farm, or . . . risk treble damages and the loss of 80 percent of its business before seeking a declaration of its actively contested legal rights finds no support in Article III.” 549 U.S. at 134. Those engaged in activity that may violate intellectual property rights are no different from developers of real property: each has standing to clear the field of invalid rights *before* making costly, at-risk investments.

In this case, Already explained in the district court and the court of appeals that it is engaged continually in product development efforts. *See* JA172a-174a. Product designs in the footwear industry change rapidly to keep pace with customers’ changing tastes. Individual shoe lines may be modified several times per year, and new lines are introduced with great frequency. *See* JA173a. Nike’s alleged marks are not merely logos or identifying words or phrases, but a set of design elements. *See* JA33a-34a. As Already develops, manufactures, and markets new shoe designs, it must bear the risk that one of its designs might run afoul of Nike’s potentially invalid marks. Products that will not be marketed immediately nevertheless require present investments in design and development. Absent a declaratory judgment action, Already must either proceed with these investments

in the shadow of possible liability or forgo certain product designs. This inability to plan its product lines functionally has already discouraged the company's investors from providing additional funding. *See, e.g.*, JA169a-170a, 179a-180a. The risk associated with Already's products has also discouraged retailers from carrying those products. *See* JA176a-177a. The Nike marks act as a present restraint on Already's creative and business efforts and are therefore a continuing source of injury.

A similar dynamic often is at work in patent cases. Pharmaceutical research, for example, is notoriously time consuming, expensive, and uncertain. *See Merck KGaA v. Integra Lifesciences I, Ltd.*, 545 U.S. 193, 205-07 (2005). Pharmaceutical firms often are deterred from making the tremendous investments of time and money required to bring a product through the drug development process unless they can be assured that the field is clear of invalid patents prior to marketing. *See* FTC Report, Exec. Summary at 5-6; *Benitec Australia, Ltd. v. Nucleonics, Inc.*, 495 F.3d 1340, 1354 (Fed. Cir. 2007) (Dyk, J., dissenting) (noting that the absence of declaratory relief for pharmaceutical firms "will have the effect of inhibiting [their] ability to raise funds and conduct research and development"). Indeed, any early-stage inventor or designer who learns in good faith of the existence of a patent or trademark in her field may face a "Hobson's choice," *id.* at 1350 (Dyk, J., dissenting), between making investments in the face of potentially crushing liability – both the patent and trademark statutes provide for enhanced damages for willful infringement, *see* 35 U.S.C. § 284; 15 U.S.C. § 1117(a) – and abandoning her potentially infringing activity.

Recognizing that innovative activity requires investments to be made over time, often well before the actor is in a position actually to engage in potential infringement, will not turn trademarks or patents into licenses to be sued.⁷ A declaratory judgment plaintiff’s alleged injury must be “particularized” to the plaintiff. *Lujan*, 504 U.S. at 560 & n.1. It must be the plaintiff herself who claims a right to engage in the activity that is otherwise prohibited without the right holder’s license. Here, for example, Already faces a risk of liability for trademark infringement; the purchasers of its products generally do not. Similarly, a plaintiff must support her assertion of standing “with the manner and degree of evidence required at the successive stages of the litigation.” *Id.* at 561. Ordinary principles of standing prevent, for example, bare assertions of intent to operate within a field without supporting evidence of legitimate business or financial expectations from establishing injury in fact.⁸

⁷ Neither do the standing principles described above implicate Justice Harlan’s concern, expressed in *Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp.*, 382 U.S. 172 (1965), that validity challenges might “chill” patenting behavior. *Id.* at 180 (Harlan, J., concurring). That case involved the threat of treble antitrust damages for fraudulent enforcement of a patent; suits seeking a declaration of invalidity do not subject patent holders to such damages.

⁸ The courts also have available to them a variety of prudential or discretionary doctrines to weed out suits that appear to be especially pernicious. *See, e.g., FEC v. Akins*, 524 U.S. 11, 20 (1998) (“[P]rudential standing is satisfied when the injury asserted by a plaintiff arguably falls within the zone of interests to be protected or regulated by the statute in question.”) (internal quotation marks, brackets, and ellipses omitted); *National Park Hospitality Ass’n v. Department of Interior*, 538 U.S. 803, 808 (2003) (“Determining whether [an] action is ripe for judicial

Standing also requires that the plaintiff demonstrate “a causal connection between the injury and the conduct complained of.” *Lujan*, 504 U.S. at 560. In an action to invalidate a grant of intellectual property, the injury described above arises from the defendant’s acquisition of and subsequent holding and maintenance of a trademark or a patent in the relevant field. It is the *existence* of the intellectual property rather than any specific actions the right holder may take that creates risk and uncertainty for other potential innovators in the field.

The trademark owner acquires her right by using a distinctive mark in commerce to identify her goods. *See* 15 U.S.C. § 1127. The patent owner discloses and particularly claims her new, useful, and nonobvious invention in a patent application. *See* 35 U.S.C. § 112. In so doing, the right holders define the scope of the risk to which others working in their fields are exposed.⁹ They maintain the existence of the risk by perfecting and then holding their exclusive rights instead of relinquishing them. The right holders’ actions therefore are both but-for and proximate causes of the increased risk of infringement liability.

It is of course true that steps taken toward enforcing intellectual property rights heighten the magnitude of the risk for actors in the relevant field. *Cf.*

review requires [the Court] to evaluate (1) the fitness of the issues for judicial decision and (2) the hardship to the parties of withholding court consideration.”); *MedImmune*, 549 U.S. at 136 (“The Declaratory Judgment Act provides that a court ‘*may* declare the rights and other legal relations of any interested party,’ not that it *must* do so.”) (quoting 28 U.S.C. § 2201(a)).

⁹ To be sure, the PTO must approve registered trademarks and all patents. But the PTO acts only on the application of the putative right holder.

Cardinal Chem., 508 U.S. at 96 (“If, in addition to th[e] desire [to avoid the threat of a ‘scarecrow’ patent], a party has actually been charged with infringement of the patent, there is, *necessarily*, a case or controversy.”). But the risk of engaging in economic activity in the face of potentially adverse intellectual property rights exists regardless of the right holder’s specific activities. That is because investment decisions made in the shadow of a potentially invalid trademark or patent can be held up or appropriated if and when the right holder ever decides to take action. To hold, as some courts have suggested, *see, e.g., Association for Molecular Pathology v. USPTO*, No. 2010-1406, 2012 WL 3518509, at *10 (Fed. Cir. Aug. 16, 2012), that an action is justiciable only if the *right holder* takes action toward a suit – or, as in this case, toward maintaining a suit, *see infra* Part I.B – is to vest the right holder with control over the circumstances in which the intellectual property right can be challenged. This is precisely the problem that the Declaratory Judgment Act was meant to solve. *See Minnesota Mining & Mfg. Co. v. Norton Co.*, 929 F.2d 670, 673 (Fed. Cir. 1991) (“In promulgating the Declaratory Judgment Act, Congress intended to prevent avoidable damages from being incurred by a person uncertain of his rights and threatened with damage by delayed adjudication.”).

Finally, granting the relief requested – issuing a declaration that a trademark or a patent is invalid – will “redress[]” the injury described above. *Lujan*, 504 U.S. at 561-62. When the risk and uncertainty created by the existence of an intellectual property right results in a restraint on present economic activity, a declaration that the trademark or patent is

invalid eliminates the uncertainty and removes the constraint. A declaratory judgment of invalidity is a legal judgment that has present effect and that applies as against *all* potential infringers. See *Blonder-Tongue Labs., Inc. v. University of Illinois Found.*, 402 U.S. 313, 333-34 (1971) (patent); *Miller Brewing Co. v. Falstaff Brewing Corp.*, 655 F.2d 5, 9 (1st Cir. 1981) (trademark). That decision reduces or eliminates the investment risk that accompanies economic activity in the area previously occupied by the intellectual property.

B. A Covenant Not To Sue Does Not Moot A Previously Justiciable Invalidity Claim

A covenant not to sue over *present* commercial activity – the use, manufacture, or sale of products in existence at the time of the covenant – generally does nothing to change the justiciability analysis described above. The injury in fact arising from the risk of investing in a field with an existing intellectual property right remains undisturbed; that risk is still caused by the right holder’s acquisition and maintenance of the right; and it is still redressable by a declaration that the right is invalid.

1. As a general matter, “[t]he requisite personal interest that must exist at the commencement of the litigation (standing) must continue throughout its existence (mootness).” *Arizonans for Official English v. Arizona*, 520 U.S. 43, 68 n.22 (1997) (quoting *United States Parole Comm’n v. Geraghty*, 445 U.S. 388, 397 (1980)); *but see infra* Part I.B.2 (applying voluntary cessation exception). The Court has explained, however, that “[a] case becomes moot only when it is impossible for a court to grant any effectual relief whatever to the prevailing party.” *Knox*

v. Service Emps. Int’l Union, Local 1000, 132 S. Ct. 2277, 2287 (2012) (internal quotation marks omitted).

A covenant not to sue for acts of past or present infringement does nothing to change the declaratory judgment plaintiff’s “requisite personal interest” in the litigation, *Arizonans for Official English*, 520 U.S. at 68 n.22, nor the potential for a court to “grant . . . effectual relief,” *Knox*, 132 S. Ct. at 2287 (internal quotation marks omitted). As described above, the relevant injury in a suit challenging the validity of intellectual property is the present risk that potentially invalid intellectual property poses to economic activity and investment. That activity often is distinct from present commercial activity that gives rise to present infringement liability. A covenant not to sue that is addressed only to the latter does not moot a declaratory judgment action premised on the former.

In this case, Nike filed suit against Already, alleging that Already was engaged in trademark infringement and dilution in its “offer[s] to sell, sale[s], distribution, or advertisement” of “footwear bearing a confusingly similar imitation of the N[ike] [m]ark.” JA36a, 35a. Nike later offered Already a covenant not to sue that absolved Already of liability for “any possible cause of action based on or involving trademark infringement, unfair competition, or dilution . . . relating to the N[ike] [m]ark based on the appearance of any of Already’s *current and/or previous* footwear product designs, and any colorable imitations thereof, regardless of whether that footwear is produced, distributed, offered for sale, advertised, sold, or otherwise used in commerce before or after” the effective date of the covenant. JA97a (emphasis added).

That covenant by its terms purports to cover only those commercial activities involving Already's footwear designs that were in existence at or prior to the time of the covenant. It does not cover future designs.¹⁰ But, as described above, Already is constantly engaged in the creative process of updating existing shoe lines and introducing new lines and designs. *See* JA173a. Those activities are conducted in the shadow of Nike's alleged trademarks. Any investment in such activities likewise remains at risk so long as Nike retains the ability to enforce its marks. Indeed, that risk is reflected in the reluctance of Already's investors to continue funding the enterprise. *See* JA169a-170a. This present restraint on Already's product development activities constitutes an injury that survives the covenant not to sue over present or future sales of products that were in existence at the time of the covenant. And a judi-

¹⁰ To the extent the court of appeals construed the covenant to cover future footwear designs, *see* Pet. App. 15a, it was mistaken. The words "colorable imitations thereof" in the covenant modify the phrase "current and/or previous footwear product designs." JA97a. "Colorable imitations" is a term of art in trademark law, often used "as a shorthand for likelihood of confusion." 4 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* § 23:1, at 23-10 (4th ed. 2012) ("McCarthy"); *see also* 15 U.S.C. § 1127. Different shoe designs may be the subject of common infringement charges without being "colorable imitations" of each other. In this case, for example, Nike claimed that several of Already's product lines infringed its trademarks, *see* JA35a-36a, even though those designs cannot be said to be "colorable imitations" of each other, *see, e.g.*, Supp. JA122-23. Contrary to the court of appeals' apparent view, *see* Pet. App. 14a ("[I]t is hard to imagine a scenario that would potentially infringe the '905 mark and yet not fall under the Covenant."), it stands to reason that Already could produce new shoe designs that are not colorable imitations of the existing shoe designs but that nevertheless infringe the Nike marks.

cial declaration that the trademark is invalid would still remedy that injury. This covenant – and others like it – therefore does not end the case or controversy between the declaratory judgment plaintiff and the intellectual property owner.¹¹

The court of appeals below and the Federal Circuit, in a series of decisions on which the Second Circuit relied, held otherwise because they focused on the wrong injury. *See* Pet. App. 12a-17a; *Dow Jones*, 606 F.3d at 1348; *Revolution Eyewear*, 556 F.3d at 1296-1300; *Benitec*, 495 F.3d at 1345-49; *Super Sack*, 57 F.3d at 1059-60. Those courts focused on the immediate threat of liability presented by the intellectual property owner’s infringement suit. They treated the invalidity counterclaim more as an affirmative defense than a “claim independent of the [owner’s] charge of infringement.” *Cardinal Chem.*, 508 U.S. at 96.

In *Super Sack*, the Federal Circuit held that a covenant not to sue eliminates any “reasonable apprehension of suit,” which the court at the time believed

¹¹ It is true of course that “[w]hether a covenant not to sue will divest the trial court of jurisdiction depends on what is covered by the covenant.” *Revolution Eyewear, Inc. v. Aspex Eyewear, Inc.*, 556 F.3d 1294, 1297 (Fed. Cir. 2009). An unqualified covenant not to sue that unambiguously covered future product designs might eliminate the injuries described above. But none of the covenants not to sue that have been the subject of recent litigation in the courts of appeals has been so broad. *See Dow Jones & Co. v. Ablaise Ltd.*, 606 F.3d 1338, 1345 (Fed. Cir. 2010); *Revolution Eyewear*, 556 F.3d at 1295-96; *Benitec*, 495 F.3d at 1343; *Super Sack Mfg. Corp. v. Chase Packaging Corp.*, 57 F.3d 1054, 1056-57 (Fed. Cir. 1995). That is for good reason – such a covenant would amount to an abandonment of the intellectual property, at least with respect to a particular defendant. It is highly unlikely that a right holder would agree to such a covenant.

was required for jurisdiction under the Declaratory Judgment Act. 57 F.3d at 1059. Although the court acknowledged that the declaratory judgment counterclaimant in that case “may have some cause to fear an infringement suit . . . based on products that it may develop in the future,” the court held that the only relevant injury was the threat of liability for “infringing acts involving products that it made, sold, or used on or before” the covenant. *Id.* In the court’s view, it was the scope of the infringement action, not the validity counterclaim, that determined justiciability.

This Court rejected the Federal Circuit’s “reasonable-apprehension-of-suit test” as a too-narrow conception of declaratory judgment jurisdiction in *MedImmune*. See 549 U.S. at 132 n.11. Yet the Federal Circuit has continued to hold that “a covenant not to sue in the future for products made, used, or sold in the past removes actual controversy in the present,” *Revolution Eyewear*, 556 F.3d at 1297, even though that conclusion was based on an erroneous interpretation of the scope of declaratory judgment jurisdiction.

In *Benitec*, for example, the Federal Circuit held that a covenant not to sue for “infringement arising from activities and/or products occurring on or before the date dismissal was entered,” 495 F.3d at 1343, left the parties with no remaining case or controversy “based upon the activities of the [defendant] on which [the plaintiff] had instituted its suit,” *id.* at 1348. Even though the infringement plaintiff “offered no covenant with respect to future human or animal products or animal research,” *id.* at 1352 (Dyk, J., dissenting), the court ignored the following: the “possibility that [the defendant] may in the future make human drugs that [the plaintiff] would

challenge as infringing”; the fact that the defendant “stated that it intends to pursue animal research”; and the fact that delaying adjudication of the validity of the patent “will have the effect of inhibiting [the defendant’s] ability to raise funds and conduct research and development.” *Id.* at 1354 (Dyk, J., dissenting); *see id.* at 1346-49.

Following that precedent, the court of appeals in this case made the same errors. It explained that “[t]he breadth of the [c]ovenant renders the threat of litigation remote or nonexistent even if Yums continues to market and sell *these* shoes” – that is, “any shoe currently made by Yums . . . and all colorable imitations thereof” – or “significantly increases their production.” Pet. App. 14a (emphasis added). And the court held that Already’s claims of ongoing injury failed to establish that there remained “genuinely adverse legal interests” between the parties over the validity of the trademark registration. *Id.* at 16a.

These holdings are contrary to the standing analysis above and to the logic of this Court’s decision in *Cardinal Chemical*. As to the former, a declaratory judgment counterclaim is not a mere affirmative defense that is mooted when a covenant not to sue effectively withdraws the plaintiff’s current infringement claim. It is an independent action to redress the independent injuries described in Part I.A. As to the latter, the Court has held that “appellate affirmation of a judgment of noninfringement, eliminating any apprehension of suit, does not moot a declaratory judgment counterclaim of patent invalidity.” *Med-Immune*, 549 U.S. at 132 n.11 (citing *Cardinal Chem.*, 508 U.S. at 98). The same logic applies here: although the covenant in this case may have eliminated any reasonable apprehension of suit, it does

not moot Already's independent claim for declaratory relief.

2. At the very least, “[i]t is well settled that a defendant’s voluntary cessation of a challenged practice does not deprive a federal court of its power to determine the legality of the practice.” *Friends of the Earth*, 528 U.S. at 189 (internal quotation marks omitted). Indeed, “[t]he voluntary cessation of challenged conduct does not ordinarily render a case moot because a dismissal for mootness would permit a resumption of the challenged conduct as soon as the case is dismissed.” *Knox*, 132 S. Ct. at 2287. When a plaintiff argues that its own conduct moots a case, the plaintiff therefore “bears the formidable burden of showing that it is absolutely clear the allegedly wrongful behavior could not reasonably be expected to recur.” *Friends of the Earth*, 528 U.S. at 190.

In this case, Already has alleged that the Nike marks pose a significant risk to its ongoing product development and business prospects. Even if Nike’s covenant not to sue reduces or eliminates the risk that the registration poses to *some* portion of Already’s business, significant uncertainty remains. The covenant not to sue here does not protect Already against infringement or dilution lawsuits arising from future product designs. *See supra* note 10. Already therefore continues to be constrained in its future design by the presence of the potentially invalid marks. Nike has offered no evidence that the challenged conduct – its imposition of an ongoing risk of liability for trademark infringement or dilution – will never recur. To the contrary, Nike’s unilateral promise leaves it free to resume enforcement against Already for future products that are sufficiently different

from Already's existing products yet nevertheless may infringe or dilute the marks. Indeed, in the covenant itself, Nike reaffirmed its belief in the validity of its marks. *See* JA96a.

The Ninth Circuit analyzed the same mootness problem through the lens of voluntary cessation in *Bancroft & Masters, Inc. v. Augusta National Inc.*, 223 F.3d 1082 (9th Cir. 2000). In that case, the court held that a golf club's waiver of infringement, dilution, and unfair competition claims against a seller of computer and networking products and services did not moot the latter's claim for a declaratory judgment of invalidity because the waiver was qualified – the waiver was effective only “so long as [the plaintiff] stays out of the golf business.” *Id.* at 1085. The fact that some risk of liability remained meant that the defendant who sought dismissal had “not made the requisite showing that it is absolutely clear” that it would not again seek to hold the plaintiff liable for using the mark. *Id.* *See also Benitec*, 495 F.3d at 1352-54 (Dyk, J., dissenting) (applying voluntary-cessation standard in patent context).

This Court too has looked with disfavor on defendants' attempts to manipulate justiciability in order to avoid adverse litigation outcomes. *See Knox*, 132 S. Ct. at 2287. That is precisely what Nike has attempted to do in this case. By avoiding a potentially adverse ruling on the validity of its trademark registration, Nike is able to continue to assert the mark depicted in that registration against both Already and other potential infringement defendants. Such “manipulative efforts to defeat declaratory jurisdiction,” *Benitec*, 495 F.3d at 1351 (Dyk, J., dissenting), are increasingly common. Through this tactic, intellectual property holders can assert their

rights in an attempt to extract settlements or judgments while simultaneously shielding those rights from challenge. “It is particularly inappropriate to place the burden of establishing continuing jurisdiction on declaratory plaintiffs 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 (Dyk, J., dissenting).

II. ACCESS TO THE COURTS TO TEST THE VALIDITY OF INTELLECTUAL PROPERTY IS CRITICAL FOR SOUND POLICY

A. Courts Provide An Essential Forum For Determining The Validity Of Intellectual Property

This Court has repeatedly “emphasized the importance to the public at large of resolving questions of [intellectual property] validity.” *Cardinal Chem.*, 508 U.S. at 100. Trademarks and patents are “exception[s] to the general rule against monopolies and to the right to access to a free and open market.” *Blonder-Tongue Labs.*, 402 U.S. at 343 (quoting *Precision Instrument Mfg. Co. v. Automotive Maint. Mach. Co.*, 324 U.S. 806, 816 (1945)). While they are granted and recognized for important and useful purposes, there is simultaneously a “strong federal policy favoring free competition in ideas which *do not merit . . . protection*” under the intellectual property laws. *Lear, Inc. v. Adkins*, 395 U.S. 653, 656 (1969) (emphasis added); *see also TrafFix Devices, Inc. v. Marketing Displays, Inc.*, 532 U.S. 23, 29 (2001) (“In general, unless an intellectual property right . . . protects an item, it will be subject to copying. As the Court has explained, copying is not always discouraged or disfavored by the laws which preserve our competitive economy.”).

When intellectual property is granted or recognized in error, the public loses substantially. It loses the freedom to use the article, idea, or mark that is the subject of the exclusive right, but does not gain the social benefits typically associated with that right. As this Court has recognized, “[t]he rights of [intellectual property] holder[s] are part of a ‘carefully crafted bargain’ under which, once the [intellectual property] monopoly has expired, the public may use the invention or work at will and without attribution.” *Dastar*, 539 U.S. at 33-34 (quoting *Bonito Boats*, 489 U.S. at 150-51). An invalid intellectual property right is no right at all; if an article or work is not eligible for protection, “the right to make the article – including the right to make it in precisely the shape it carried when [protected] – passes to the public.” *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 230 (1964). As this Court has explained, “[a]n unpatentable article . . . is in the public domain and may be made and sold by whoever chooses to do so. . . . Sharing in the goodwill of an article unprotected by patent or trade-mark is the exercise of a right possessed by all – and in the free exercise of which the consuming public is deeply interested.” *Id.* at 231 (internal quotation marks omitted); see also Megan M. La Belle, *Patent Law as Public Law*, 20 *Geo. Mason L. Rev.* (forthcoming 2012), available at <http://ssrn.com/abstract=2053798>.

The courts are essential forums for ensuring that only valid intellectual property is maintained and potentially asserted against infringers. Administrative examination of trademark and patent applications is necessarily imperfect. The PTO receives, for example, more than 300,000 trademark registration applications each year and issues close to 200,000

certificates of registration. See PTO, *Performance and Accountability Report: Fiscal Year 2011*, at 173 (2012), available at <http://www.uspto.gov/about/stratplan/ar/2011/USPTOFY2011PAR.pdf>; see also *id.* at 159 (PTO receives 500,000 utility patent applications each year and issues more than 200,000 patents annually). The PTO approves about 75% of all applications for registration. See Barton Beebe, *Is The Trademark Office a Rubber Stamp?*, 48 Hous. L. Rev. 751, 770 (2011). Of course, because registration is not a prerequisite for trademark protection, see *Two Pesos*, 505 U.S. at 767-68, many purported marks go without any administrative examination whatsoever.

Although it is difficult to know whether the PTO's grant rate for trademarks is optimal, see Beebe, 48 Hous. L. Rev. at 774-75, there is significant evidence to suggest that a great many invalid patents issue. See James Bessen & Michael J. Meurer, *Patent Failure: How Judges, Bureaucrats, and Lawyers Put Innovators at Risk* 160-63 (2008) (summarizing evidence); see also, e.g., Kimberly A. Moore, *Judges, Juries, and Patent Cases – An Empirical Peek Inside the Black Box*, 99 Mich. L. Rev. 365, 390 (2000) (reporting 33% invalidity rate for patent validity challenges litigated to judgment at trial); John R. Allison & Mark A. Lemley, *Empirical Evidence on the Validity of Litigated Patents*, 26 AIPLA Q.J. 185, 205 (1998) (reporting 46% invalidity rate for patent validity challenges litigated to judgment). This phenomenon likely arises because the PTO must necessarily devote fewer resources to examination than parties spend in contested litigation over patent validity. See Mark A. Lemley, *Rational Ignorance at the Patent Office*, 95 Nw. U. L. Rev. 1495, 1497 (2001).

Of course, “the ultimate question of [intellectual property] validity is one of law” for the courts to decide. *Graham*, 383 U.S. at 17; *see also* 15 U.S.C. § 1119 (“In any action involving a registered mark the court may . . . order the cancelation of registrations . . . of any party to the action.”). This Court has therefore “encourage[d] authoritative testing” of the validity of intellectual property rights, *Blonder-Tongue*, 402 U.S. at 344, through a number of mechanisms. *See MedImmune*, 549 U.S. at 130-34 (licensee need not violate license to bring action for declaratory judgment of invalidity); *Cardinal Chem.*, 508 U.S. at 100-01 (finding of noninfringement does not moot counterclaims for invalidity); *Blonder-Tongue*, 402 U.S. at 346-48 (patent holder estopped from re-litigating finding of invalidity); *Lear*, 395 U.S. at 663-68 (licensees not estopped from asserting invalidity of a patent as a defense in contract action for unpaid royalties).

Overly restrictive justiciability rules prevent the courts from effectively serving their institutional role as a check on the validity of trademarks and patents. Federal court actions are critical mechanisms to ensure that competitors have the ability to clear title within their field before undertaking costly investments. And they prevent intellectual property holders from engaging in manipulative tactics to assert their rights while shielding them from judicial scrutiny of their validity.

Broad standing and mootness rules also facilitate challenges that those who would qualify under more stringent standing criteria might fail to bring. With respect to patents, for example, standing rules that favor invalidity suits brought by direct competitors will disproportionately favor the particular *grounds*

for finding invalidity that are most congenial to those competitors' interests. Challenges to patentable subject matter, for instance, are often not brought by those who hold similar patents because an adverse ruling might place their own patents in jeopardy. Such challenges are more likely from indirect competitors or those non-competitors who nevertheless need to operate in the field free from restraint. *Cf. Association for Molecular Pathology*, 2012 WL 3518509, at *10-*14. Overly stringent standing and mootness rules that preclude such challenges similarly preclude important development of intellectual property law.

B. Administrative Remedies Are Not Adequate Substitutes For Declaratory Relief

While it is true that Congress has in certain circumstances provided for administrative mechanisms for testing the validity of trademarks and patents before the PTO, those mechanisms do not obviate the need for access to robust judicial review. *Contra* Br. in Opp. 29. Such mechanisms are under-inclusive relative to declaratory relief in court.

The Lanham Act provides that “any person who believes that he is or will be damaged . . . by the registration of a mark” can, under certain circumstances and within certain limits, file a “petition to cancel a registration” with the PTO. 15 U.S.C. § 1064. The PTO, however, lacks the authority to adjudicate the validity of *unregistered* marks like some of those challenged in this case. *See* JA34a-35a, 37a-38a. Even as to registered marks, plenary review in the PTO is available only for five years following registration. After that time, the grounds for review are

limited by statute.¹² *See id.* § 1064(3). Similarly, in patent law, Congress enacted new post-grant review procedures as part of the Leahy-Smith America Invents Act, Pub. L. No. 112-29, § 6, 125 Stat. 284, 299 (2011). While those procedures are more robust than previous administrative review mechanisms, they still cannot substitute entirely for federal court actions. The scope of review under those provisions is more limited than the scope of review in declaratory judgment suits. Plenary review of the validity of an issued patent is available only for nine months following issuance. *See* 35 U.S.C. § 321(c). After that date, administrative review is limited to claims that the patent is not novel or nonobvious. *See id.* § 311(b). Challenges to patentable subject matter, for example, must still be brought in court. Finally, the more robust procedures of the Act apply only to patents that issue from applications filed after March 16, 2013. *See* Pub. L. No. 112-29, § 6(f)(2)(A), 125 Stat. 311.

These administrative review mechanisms, moreover, will not keep potential challengers entirely out of federal court. The right holder can – and most likely will – appeal any adverse agency determination to the Federal Circuit, *see* 15 U.S.C. § 1071(a); 35 U.S.C. §§ 141(c), 319, 329, or, in the case of trademarks, to the district court, *see* 15 U.S.C. § 1071(b). It is also worth noting in this context that, if Nike’s view of standing is correct, then it is not clear whether all such challengers in administrative proceedings, to which Article III does not apply, will themselves be able to appeal adverse decisions.

¹² These limitations apply even if the trademark owner has not sought to make the mark incontestable. *See* 3 McCarthy § 20:55, at 20-139 – 20-140.

In short, while post-grant review or cancellation proceedings before the PTO may be effective in some circumstances, they will not adequately vindicate “the important public interest in permitting full and free competition in the use of ideas which are in reality a part of the public domain.” *Lear*, 395 U.S. at 670.

CONCLUSION

The judgment of the court of appeals should be reversed.

Respectfully submitted,

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