

No. 11-

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

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ALREADY, LLC d/b/a YUMS,

*Petitioner,*

*v.*

NIKE, INC.,

*Respondent.*

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

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**PETITION FOR A WRIT OF CERTIORARI**

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FEBRUARY 8, 2012

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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 29.6 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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Already, LLC d/b/a YUMS hereby petitions for a writ of certiorari to review the judgment of the Court of Appeals for the Second Circuit in this action.

### **OPINIONS BELOW**

The opinion of the Court of Appeals is reported at 663 F.3d 89 and is reproduced in Appendix A. The opinion of the District Court is unreported and is reproduced in Appendix B.

### **JURISDICTION**

The Court of Appeals entered final judgment on November 10, 2011. No petition for rehearing was filed. This Court's jurisdiction is invoked under 28 U.S.C. § 1254(1).

The district court had subject matter jurisdiction to hear this action 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 U.S. 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

This case presents a specific question concerning the scope of a federal court's Article III jurisdiction to hear challenges to the validity of federally registered trademarks. A clear circuit split has developed on the question; the question has practical importance for the enforcement and administration of intellectual property law; and, since it concerns the constitutional scope of Article III jurisdiction, the question cannot be resolved by legislation.

Federal trademark registrations are issued in the name of the United States of America, under the seal of the United States Patent and Trademark Office (the "PTO"), and constitute "prima facie evidence of the validity of the registered mark, . . . , 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.>").

When a person is accused of infringing a federally registered trademark, the accused infringer may ask a federal court to award judgment declaring that the asserted mark is invalid and ordering cancellation of the mark's registration. 15 U.S.C. § 1119 provides that "[i]n any action involving a registered mark the court may determine the right to registration, order the cancelation of registrations, in whole or in

part, . . . and otherwise rectify the register with respect to the registrations of any party to the action.”

When the validity of a federally registered trademark is challenged in a federal court action, the registrant may have a strong motivation to try and prevent the court from reaching the merits of the validity issue. This motivation may be especially strong where a claimed trademark is a product configuration whose eligibility for trademark protection is highly suspect. *Cf. Compro Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234, 237-38 (1964) (configuration of lighting fixture held ineligible for trademark protection notwithstanding that configuration was found to have “secondary meaning” and was “nonfunctional”).

One strategy for attempting to prevent a federal court from reaching the merits of an invalidity challenge is (i) to promise not to assert a registered trademark against any of the challenger’s existing activities; and then (ii) to argue that, because the trademark owner has voluntarily waived all then-existing infringement claims against the challenger, the court has been divested of Article III jurisdiction.

If that strategy is successful in preventing the federal court from deciding the validity issue, the trademark owner maintains its registration and can continue to assert it in the future both against other potential parties (who may lack the resources to mount a federal court challenge to the mark’s validity) and against the future activities of the challenger (who might again have to justify the expense of mounting a challenge to the trademark, with the possibility that the trademark registrant might once again deprive the federal court of jurisdiction by agreeing to refrain from asserting the trademark in the immediate circumstances).

The success of this possible strategy hinges on the question whether a federal district court is divested of Article III jurisdiction to hear an accused infringer’s claim challenging the validity of an asserted federally registered trademark if, following the commencement of an action involving the asserted trademark, the registrant elects to waive its existing claims and provides a covenant not to assert the registered trademark against then-existing activities of the accused infringer. The Ninth Circuit and the Second Circuit (in the de-

cision below) have offered divergent answers to this question.

In *Bancroft & Masters, Inc. v. Augusta National Inc.*, 223 F.3d 1082 (9th Cir. 2000), the Ninth Circuit held that a promise not to assert a registered trademark against an accused infringer's existing activities did not divest the district court of Article III jurisdiction to hear the accused infringer's claim challenging the validity of the asserted mark. In reaching this conclusion, the Ninth Circuit applied this Court's standard for determining postcommencement mootness, namely, whether the registrant had made an "absolutely clear" showing that it would "never renew its allegedly wrongful behavior." *Id.* at 1085 (citation omitted). This stringent standard was not met, the Ninth Circuit held, because the registrant's promise in *Bancroft* did not eliminate all risk that the registered mark might be asserted against the challenger in the future and so was "incomplete and qualified." *Id.* Further, with regard to the accused infringer's separate claim for cancellation relief, the Ninth Circuit held that "even if [the registrant's] promise had been unqualified, it would not have mooted [the challenger's] separate request for cancellation" since the "trademark cancellation count [wa]s separate from the declaratory judgment count in the complaint and d[id] not appear to be obviously meritless." *Id.*

In the decision below, the Second Circuit stated that it found the Ninth Circuit's reasoning in *Bancroft* "unpersuasive." Pet. App. 19a. The Second Circuit expressly rejected the Ninth Circuit's conclusion that a federal court can hear a claim seeking cancellation of a federal trademark registration even if the registrant makes an "unqualified promise" not to assert the registered trademark against the challenger. *Id.* The Second Circuit also rejected the Ninth Circuit's test that, to render moot a pending claim challenging the validity of a federal trademark registration, the registrant must make an "absolutely clear" showing that "it will never renew its allegedly wrongful behavior." *Id.* (emphasis added). To the contrary, the Second Circuit expressly recognized that respondent here was reserving its rights to sue petitioner in the future. *Id.* at 15a n.5.

The jurisdiction of federal courts to hear claims challenging the validity of federal intellectual property rights is a matter of public importance. This Court has repeatedly noted “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), and has disapproved doctrines that restricted litigants’ ability to raise invalidity challenges to intellectual property rights in federal court. *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. Co. v. Morton Int’l, Inc.*, 508 U.S. 83, 100-101(1993) (overturning doctrine that validity challenge was rendered “moot” by affirmance 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) (overturning doctrine that assignor was estopped from challenging validity of assigned patent).

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”). To the extent that the owner of a federal trademark registration can unilaterally divest a federal court of jurisdiction to hear a challenge to the registration’s validity, the registration can remain on the PTO principal register as a “scarecrow.” *Cardinal Chemical*, 508 U.S. at 96 (quoting *Bresnick v. United States Vitamin Corp.*, 139 F.2d 239, 242 (2d Cir. 1943) (L. Hand, J.)).

This case well illustrates the soundness of the “absolutely clear” standard that the Ninth Circuit applied in *Bancroft* (which standard is grounded in this Court’s post-commencement mootness precedents), and the unsoundness of the conflicting reasoning that the Second Circuit applied to dismiss petitioner’s challenge to the validity of the registration that respondent asserted in this case.



**A. Respondent's Suit Against Petitioner**

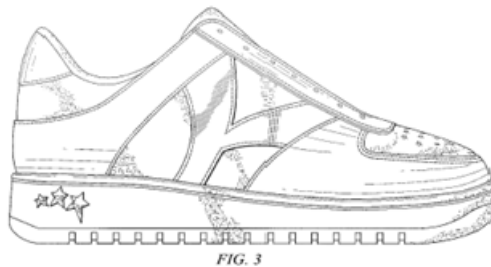
In 2009, respondent sued petitioner for alleged infringement and dilution of the purported "trademark" set forth below:

Asserted "Trademark"



The YUMS-branded shoes produced by petitioner, whose sale was alleged to infringe or dilute the respondent's registered trademark, embodied the design depicted below:

Accused Shoe



Respondent alleged that by selling YUMS-branded shoes embodying the design depicted above, petitioner allegedly infringed or diluted the so-called “trademark” depicted at top. In support of its claim, respondent cited and relied on certificate of registration No. 3,451,905 (the “‘905 Registration”).

Petitioner served an answer to respondent’s complaint, denied infringement, and asserted a compulsory counterclaim for cancellation of the ‘905 Registration. Petitioner’s counterclaim alleged in part:

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 December 2009, respondent served an answer to petitioner’s counterclaim. Respondent denied petitioner’s allegations challenging the validity of the ‘905 Registration, but admitted that there was, at the time of its answer, an “actual controversy” between the parties concerning whether the PTO acted unlawfully in issuing the ‘905 Registration.

#### **B. Respondent Reverses Field and Seeks to Destroy the District Court’s Jurisdiction**

In mid-March 2010, respondent abruptly delivered a document styled “Covenant Not to Sue.” In this “covenant,” respondent undertook to “refrain” from asserting 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” (emphasis added).

Immediately following delivery of the above-described “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. Respondent asserted that by waiving and voluntarily dismissing its own claims, respondent had divested the district court of subject matter jurisdiction to hear petitioner's compulsory counterclaim challenging the validity of the '905 Registration and seeking its court-ordered cancellation.

In its response to respondent's motion, petitioner agreed that respondent's (meritless) claims in this action should be dismissed with prejudice, but petitioner contended that the dismissal of respondent's claims had no effect on the court's jurisdiction to hear petitioner's compulsory counterclaim.

### C. The District Court's Decision

In January 2011, the district court dismissed respondent's complaint with prejudice, thereby adjudicating and extinguishing all of the claims that respondent had asserted against petitioner in this action.<sup>1</sup> The district court also held that respondent's "covenant not to sue" had "stripped" the court of its "ability to order cancellation of a registered trademark pursuant to Section 1119." Pet. App. 35a-36a.

Rather than ask whether *respondent* had carried "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, Inc v. Laidlaw Envtl. Servs. (TOC) Inc.*, 528 U.S. 167, 190 (2000), the district court analyzed the jurisdictional issue in terms of whether *petitioner*, immediately following delivery of respondent's "covenant not to sue," had carried a burden of demonstrating that it was still then exposed to a non-frivolous claim for alleged infringement such that the invalidity of the '905 Registration could be raised as a *defense* to such claim. The dis-

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<sup>1</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)).

district court acknowledged that its analysis of the jurisdictional issue was contrary to that which the Ninth Circuit applied in *Bancroft*. See Pet. App. 36a (“some courts in other districts have agreed with Defendant’s argument”) (citing *Bancroft*).

In dictum, the district court suggested that respondent’s “covenant” would not prevent petitioner from instituting an administrative “cancellation” proceeding in the PTO. The district court acknowledged that “some inefficiency results from requiring Defendant to now institute an administrative proceeding before the Patent and Trademark Office in order to seek cancellation of the ‘905 Registration.” Pet. App. 37a. But the court considered that it had no choice in the matter because the constitutional terms, “Cases” and “Controversies,” U.S. Const. art. III, § 2, were thought by the district court not to include a civil action in which the only pending claim was a compulsory counterclaim challenging the lawfulness of a PTO registration decision. Pet. App. 38a

#### **D. The Second Circuit’s Decision**

Petitioner timely appealed the dismissal of its compulsory counterclaim to the Second Circuit. Petitioner argued that its statutory right to seek cancellation of the ‘905 Registration under 15 U.S.C. § 1119 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*, 528 U.S. at 190; 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*, 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. 508 U.S. 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)). Like the district court, the Second Circuit did not ask whether *respondent* had demonstrated that its voluntary action met the stringent standard for establishing “postcommencement mootness,” *Friends of the Earth*, 528 U.S. at 174, but rather asked whether *petitioner* had demonstrated that, immediately following delivery of respondent’s “covenant not to sue,” there then remained any actual or threatened claim which the invalidity of the ‘905 Registration could be raised as a *defense*.

In a similar vein, the Second Circuit stated that “Section 1119 . . . creates a *remedy* for *trademark infringement*,” Pet. App. 18a (emphasis added); and from this clearly erroneous premise (which neither side advocated below),<sup>2</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 relief.

Like the district court, the Second Circuit recognized that its holding was contrary to the Ninth Circuit’s *Bancroft* decision. The Second Circuit stated: “the Ninth Circuit in *Bancroft* failed to consider the language in § 1119 that renders that section remedial, not jurisdictional. Accordingly, we find its opinion unpersuasive.” Pet. App. 19a. In fact, the *Bancroft* opinion does not characterize § 1119 as “jurisdictional” (which it is not), but rather holds – correctly – that in order for a waiver of claims to render moot a pending chal-

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<sup>2</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.”

lenge to the previously-asserted claims' validity, the party asserting mootness must show that it is "absolutely clear" that the allegedly wrongful conduct (the assertion of an allegedly invalid federally registered trademark) will never be renewed. 223 F.3d at 1085. That is to say, whether a post-suit covenant not to sue renders a case moot is governed by the stringent standard for establishing postcommencement mootness. *Friends of the Earth*, 528 U.S. at 190.

The decision below purports to follow this Court's decision in *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118 (2007), but clearly misapprehends the *MedImmune* decision. In *MedImmune*, this Court disapproved what was then called "the Federal Circuit's 'reasonable apprehension of suit' test." *Id.* at 132 n.11. Yet it was this very "test" that gave birth to the evasive maneuver that respondent utilized in this case: a post-suit "covenant" that eliminates "apprehension" of suit for alleged infringement and thus, supposedly, ousts a federal court of supplemental jurisdiction to hear a compulsory counterclaim for a declaratory judgment of invalidity. *See Super Sack Mfg. Corp. v. Chase Packaging Corp.*, 57 F.3d 1054, 1058 (Fed. Cir. 1995).

Shortly following this Court's *MedImmune* decision, the continued viability of the *Super Sack* rule in the patent context was openly questioned by Federal Circuit Judge Dyk. *See Benitec Australia, Ltd. v. Nucleonics, Inc.*, 497 F.3d 1340, 1350-55 (Fed. Cir. 2007) (Dyk, J., dissenting). Judge Dyk wrote: (i) "[t]here is a strong public interest in permitting accused infringers to challenge invalid or unenforceable patents," *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; and (iii) "[i]t 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. Judge Dyk concluded that the stringent postcommencement mootness standard – the standard that the Ninth Circuit applied in *Bancroft* – controlled whether a federal court could proceed to

decide a validity challenge following receipt of a covenant not to sue. *Id.* at 1353-54.

As the present case illustrates, however, the *Benitec* majority opinion has led to the continued and widespread use of “covenants” to evade adjudication of challenges to asserted patents and registered trademarks. That rule stands in clear conflict with the Ninth Circuit’s *Bancroft* decision, is recurring and persistent, and warrants review by this Court.

### **REASONS FOR GRANTING THE PETITION**

The Court should grant certiorari in this case for several reasons.

First, there is an acknowledged circuit split. The Ninth Circuit and the Second Circuit have both addressed the question presented by this Petition and have provided directly conflicting answers. In the Ninth Circuit, a registrant’s delivery of a covenant not to sue is, without more, insufficient to divest a district court of jurisdiction to hear a pending claim challenging the validity of an asserted federally registered trademark. In the Second Circuit, precisely the opposite is true.

Second, the legal standard applied below conflicts with multiple precedents of this Court construing federal court jurisdiction. A federal court’s jurisdiction to hear a compulsory counterclaim has never depended on the fate of a plaintiff’s claims establishing original jurisdiction. And in *Cardinal Chemical*, this Court specifically held that the failure of a plaintiff’s infringement claim *did not* divest a federal court of jurisdiction to hear a counterclaim challenging the validity of an asserted intellectual property right.

Third, the legal standard applied below subverts “the strong federal policy favoring the full and free use of ideas in the public domain,” *Lear*, 395 U.S. at 674, and enables entities to protect “scarecrow” intellectual property rights, *Cardinal Chemical*, 508 U.S. at 96, from federal court validity challenges. The unlawful registration of trademark-ineligible subject matter has enormous potential to inhibit or suppress lawful competition. The Lanham Act assigns federal courts an important role in the enforcement of statutory conditions for trademark registrability, both in the context of direct re-

view of PTO registration decisions under 15 U.S.C. § 1071 and in the context of entertaining validity challenges to such decisions pursuant to the cancellation right provided under 15 U.S.C. § 1119.

Fourth, while this Article III jurisdictional issue arises in both the patent and trademark contexts and is generally important to the system of presumptively valid intellectual property rights administered by the PTO, this case—a trademark case—is the appropriate vehicle for resolving the issue because the issue is cleanly presented and the circuit split has arisen in the trademark context. While the jurisdictional issue has also divided the judges of the Federal Circuit, with a strong dissenting opinion by Judge Dyk, the issue cannot generate a circuit split in the patent area because of the exclusive jurisdiction of the Federal Circuit.

#### **I. THERE IS AN ACKNOWLEDGED CIRCUIT SPLIT**

As set forth above, the decision below openly disagrees with the Ninth Circuit’s *Bancroft* decision and “find[s] its opinion unpersuasive.” Pet. App. 19a. The decision below takes a decidedly narrower view of federal court jurisdiction to hear claims challenging the validity of federal trademark registrations than the Ninth Circuit took in *Bancroft*. That clear circuit split warrants review and resolution by this Court.

The decision below and the Ninth Circuit’s *Bancroft* decision apply conflicting and very different legal standards. In *Bancroft*, the sponsor of the well-known MASTERS golf tournament, August National Inc. (“ANI”), accused a California company named Bancroft & Masters, Inc. (“B&M”) of having engaged in trademark infringement, dilution, and unfair competition by using MASTERS.COM as an Internet domain name. B&M then sued ANI in California for (i) a declaratory judgment of non-liability and (ii) for cancellation of certain federal registrations that ANI had procured.

In an attempt to extricate itself from the California lawsuit by destroying federal court jurisdiction to hear B&M’s claim, ANI “offered to waive all trademark infringement, di-



lution, and unfair competition claims against B&M, so long as B&M stays out of the golf business.” 223 F.3d at 1085. The question raised to the Ninth Circuit was whether this waiver of claims by ANI rendered moot and divested the court of subject matter jurisdiction to hear B&M’s claims. The Ninth Circuit answered this question “no,” based on its application of this Court’s stringent standard for postcommencement mootness.

To the extent that there is any factual distinction to be drawn between the present case and *Bancroft*, the case for federal court jurisdiction here is stronger, not weaker, than was the case for jurisdiction in *Bancroft*. The respondent’s covenant in this case was limited to products that petitioner had made or sold prior to March 19, 2010. By contrast, the promise given in *Bancroft* extended to the accused infringer itself and extended for “so long as B&M stays out of the golf business.” 223 F.3d at 1085. The promise given in *Bancroft* was broader, not narrower, than the promise that was given in this case.

Consistently with the dissenting opinion of Judge Dyk in *Benitec*, the Ninth Circuit in *Bancroft* analyzed the jurisdictional effect of a post-suit covenant not to sue by reference to the standard for determining postcommencement mootness articulated in such precedents as *Friends of the Earth*, 528 U.S. at 190. Where, as here, a party contends that its own post-suit voluntary acts render an opposing party’s claim moot, the party claiming mootness is rightly assigned the stringent burden of demonstrating that it is “absolutely clear” that the challenged unlawful action will never again recur or harm the challenger. 223 F.3d at 1085.

In sharp contrast, the decision below analyzes the jurisdictional effect of a post-suit covenant not to sue by reference to whether the party challenging the validity of an asserted registration can point to some actual or threatened claim for alleged infringement to which invalidity could be pleaded as a defense. As the present case amply demonstrates, such a test of Article III jurisdiction enables a trademark registrant to threaten to bring, or as here to bring, infringement suits that inflict heavy costs on a rival business that must prepare for trial and then, if unexpected resistance is encountered,

deliver a “covenant not to sue” and evade any prompt or cost-effective test of the validity of the asserted registration.

## **II. THE DECISION BELOW CONFLICTS WITH MULTIPLE PRECEDENTS OF THIS COURT CONSTRUING AND APPLYING FEDERAL COURT JURISDICTION**

28 U.S.C. § 1331 vests federal courts with “original jurisdiction of all civil actions arising under the Constitution, laws, or treaties of the United States.” Whether a civil action is one “arising under” federal law depends on what is stated on the face of a plaintiff’s well-pleaded complaint. *See, e.g., Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc.*, 535 U.S. 826, 830 (2002). Here it is undisputed that respondent’s complaint invoked the original jurisdiction conferred by at least 28 U.S.C. § 1331.

28 U.S.C. § 1367(a) provides, with exceptions not relevant here, that “in 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.” It is undisputed that petitioner’s compulsory counterclaim for cancellation of the respondent’s trademark registration under 15 U.S.C. § 1119 fell within the supplemental jurisdiction conferred by 28 U.S.C. § 1367(a) at the time of its assertion.

In holding that respondent’s abandonment of its own claims divested the district court of jurisdiction to hear petitioner’s compulsory counterclaim, the decision below conflicts with long-standing contrary precedent. In *Moore v. New York Cotton Exchange*, 270 U.S. 593, 607-610 (1926), a plaintiff’s federal antitrust complaint was dismissed, but this fact was held irrelevant to the court’s continuing jurisdiction to hear the defendant’s state law compulsory counterclaim:

A complaint setting forth a substantial claim under a federal statute presents a case within the jurisdiction of the court as a federal court; and this jurisdiction cannot be made to stand or fall upon the way the court may chance to decide an issue as to the legal sufficiency of the facts alleged any more than upon

the way it may decide as to the legal sufficiency of the facts proven.

*Moore*, 270 U.S. at 608 (quoting *Binderup v. Pathe Exch., Inc.*, 263 U.S. 291, 305 (1923)).

Under *Moore* and 28 U.S.C. § 1367(a), respondent's waiver or dismissal of its claims against petitioner was irrelevant to the district court's jurisdiction to hear petitioner's compulsory counterclaim. The district court's jurisdiction to hear petitioner of compulsory counterclaim was furnished by 28 U.S.C. § 1367(a). Nothing in the text of the Lanham Act, and certainly nothing in 15 U.S.C. § 1119, purports to divest federal courts of supplemental jurisdiction that 28 U.S.C. § 1367(a) confers.

To the contrary, § 1119 makes federal court judgments *binding* on the Director of the PTO even though he is not a party to an action between a registrant and a challenger. In this respect, § 1119 is similar in operation to 15 U.S.C. § 1071(b)(2), which provides that in district court actions seeking direct review of PTO agency actions in "inter partes" cases, the Director of the PTO "shall not be made a party." *Id.* A statute that *extends* the effect of federal court judgment is not sensibly interpreted as *divesting* federal courts of subject matter jurisdiction that 28 U.S.C. § 1367(a) otherwise confers.

Federal courts have long held and exercised jurisdiction to review PTO decisions to refuse cancellation of issued registrations under 15 U.S.C. § 1071(b), *even without proof* that the party challenging the trademark registration was currently under threat of being sued for trademark infringement. *See, e.g., Aktieselskabet AF 21 v. Fame Jeans Inc.*, 525 F.3d 8, 13-14 (D.C. Cir. 2008) (adjudicating a challenge to a trademark registration without any demonstration that the challenger was subject to any currently existing claim of infringement). Such review would be constitutionally impossible if a federal court's Article III jurisdiction to hear a claim for cancellation relief was dependent on the existence of a pending non-frivolous claim for alleged infringement against the challenger.

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. The alleged “trademark” depicted in the ‘905 Registration is “in the public domain” under patent law and as such “can be copied in every detail by whoever pleases.” *Compro*, 376 U.S. at 238. The PTO’s issuance of the ‘905 Registration was in direct opposition to this Court’s patent precedents and “the strong federal policy favoring the full and free use of ideas in the public domain,” *Lear*, 395 U.S. at 674. The ‘905 Registration purports to impose a direct restraint on the conduct of petitioner’s athletic footwear business. Yet according to the decision below, respondent is able to evade judicial review of the validity of the purported “trademark” depicted in the ‘905 Registration and maintain that registration for possible use against future lines of petitioner’s products, because respondent’s delivery of a “covenant not to sue” supposedly ousted the district court of Article III jurisdiction to hear petitioner’s compulsory counterclaim for cancellation of the asserted registration.

Thus, under the decision below, the respondent may continue to assert its ‘905 Registration against competitors, charging them with infringement with each new line of shoes they produce. Yet after the competitor has been put through the expense of preparing its defenses to a trademark infringement suit and preparing its compulsory counterclaim for trademark cancellation, the trademark owner can unilaterally “pull the plug” on the entire litigation, maintaining the presumptively valid “scarecrow” intellectual property right to assert anew ad infinitum. (Unlike patents, trademarks have no term limit.)

Under this Court’s precedents, a plaintiff’s strategic abandonment of its claims has never been recognized as a basis for extinguishing either original jurisdiction under 28 U.S.C. § 1331 or supplemental jurisdiction under 28 U.S.C. § 1367(a). To the contrary, in *Cardinal Chemical*, the Court held that the *failure* of an infringement plaintiff’s claims *did not* operate to render moot a compulsory counterclaim for a declaratory judgment of invalidity.

### III. THE ISSUE IS IMPORTANT AND MERITS THIS COURT'S ATTENTION

#### A. The Use of “Covenants” to Thwart Invalidity Challenges Is Widespread and Recurring

Strategic use of “covenants” to shut off invalidity challenges in federal court is a recurring and widespread problem.<sup>3</sup> The practice dates back to the 1995 *Super Sack* decision in the Federal Circuit and has persisted despite the disapproval, in *MedImmune*, of the “reasonable apprehension of suit” standard that gave birth to the practice, and despite the

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<sup>3</sup> See, e.g., *Dow Jones & Co. v. Ablaise Ltd.*, 606 F.3d 1338, 1345 – 49 (Fed. Cir. 2010) (covenant not to sue held to divest district court of Article III jurisdiction to hear validity challenge); *Frontline Technologies, Inc. v. CRS, Inc.*, No. 07–2457, 2011 WL 6747460 (E.D. Pa. 2011) (same); *American Technology Inc. v. Velocity Micro, Inc.*, No. 6:11-cv-109 (M.D. Fla. June 28, 2011) (same); *Tequila Cuervo La Rojena, S.A. de C.V. v. Jim Beam Brands Co.*, No. 1:10-cv-00203 (S.D.N.Y. Feb. 8, 2011), slip op. at 5 (same); *Barco N.V. v. Tech. Props. Ltd.*, No. 08-5398, 2010 WL 604673, at \*2 (N.D. Cal. 2010) (same); *International Automated Systems, Inc. v. IBM*, 595 F. Supp. 2d 1197 (D. Utah 2009) (same); *Dodge-Regupol, Inc. v. RB Rubber Prods., Inc.*, 585 F. Supp. 2d 645, 649-55 (M.D. Pa. 2008) (same); *Global DNS, LLC v. Kook’s Custom Headers, Inc.*, No. C08- 0268 RSL, 2008 WL 4380439, at \*3 – 4 (W.D. Wash. Sep. 22, 2008) (same); *Crossbow Tech., Inc. v. YH Tech.*, 531 F. Supp. 2d 1117, 1122 – 24 (N.D. Cal. 2007) (same); *Furminator, Inc. v. Ontel Prods. Corp.*, 246 F.R.D. 579, 590 – 92 (E.D. Mo. 2007) (same); *SGS Tools Co. v. Step Tools Unlimited, Inc.*, No. 5:04CV1315, 2006 WL 2849771 (N.D. Ohio 2006) (same); *Ciber, Inc v. Ciber Consulting, Inc.*, 326 F. Supp. 2d 886, 887 – 93 (N.D. Ill. 2004) (same); *Arista Techs., Inc. v. Arthur D. Little Enters., Inc.*, 125 F. Supp. 2d 641, 655 (E.D.N.Y. 2000) (same).

criticism of the practice in Judge Dyk's dissenting opinion in *Benitec*, 497 F.3d at 1550.

The importance of the issue is magnified by its procedural nature. Often, an accused infringer will not have the financial ability or incentive to litigate the issue past the district court stage. The great majority of the "covenant" decisions are patent cases that are subject to the Federal Circuit's exclusive appellate jurisdiction and case law precedent such as the *Benitec* majority opinion. Cases subject to a single court of appeals would not be expected to diverge from its doctrine. But the same is not true of trademark cases. Because regional circuits continue to have appellate jurisdiction in trademark cases, instability and circuit splits are still possible in the trademark field as has occurred here. This case provides an appropriate vehicle for resolving the issue.

Furthermore, the two circuits involved in the split here—the Second and the Ninth—are *the* leading trademark circuits in the country. Indeed, one recent empirical study of trademark cases demonstrated that district court trademark decisions in those two circuits account for nearly half of all trademark litigation in the country. See Barton Beebe, *An Empirical Study of the Multifactor Tests for Trademark Infringement*, 94 Cal. L. Rev. 1581, 1596 (2006) (Table 2) (reporting that, out of a sample of 331 district court trademark cases decided between 2000-2004, the Second and Ninth Circuits accounted for the most and second most, respectively, trademark cases per circuit and that together the two circuits accounted for 48.3% of all trademark cases in the national sample).

The question presented by the petition here involves the same type of Article III jurisdictional limitation that the Court considered in *MedImmune* and *Cardinal Chemical*. The Court in this case has the opportunity to make an incremental development in its case law construing federal court jurisdiction in the context of PTO grant decisions.

#### **B. The Rule Applied Below Subverts Strong Public Interests in Permitting Validity Challenges**

The unlawful registration of trademark-eligible subject matter is deemed, by statute, to constitute an invasion of the

legal rights of “any person who believes that he is or will be damaged . . . by the registration.” 15 U.S.C. § 1064. This broad definition of statutory injury reflects both (i) the inherent potential of invalid trademark registrations to cause competitive harm, and (ii) “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. “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.” *Sears, Roebuck & Co. v. Stiffel Co.* 376 U.S. 225, 231 (1964) (quoting *Kellogg Co. v. Nat’l Biscuit Co.*, 305 U.S. 111, 122 (1938)). See also *Compco*, 376 U.S. 234.

The alleged “trademark” at issue is a shoe configuration that 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.

### CONCLUSION

For the reasons set forth above, this Petition for a Writ of Certiorari should be granted.

Respectfully submitted,

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## **APPENDIX**



**APPENDIX A — OPINION OF THE UNITED  
STATES COURT OF APPEALS FOR THE SECOND  
CIRCUIT, DECIDED NOVEMBER 10, 2011**

UNITED STATES COURT OF APPEALS  
FOR THE SECOND CIRCUIT

August Term, 2010  
June 20, 2011, Argued  
November 10, 2011, Decided

Docket No. 11-314-cv

NIKE, INC.,

*Plaintiff-Counter-Defendant-Appellee,*

v.

ALREADY, LLC d/b/a YUMS,

*Defendant-Counter-Claimant-Appellant.*

LOHIER, *Circuit Judge:*

This appeal requires us to decide whether a trademark registrant's delivery of a covenant not to sue, and voluntary dismissal of its trademark claims, divests a federal court of subject matter jurisdiction over a defendant's counterclaims for a declaratory judgment and cancellation of the trademark's registration. After considering the breadth of the plaintiff's covenant not to sue and the improbability of future infringement, the United States District Court for the Southern District of New

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York (Richard J. Sullivan, *J.*) dismissed the defendant's counterclaims because no case or controversy existed under Article III of the United States Constitution. We affirm.

**BACKGROUND****1. The Complaint and Counterclaims**

In July 2009, plaintiff Nike, Inc. filed a complaint against defendant Already, LLC d/b/a Yums ("Yums"), alleging trademark infringement, false designation of origin, unfair competition, and trademark dilution in violation of 15 U.S.C. §§ 1114(1), 1125(a), and 1125(c), and related claims under New York common law and New York General Business Law § 360. According to the complaint, in 1982, Nike designed a shoe called the Air Force 1, which it has since produced in more than 1,700 color combinations, selling millions of pairs each year. The complaint alleged that the Air Force 1 shoe has a distinctive appearance for which Nike owns several federal trademark registrations, including U.S. Trademark Registration Number 3,451,905, registered with the United States Patent and Trademark Office on June 24, 2008 (hereinafter the "'905 Registration"), for "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 the 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." Compl. ¶ 11 (quoting the '905 Registration). It

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further alleged that Yums was selling “footwear bearing a confusingly similar imitation” of the Air Force 1 shoe, including shoes known as Sugar and Soulja Boy. *Id.* at ¶¶ 14-15.

In November 2009, Yums filed counterclaims for a declaratory judgment that the ‘905 Registration was not in fact a “trademark” under 15 U.S.C. § 1127 or New York law, and for cancellation of the ‘905 Registration pursuant to the cancellation provisions of the Lanham Act, 15 U.S.C. § 1119. Yums also alleged that an “actual controversy” existed regarding whether Yums had infringed any rights Nike had in the purported trademark.

## **2. The Covenant Not To Sue**

In March 2010, Nike delivered a “Covenant Not to Sue” (the “Covenant”) to Yums. The Covenant’s preamble stated as follows:

NIKE has recently learned that [Yums]’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.

The Covenant obligated Nike as follows:

to refrain from making any claim(s) or demand(s), or from commencing, causing, or

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permitting to be prosecuted any action in law or equity, against [Yums] or any of its [successors or related entities and their customers], on account of any possible cause of action based on or involving trademark infringement, unfair competition, or dilution, under state or federal law in the United States [sic] relating to the NIKE Mark based on the appearance of any of [Yums]’s current and/or previous footwear product designs, and any colorable imitations thereof, regardless of whether that footwear is produced, distributed, offered for sale, advertised, sold, or otherwise used in commerce before or after the Effective Date of this Covenant.

**3. The District Court Proceedings and Decision**

In April 2010, a month after Nike delivered the Covenant, the District Court held a hearing to determine whether the Covenant divested it of subject matter jurisdiction over Yums’s counterclaims. Although Nike conceded during the hearing that it would be bound by the Covenant even if Yums became a competitive threat, Yums argued that a case or controversy persisted because Nike’s litigation -- and the ‘905 Registration itself -- constituted a “continuing libel” against Yums by making it appear that Yums had infringed and continued to infringe Nike’s trademark. In the course of its argument, Yums acknowledged that it had not previously sought to cancel the ‘905 Registration, which had been filed nearly two years earlier.

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After the hearing, Nike moved pursuant to Rule 12(b) (1) of the Federal Rules of Civil Procedure to dismiss Yums's counterclaims without prejudice on the ground that the District Court lacked subject matter jurisdiction. Nike also moved to dismiss its own claims voluntarily and with prejudice, pursuant to Rule 41(a)(2).

In response, Yums argued that Nike's claims should be dismissed with prejudice by summary judgment under Rule 56(b) rather than Rule 41(a)(2) to allow the action, insofar as it included Yums's counterclaims, to proceed. Yums argued that its counterclaims were not subject to dismissal along with Nike's claims because, under the Declaratory Judgment Act, they created an independent controversy over whether Nike had violated Yums's rights by improperly obtaining a trademark registration.

To demonstrate the existence of an actual controversy notwithstanding the Covenant's broad language, Yums filed affidavits from prospective investors who suggested that Nike's lawsuit had deterred them from investing in Yums or had prompted them to withdraw prior investments. A former investor in Yums, for example, stated that he resold his stock to Yums at a loss after learning of Nike's lawsuit, which he feared would tarnish Yums's reputation and deter other investors from investing in the company. The investor explained that the Covenant provided inadequate assurance that Nike could not "assert its trademarks against" Yums in the future over the sales of shoes similar to Air Force 1.

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On January 20, 2011, the District Court dismissed Nike's claims with prejudice and Yums's counterclaims without prejudice. *See Nike, Inc. v. Already, LLC, d/b/a Yums*, No. 09 Civ. 6366, 2011 WL 310321, at \*1, \*8 (S.D.N.Y. Jan. 20, 2011). In dismissing Nike's claims "on consent," the District Court explained that Yums had "consent[ed] to" dismissal of these claims but did not specify which rule, if any, it was invoking. *Id.* at \*2.

Turning to Yums's counterclaims and relying on *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118 (2007), the District Court first concluded that Yums's declaratory judgment action failed to create a justiciable "case or controversy," since a declaratory judgment claimant "must, 'under all the circumstances,' demonstrate 'a substantial controversy, between parties having adverse legal interests, of sufficient immediacy and reality to warrant the issuance of a declaratory judgment.'" *Nike, Inc.*, 2011 WL 310321, at \*4 (quoting *MedImmune*, 549 U.S. at 127). The District Court held that Yums's counterclaims did not meet this standard in light of the Covenant. In reaching this conclusion, the District Court considered the Covenant's language and broad scope, *id.*, Yums's failure to show that it had taken meaningful steps to create new shoes not covered by the Covenant, *id.* (quoting *Diamonds.net LLC v. Idex Online, Ltd.*, 590 F. Supp. 2d 593, 600 (S.D.N.Y. 2008)), and the absence of prior litigation between Nike and Yums. *Id.* at \*5 (citing *ICOS Vision Sys. Corp., N.V. v. Scanner Techs. Corp.*, 699 F. Supp. 2d 664, 670-71 (S.D.N.Y. 2010) (Chin, J.)). The District Court then ruled that Yums's counterclaim for cancellation of the '905 Registration under 15 U.S.C. § 1119 failed to confer subject matter jurisdiction because such a

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claim can arise only as part of a separate, independently supportable action. *Id.* at \*6-7. Lastly, without holding an evidentiary hearing, the District Court rejected Yums’s application for attorneys’ fees under the Lanham Act, 15 U.S.C. § 1117(a), because the case was not “exceptional” as required by the Act. 2011 U.S. Dist. LEXIS 9626, *id.* at \*8.

Yums timely appealed, challenging both the District Court’s dismissal of its claims and the court’s denial of Yums’s motion for attorneys’ fees without an evidentiary hearing.

**DISCUSSION**

We determine the existence of subject matter jurisdiction before addressing other threshold issues. Where a district court dismisses an action “for lack of subject matter jurisdiction, we review factual findings for clear error and legal conclusions *de novo.*” *Maloney v. Soc. Sec. Admin.*, 517 F.3d 70, 74 (2d Cir. 2008). A “case is properly dismissed for lack of subject matter jurisdiction under Rule 12(b)(1) when the district court lacks the statutory or constitutional power to adjudicate it.” *Makarova v. United States*, 201 F.3d 110, 113 (2d Cir. 2000).

**1. Rule 41(a)(2)**

Because the District Court’s conclusion that it lacked jurisdiction followed its dismissal of Nike’s claims under Rule 41(a)(2), Yums urges us to review in the first instance whether the District Court complied with that rule, which provides, in relevant part:

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Except as provided in Rule 41(a)(1), an action may be dismissed at the plaintiff's request only by court order, on terms that the court considers proper. If a defendant has pleaded a counterclaim before being served with the plaintiff's motion to dismiss, the action may be dismissed over the defendant's objection only if the counterclaim can remain pending for independent adjudication.

Fed. R. Civ. P. 41(a)(2). Yums claims that it did not consent to dismissal of its counterclaims, and that the District Court's dismissal of the entire action in fact occurred "over the defendant's objection" in violation of the second sentence of the rule.

When a plaintiff seeks to withdraw its claims pursuant to Rule 41(a)(2), but another event independently deprives the district court of an Article III case or controversy involving the defendant's counterclaims, Rule 41(a)(2) is irrelevant. *See Super Sack Mfg. Corp. v. Chase Packaging Corp.*, 57 F.3d 1054, 1057 n.2 (Fed. Cir. 1995) (finding it unnecessary to consider whether dismissal pursuant to Rule 41(a)(2) was proper where dismissal was clearly proper because of the absence of an Article III case or controversy), *abrogated on other grounds by MedImmune*, 549 U.S. 118; *see also Intellectual Prop. Dev., Inc. v. TCI Cablevision of Cal., Inc.*, 248 F.3d 1333, 1340 & n.6 (Fed. Cir. 2001) (affirming a dismissal of a counterclaim based on a lack of Article III case or controversy even though the district court had not indicated any reliance on Rule 41(a)(2) or a statement of non-liability, and the record



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failed to show whether the defendant consented to Rule 41(a)(2) relief). Accordingly, we need not further address Rule 41(a)(2) because we conclude, as a matter of law, that Nike’s delivery of the Covenant to Yums divested the District Court of subject matter jurisdiction, and we affirm on that basis.

**2. The Covenant Not To Sue**

In order to qualify as a justiciable “case or controversy” under Article III, “[t]he controversy must be definite and concrete, touching the legal relations of parties having adverse legal interests.” *Aetna Life Ins. Co. v. Haworth*, 300 U.S. 227, 240-41 (1937). The “case or controversy” requirement is not satisfied by a “difference or dispute of a hypothetical or abstract character.” *Id.* at 240. In trademark cases seeking relief under either the Declaratory Judgment Act, 28 U.S.C. § 2201(a), or Section 37 of the Lanham Act, 15 U.S.C. § 1119, a valid covenant not to sue may strip district courts of jurisdiction. We review the jurisdictional effect of such a covenant under both Acts in turn.

**a. Declaratory Judgment Act**

We turn first to the effect of such a covenant in trademark cases involving the Declaratory Judgment Act, which provides in relevant part:

In a case of actual controversy within its jurisdiction . . . any court of the United States,

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upon the filing of an appropriate pleading, may declare the rights and other legal relations of any interested party seeking such declaration, whether or not further relief is or could be sought.

28 U.S.C. § 2201(a). The Declaratory Judgment Act does not expand the subject matter jurisdiction of the federal courts. *See PDK Labs, Inc. v. Friedlander*, 103 F.3d 1105, 1110 (2d Cir. 1997). In *Aetna*, the Supreme Court “explained that the phrase ‘case of actual controversy’ in the Act refers to the type of ‘Cases’ and ‘Controversies’ that are justiciable under Article III.” *MedImmune*, 549 U.S. at 127 (citing *Aetna*, 300 U.S. at 240). Its pronouncement in *Aetna* was refined four years later in *Maryland Casualty Co. v. Pacific Coal & Oil Co.*, 312 U.S. 270, 273 (1941), in which the Supreme Court endorsed a totality of the circumstances test for determining whether a party seeking relief under the Act has demonstrated that a justiciable “controversy” exists. The Court in *Maryland Casualty* explained that “[b]asically, the question in each case is whether the facts alleged, under all the circumstances, show that there is a substantial controversy, between parties having adverse legal interests, of sufficient immediacy and reality to warrant the issuance of a declaratory judgment.” *Id.* In adopting this test, the Supreme Court recognized that “[t]he difference between an abstract question and a ‘controversy’ contemplated by the Declaratory Judgment Act is necessarily one of degree, and it would be difficult, if it would be possible, to fashion a precise test for determining in every case whether there is such a controversy.” *Id.*

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We did not apply the *Maryland Casualty* test in a trademark case until *Starter Corp. v. Converse, Inc.*, 84 F.3d 592, 595 (2d Cir. 1996) (per curiam). In that case, we employed a two-pronged test for determining whether subject matter jurisdiction exists:

[i]n a declaratory judgment action involving trademarks, the test for an “actual case or controversy” has two prongs, both of which must be satisfied in order to establish declaratory judgment jurisdiction: (1) has the defendant’s conduct created a real and reasonable apprehension of liability on the part of the plaintiff, and (2) has the plaintiff engaged in a course of conduct which has brought it into adversarial conflict with the defendant.

*Id.* at 595.

After our decision in *Starter*, the Supreme Court decided *MedImmune*, which confirmed that *Maryland Casualty*’s totality of the circumstances test for declaratory judgment actions applied in intellectual property cases, *see* 549 U.S. at 126-27, but which rejected *Starter*’s reasonable apprehension requirement, *id.* at 122, 132 (quoting *Gen-Probe Inc. v. Vysis, Inc.*, 359 F.3d 1376, 1381 (Fed. Cir. 2004)). *MedImmune* requires that we consider only whether the adversity of legal interests that exists between the parties is “real and substantial” and “admi[ts] of specific relief through a decree of a conclusive character, as distinguished from an opinion advising what the law would be upon a hypothetical state

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of facts.” *Id.* at 127 (quoting *Aetna Life Ins., Co.*, 300 U.S. at 241).<sup>1</sup> The Court also suggested that the threat of future litigation remains relevant in determining whether an actual controversy exists. As in *MedImmune*, for example, simply holding litigation in abeyance, where a party could forestall litigation indefinitely by paying licensing fees, does not eliminate the case or controversy. *Id.* at 128 (“[The declaratory judgment plaintiff]’s own acts . . . eliminate the imminent threat of harm [and] [t]he question before us is whether this causes the dispute no longer to be a case or controversy within the meaning of Article III.”).

Until now, we have not applied *MedImmune* in an intellectual property case. However, a few of our sister circuits have done so in the context of declaratory judgment actions involving patents, which we have described as sufficiently “analogous” to those involving trademarks that “principles applicable to declaratory judgment actions involving patents are generally applicable with respect to trademarks.” *Starter Corp.*, 84 F.3d at 596; see also *Revolution Eyewear, Inc. v. Aspex Eyewear, Inc.*, 556 F.3d 1294, 1298-99 (Fed. Cir. 2009) (applying *MedImmune* to

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1. See also *Bruce Winston Gem Corp. v. Harry Winston, Inc.*, No. 09 Civ. 7352 (JGK), 2010 WL 3629592, at \*4 (S.D.N.Y. Sept. 16, 2010) (“the first prong of the *Starter* test cannot survive because the Supreme Court [in *MedImmune*] has made it clear that there need not be an imminent threat of liability,” but “the second prong . . . should survive because it is anchored in the requirement of the specificity and immediacy of the dispute which the Court reaffirmed in *MedImmune*.”).

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declaratory judgment action involving patents).<sup>2</sup>

In determining whether a covenant not to sue eliminates a justiciable case or controversy in a declaratory judgment action involving a trademark, district courts applying the *MedImmune* totality of the circumstances test should especially consider, in addition to other factors: (1) the language of the covenant, (2) whether the covenant covers future, as well as past, activity and products,<sup>3</sup> and (3) evidence of intention or lack of intention, on the part of the party asserting jurisdiction, to engage in new activity or to develop new potentially infringing products that arguably are not covered by the covenant.<sup>4</sup>

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2. Some district courts in our Circuit have already extended the holding in *Revolution Eyewear* to trademark cases, holding that a covenant not to sue can deprive a federal court of jurisdiction in such cases where there is no evidence of “sufficient intent and apparent ability” to engage in infringing activity. See *Bruce Winston Gem Corp.*, 2010 WL 3629592, at \*4; *ICOS Vision Sys. Corp., N.V. v. Scanner Techs. Corp.*, 699 F. Supp. 2d 664, 669 (S.D.N.Y. 2010) (Chin, J.) (quoting *Diamonds.net LLC*, 590 F. Supp. 2d at 600).

3. In referring to both activities and products, we recognize that a covenant not to sue may be limited in the sense that it renounces claims with respect to future activity, but not future products.

4. In its opinion, the District Court also considered the lack of a history of litigation between the parties. See *Nike, Inc.*, 2011 WL 310321 at \*5. Yums does not contend that any history of litigation between these parties would, standing alone, create a case or controversy if none exists based on the other factors discussed above. In any event, we conclude that the factors enumerated in

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Applying these factors here, we agree with the District Court that it had no actual case or controversy before it. The language of the Covenant is broad, covering both present and future products: Nike “unconditionally” and permanently renounced its right to claim, demand or “commenc[e], caus[e] or permit[] to be prosecuted any action in law or in equity” with respect to any shoe currently made by Yums, including the Sugar and Soulja Boy shoes, and all colorable imitations thereof. *Nike, Inc.*, 2011 WL 310321, at \*1-2. The breadth of the Covenant renders the threat of litigation remote or nonexistent even if Yums continues to market and sell these shoes or significantly increases their production. Given the similarity of Yums’s designs to the ‘905 mark and the breadth of the Covenant, it is hard to imagine a scenario that would potentially infringe the ‘905 mark and yet not fall under the Covenant. Yums has not asserted any intention to market any such shoe. *Nike, Inc.*, 2011 WL 310321, at \*4.

In *Revolution Eyewear*, 556 F.3d at 1296, the Federal Circuit concluded that a controversy persisted when the plaintiff delivered a covenant that promised not to sue only as to prior sales of the allegedly infringing product.

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our decision suffice to resolve this case. We do not consider whether a particularly contentious litigation history between two parties could preserve a case or controversy where a covenant not to sue would ordinarily eliminate it. *Cf. Diamonds.net*, 590 F. Supp. 2d at 598 (“While a threat of suit is not necessary to declaratory judgment jurisdiction, an aggressive litigation strategy . . . may signal the existence of an actual controversy.” (internal citation omitted)).

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The crucial difference between *Revolution Eyewear* and this case is the scope of the two covenants. In *Revolution Eyewear*, it was undisputed that the covenant did not protect the defendant from suit for any future marketing. *Id.* Here, the Covenant is far broader. It covers both past sales and future sales of both existing products and colorable imitations. Given the breadth of the Covenant, no controversy exists.<sup>5</sup>

Yums nevertheless urges that a justiciable controversy persists because Nike's litigation continues to have an injurious effect. Pointing to the affidavits of various investors, Yums alleges harm from the potential loss of investments by investors who fear infringement lawsuits in the future and for that reason have refrained from further investing or have withdrawn their investments. In this case, potential investor concerns about infringement lawsuits against the company, despite Nike's broad

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5. To be sure, the Covenant has not made future litigation between the parties impossible: at oral argument on appeal, counsel for Nike acknowledged that if Yums were to manufacture an exact copy of the Air Force 1 shoe (which presumably would include not only Nike's claimed trade dress, but also its trademark), Nike could claim that the Covenant permits an infringement suit on the ground that a counterfeit differs from a colorable imitation under the Lanham Act. But given the absence of record evidence that Yums intends to make any arguably infringing shoe that is not unambiguously covered by the Covenant, this hypothetical possibility does not create a "definite and concrete" dispute. *Aetna*, 300 U.S. at 240. Because no justiciable actual controversy existed after the District Court dismissed Nike's claims, any ruling by the District Court based on either the potential investors' affidavits or Nike's reservations of its rights to sue over a future counterfeit shoe would have been advisory.

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Covenant, fail to establish the sort of genuinely adverse legal interests between Nike and Yums that *MedImmune* requires. In addition, Yums contends that the Covenant is a “continuing libel” against it because the Covenant asserts Yums’s ongoing *de minimis* infringement of Nike’s trademark. Yums did not file a counterclaim alleging libel, however, and in any event we reject the contention that the mere existence of a document asserting infringement -- where the registrant cannot assert a claim relating to that infringement - - creates a case or controversy.

Relying on *Cardinal Chemical Co. v. Morton International, Inc.*, 508 U.S. 83, 96, 99-103, (1993), Yums also argues that a finding of non-infringement does not deprive a court of jurisdiction to rule on the validity of a trademark or patent. *Cardinal Chemical* is inapposite, however, as it “concern[s] the jurisdiction of an intermediate appellate court, not a trial court.” *Giese v. Pierce Chem. Co.*, 43 F. Supp. 2d 98, 112 n.14 (D. Mass. 1999); see also *Lamb-Weston, Inc. v. McCain Foods, Ltd.*, 78 F.3d 540, 546 (Fed. Cir. 1996) (“The Supreme Court’s decision in *Cardinal Chemical* is limited to the specific facts of that case[;] [s]pecifically, [that] an affirmance by th[e] court [of appeals] of a finding of noninfringement is not, by itself, enough to vacate a declaratory judgment holding the patent invalid.”). Moreover, unlike the trial court in *Cardinal Chemical*, the District Court here made no “finding[s]” on the merits of Yums’s declaratory judgment action. See *Cardinal Chemical*, 508 U.S. at 86, 95 (emphasizing that the only issue before the Court was the circuit court’s jurisdiction, and that “[i]n the trial court, of course, a party seeking a declaratory judgment



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has the burden of establishing the existence of an actual case or controversy”).

Yums also makes much of the District Court’s exercise of subject matter jurisdiction over Nike’s claims, which Yums contends was inconsistent with the District Court’s determination that a case or controversy no longer existed. We have already acknowledged that the District Court could have dismissed Nike’s claims either for lack of subject matter jurisdiction or “on consent.” *See supra* at 6-7. But Yums has not appealed the District Court’s exercise of jurisdiction over Nike’s claims, which resulted in a ruling favorable to Yums, and in the part of the District Court order that *is* before us there is no error.

**b. The Lanham Act**

We turn next to the Lanham Act, 15 U.S.C. § 1119, which Yums contends provides an independent basis of federal subject matter jurisdiction, notwithstanding the dismissal of the underlying trademark claim.<sup>6</sup> Under

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6. Section 1119 reads in full:

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

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the Lanham Act, district courts are authorized to cancel registrations, but only “[i]n any action involving a registered mark.” 15 U.S.C. § 1119. The limiting phrase “[i]n any action involving a registered mark” plainly narrows the circumstances in which cancellation may be sought -- namely, in connection with “a properly instituted and otherwise jurisdictionally supportable action involving a registered mark.” *Universal Sewing Mach. Co. v. Standard Sewing Equip. Corp.*, 185 F. Supp. 257, 260 (S.D.N.Y. 1960).

Section 1119 therefore creates a remedy for trademark infringement rather than an independent basis for federal jurisdiction. Both the Third Circuit and the Federal Circuit have held that, by its plain terms, this provision requires that “a controversy as to the validity of or interference with a registered mark . . . exist before a district court has jurisdiction to grant the cancellation remedy.” *Ditri v. Coldwell Banker Residential Affiliates, Inc.*, 954 F.2d 869, 873 (3d Cir. 1992); *see id.* (noting that a petition to the Patent and Trademark Office is the “primary means of securing a cancellation,” and that § 1119 provides no independent basis for jurisdiction) (citing *Universal Sewing Mach. Co.*, 185 F. Supp. at 260); *Windsurfing Int’l, Inc. v. AMF Inc.*, 828 F.2d 755, 758-59 (Fed. Cir. 1987); *see also McCarthy on Trademarks and Unfair Competition* § 30:110 (4th ed. 2010) (“[Section 1119] alone does not create grounds for federal jurisdiction.”). We agree with their

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Office, and shall be controlled thereby.

15 U.S.C. § 1119.

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analysis, and hold 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.

Yums cites only one case, *Bancroft & Masters, Inc. v. Augusta National Inc.*, 223 F.3d 1082 (9th Cir. 2000), in support of its argument that a court may retain jurisdiction over a § 1119 claim notwithstanding the end of a case or controversy with respect to the rest of the action. The Ninth Circuit in *Bancroft & Masters*, however, concluded that the promise not to sue in that case failed to end the case or controversy. *Id.* at 1085. Its pronouncement that even an unqualified promise “would not have mooted [the] separate request for [§ 1119] cancellation of [the] trademarks” is therefore dictum. *Id.* In addition, the Ninth Circuit in *Bancroft* failed to consider the language in § 1119 that renders that section remedial, not jurisdictional. Accordingly, we find its opinion unpersuasive.

Yums next characterizes Nike’s original lawsuit as a “properly instituted and otherwise jurisdictionally supportable action” and contends that this fact alone provided a basis for the District Court to retain jurisdiction over Yums’s § 1119 cancellation counterclaim notwithstanding the Covenant. Yums’s argument ignores the settled rule that the “case-or-controversy requirement . . . subsists through all stages of federal judicial proceedings.” *White River Amusement Pub, Inc. v. Town of Hartford*, 481 F.3d 163, 167 (2d Cir. 2007) (internal quotation marks omitted) (citing *Spencer v. Kemna*, 523 U.S. 1, 7(1998)). Although Nike’s action was “properly instituted,” it was no longer “jurisdictionally supportable” after the Covenant was delivered.

*Appendix A***3. Attorneys' Fees**

We review an order denying attorneys' fees under the Lanham Act for abuse of discretion. See *Gordon & Breach Science Publishers S.A. v. Am. Inst. of Physics*, 166 F.3d 438, 439 (2d Cir. 1999) (per curiam). Such fees are available only in "exceptional cases," which generally means that fees will be awarded to the defendant only if the plaintiff filed the action in bad faith. See *Banff, Ltd. v. Colberts, Inc.*, 996 F.2d 33, 36 (2d Cir. 1993). Here, Nike filed its action pursuant to its own registered trademark and withdrew the action quickly. On the record before us, we cannot say that the District Court abused its discretion when it found that Nike had not acted in bad faith, and Yums fails to identify what additional information the District Court needed to make an informed decision about attorneys' fees. Accordingly, we find no abuse of discretion in its decision to deny fees without a hearing.

**CONCLUSION**

We affirm the judgment of the District Court.

**APPENDIX B — MEMORANDUM AND ORDER  
OF THE UNITED STATES DISTRICT COURT,  
SOUTHERN DISTRICT OF NEW YORK,  
FILED JANUARY 20, 2011**

UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF NEW YORK

No. 09 Civ. 6366 (RJS)

NIKE, INC.,

Plaintiff,

VERSUS

ALREADY, LLC, D/B/A YUMS,

Defendant.

MEMORANDUM AND ORDER

January 20, 2011

RICHARD J. SULLIVAN, District Judge:

This action for trademark infringement, false designation of origin, unfair competition, and trademark dilution arises under the Trademark Act of 1946 (the “Lanham Act”), New York General Business Law Section 360, and New York state common law. Now before the Court is Plaintiff Nike, Inc.’s motion to dismiss its own complaint with prejudice and to dismiss the counterclaims of Defendant Already, LLC, d/b/a Yums, without prejudice. For the following reasons, Plaintiff’s motion is granted in its entirety.

*Appendix B***I. BACKGROUND****A. Facts**

Plaintiff, an Oregon corporation, is a leading designer, marketer, and distributor of athletic footwear. (Compl. ¶¶ 1, 7.) In 1982, Plaintiff designed an athletic shoe called the Air Force I. (*Id.* ¶ 9.) Since that time, Plaintiff has produced the shoe in over 1,700 different color combinations and has sold it around the world. (*Id.*) Today, Plaintiff sells millions of pairs of Air Force I shoes per year. (*Id.*)

Since June 24, 2008, Plaintiff has held U.S. Trademark Registration No. 3,451,905 (the “905 Registration”) for an athletic shoe design, which it claims is the Air Force I design. (*Id.* ¶ 11.) Specifically, the 905 Registration covers

the design of stitching on the exterior of the shoe, the design of the material panels that form the body of the shoe, the design of the wavy panel on top of the shoe that encompasses 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.

(Compl., Ex. A.)

Defendant, a Texas corporation, also sells, among other items, athletic footwear. (*Id.* ¶¶ 2, 14.) In its Sweet line of athletic shoes, Defendant sells two shoes called Sugar and Soulja Boy. (*Id.* ¶ 15.) Plaintiff’s complaint

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alleges that these shoes infringe the 905 Registration and its common law trademark rights (together, the “Nike mark”). (*Id.* ¶¶ 19-55.)

**B. Procedural History**

Plaintiff filed the complaint in this action on July 16, 2009. On November 19, 2009, Defendant filed its answer and counterclaims seeking a declaratory judgment that (1) the mark depicted in the 905 Registration is invalid under federal or New York state law; (2) the design of the Air Force I shoe is not a valid trademark under federal or New York state law; (3) Defendant “has not infringed any rights that Nike may have” in the mark depicted in the 905 Registration; and (4) Defendant “has not infringed any rights that Nike may have in the configuration” of the Air Force I. (Def.’s Answer, Doc. No. 17, ¶¶ ii-v.) Additionally, Defendant seeks cancellation of the 905 Registration pursuant to 15 U.S.C. § 1119 and the award of attorney’s fees pursuant to 15 U.S.C. § 1117. (*Id.* ¶¶ vi-vii.)

In the middle of discovery, Plaintiff delivered a covenant not to sue, dated March 19, 2010, to Defendant. (*See* Declaration of Erik S. Maurer (“Maurer Decl.”) ¶ 9 & Ex. A, dated April 12, 2010.) The covenant defines the “Nike Mark” as the “federal and common law trademark rights in the design of Nike’s Air Force I low shoe,” including the 905 Registration. (*Id.* at Ex. A.) The covenant provides that, because Defendant’s actions “no longer infringe or dilute the Nike Mark at a level sufficient to warrant the substantial time and expense of continued litigation,” Plaintiff “unconditionally and irrevocably covenants to

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refrain from making any claim(s) or demand(s), or from commencing, causing, or permitting to be prosecuted any action in law or equity” against Defendant or any related entities

on account of any possible cause of action based on or involving trademark infringement, unfair competition, or dilution, under state or federal law in the United States relating to the Nike Mark based on the appearance of any of [Defendant’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.

*(Id.)*

In light of this covenant, Plaintiff petitioned the Court to dismiss its action and Defendant’s counterclaims pursuant to Rule 41(a)(2) of the Federal Rules of Civil Procedure. Defendant consented to the dismissal of Plaintiff’s causes of action with prejudice but objected to the dismissal of its counterclaims. Accordingly, on April 12, 2010, Plaintiff filed the instant motion seeking to dismiss its claims with prejudice and to dismiss Defendant’s counterclaims without prejudice. Defendant filed its opposition to Plaintiff’s motion on April 26, 2010, and Plaintiff filed its reply on May 5, 2010.



*Appendix B***II. DISCUSSION****A. Standard of Review**

“A case is properly dismissed for lack of subject matter jurisdiction under Rule 12(b)(1) when the district court lacks the statutory or constitutional power to adjudicate it.” *Makarova v. United States*, 201 F.3d 110, 113 (2d Cir. 2000). “In the trial court, of course, a party seeking a declaratory judgment has the burden of establishing the existence of an actual case or controversy.” *Cardinal Chem. Co. v. Morton Int’l, Inc.*, 508 U.S. 83, 95(1993); *see also ICOS Vision Sys. Corp., N.V. v. Scanner Techs. Corp.*, 699 F. Supp. 2d 664, 667 (S.D.N.Y. 2010) (“[T]he party ‘seeking to invoke the subject matter jurisdiction of the district court’ ... bears the burden of demonstrating that there is subject matter jurisdiction in the case.”) (quoting *Scelsa v. City Univ. of N.Y.*, 76 F.3d 37, 40 (2d Cir. 1996)). Accordingly, although Defendant argues otherwise, because it is seeking to invoke the Court’s declaratory judgment jurisdiction, it bears the burden of demonstrating that the Court has subject matter jurisdiction over its counterclaims.

**B. Analysis**

As an initial matter, the Court need not focus on the dismissal of Plaintiff’s claims in this action, as Plaintiff has moved for their dismissal with prejudice and Defendant consents to this relief. (Def.’s Opp’n at 14.) Accordingly, the Court grants Plaintiff’s motion with respect to its claims on consent.

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The parties dispute, however, whether the Court may retain jurisdiction over Defendant’s counterclaims. The issue is whether, after the March 19 covenant, an actual controversy exists such that the Court can continue to exercise jurisdiction over Defendant’s counterclaims seeking declaratory relief and cancellation of the 905 Registration. For the following reasons, the Court holds that it does not.

**1. Declaratory Relief**

Plaintiff maintains that the March 19 covenant divests the Court of jurisdiction over Defendant’s counterclaims seeking declaratory relief, as it strips this action of a justiciable controversy. Although Defendant agrees that the March 19 covenant is enforceable, it argues that the Court retains jurisdiction over its counterclaims because a dispute between the parties remains active and live. (Def.’s Opp’n at 16.)

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). Additionally, “in order for a federal court to have jurisdiction over an ‘actual controversy,’ a federal question ‘arising under the Constitution, laws or treaties of the United States’ must be involved, 28 U.S.C. § 1331, since it is well-settled that the Declaratory Judgment Act does not expand the jurisdiction of the federal courts.” *Starter Corp. v. Converse, Inc.*, 84 F.3d 592, 594 (2d Cir. 1996) (per

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curiam), *abrogated on other grounds by MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118(2007). Accordingly, the Court lacks authority to grant any declaratory relief unless both a federal question and an actual controversy exist. *Id.* Additionally, the actual controversy must remain throughout the entirety of the action, not merely at the initiation of the action. *Benitec Austl., Ltd. v. Nucleonics, Inc.*, 495 F.3d 1340, 1344 (Fed. Cir. 2007).

What constitutes an actual controversy is well settled. “Basically, the question in each case is whether the facts alleged, under all the circumstances, show that there is a substantial controversy, between parties having adverse legal interests, of sufficient immediacy and reality to warrant the issuance of a declaratory judgment.” *Maryland Cas. Co. v. Pac. Coal & Oil Co.*, 312 U.S. 270, 273, (1941). In *MedImmune*, the Supreme Court clarified that the proper analysis for whether a case or controversy exists in patent actions seeking declaratory relief is the same analysis as in any other declaratory judgment action.<sup>1</sup> 549 U.S. at 127, 132. In other words, the proper analysis remains one that considers all of the circumstances in the particular case. *See id.*; *see also ICOS*, 699 F. Supp. 2d at 668-69 (explaining that any claim for declaratory relief must present “a substantial controversy, between parties

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1. Although this case is a trademark, not patent, case, “[d]eclaratory judgment actions involving trademarks are analogous to those involving patents, and principles applicable to declaratory judgment actions involving patents are generally applicable with respect to trademarks.” *Starter*, 84 F.3d at 595, *abrogated on other grounds by MedImmune*, 549 U.S. at 118 (internal citations omitted).

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having adverse legal interests, of sufficient immediacy and reality to warrant the issuance of a declaratory judgment”) (internal quotation marks omitted).

Prior to *MedImmune*, the Second Circuit held that in “declaratory judgment action[s] involving trademarks,” courts are to apply a two-prong test to determine whether an actual case or controversy exists. *See Starter*, 84 F.3d at 595. Specifically, courts are to ascertain “(1) [whether] the defendant’s conduct created a real and reasonable apprehension of liability on the part of the plaintiff, and (2) [whether] the plaintiff engaged in a course of conduct which has brought it into adversarial conflict with the defendant.” *Id.* The Second Circuit clarified that the second prong entails the party seeking a declaratory judgment to have “demonstrated the imminent intent and ability to use [the mark on its products].” *Id.* at 596. Additionally, the party must demonstrate that it has more than a “vague or general desire” to use the mark. *Id.*

Whether the Second Circuit test in its entirety survives *MedImmune* is unclear. Compare *Bruce Winston Gem Corp. v. Harry Winston, Inc.*, No. 09 Civ. 7352 (JGK), 2010 WL 3629592, at \*4 (S.D.N.Y. Sept. 16, 2010) (stating that “[a]fter *MedImmune*, the first prong of the *Starter* test cannot survive”), with *Analect, LLC v. Fifth Third Bancorp*, 380 Fed. App’x. 54, 56 (2d Cir. 2010) (citing to the first prong from *Starter*) (summary order). However, what is clear is that the Defendant must, “under all the circumstances,” demonstrate “a substantial controversy, between parties having adverse legal interests, of sufficient immediacy and reality to warrant the issuance

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of a declaratory judgment” in order for the Court to retain jurisdiction over its counterclaims. *MedImmune*, 549 U.S. at 127 (internal quotation marks omitted). Because of the March 19 covenant, Defendant cannot meet that burden.

“Whether 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). “Courts look to the precise language of the covenant or agreement in determining its scope and whether declaratory judgment jurisdiction is appropriate.” *ICOS*, 699 F. Supp. 2d at 669. “Where a covenant not to sue does not extend to future sales of the same product as was previously sold, such an agreement will not divest the trial court of declaratory judgment jurisdiction.” *Id.* (internal citations and quotation marks omitted). “Moreover, a court is not divested of jurisdiction where the declaratory judgment plaintiff has taken ‘meaningful preparatory steps’ toward developing new or updated [products] not covered by the [covenant not to sue].” *Id.* (citing *Diamonds.net LLC v. IDEX Online, Ltd.*, 590 F. Supp. 2d 593, 600 (S.D.N.Y. 2008)).

The March 19 covenant clearly extends to future sales of Defendant’s current footwear designs, including the Sugar and Soulja Boy shoes, as well as to future sales of “colorable imitations” of those shoes.<sup>2</sup> This case,

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2. Although the March 19 covenant leaves “colorable imitation” undefined, given a broad reading of the phrase, it seems clear that any of Defendant’s future products that arguably

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therefore, is easily distinguishable from *Diamonds.net*—a case cited by Defendant—in which Judge Holwell found that the court retained subject matter jurisdiction over Defendant’s declaratory judgment counterclaims after the plaintiff executed a covenant not to sue. *See Diamonds.net*, 590 F. Supp. 2d at 595. That covenant did not extinguish any justiciable controversy because, unlike the March 19 covenant, it pertained only to the allegedly infringing website as it “previously existed” or “currently exist[ed]” on the date of the covenant. *Id.* (alteration in original).

There is also nothing before the Court to indicate that Defendant “has taken ‘meaningful preparatory steps’ toward developing new or updated [products] not covered by the [covenant not to sue].” *ICOS*, 699 F. Supp. 2d at 669 (citing *Diamonds.net*, 590 F. Supp. 2d at 600). Setting aside the fact that—as already explained—few “new or updated” products could potentially infringe the Nike Mark *and* not be covered by the March 19 covenant, Defendant does not allege that it has taken any “meaningful preparatory steps” to create shoes that could potentially infringe the Nike Mark. Meaningful preparatory steps would be those “preparations for production which [suggest] that, but for a finding that the product infringes or for extraordinary and unforeseen contingencies, the [party seeking a declaratory judgment of infringement] would and could begin production immediately.” *Diamond.net*, 590 F. Supp. 2d at 599 (quoting *Sweetheart Plastics, Inc.*

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infringed the Nike Mark would be “colorable imitations” of the Sugar or Soulja Boy shoes. (Maurer Decl., Ex. A.)

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*v. Ill. Tool Works, Inc.*, 439 F.2d 871, 875 (1st Cir. 1971)). The affidavits submitted by Defendant do not show that Defendant has taken any meaningful preparatory steps to create shoes that would infringe the Nike Mark, given the March 19 covenant. Rather, the affidavits describe only forthcoming modifications of the Sweet shoe line, as well as other shoe lines. (See, e.g., Affidavit of John P. McDade (“McDade Aff.”) ¶¶ 8, 13, dated April 23, 2010.) The March 19 Covenant, however, covers all future “colorable imitations” of the Sugar or Soulja Boy shoes, and the Court has no indication that any of Defendant’s forthcoming models would extend beyond this broad language. Accordingly, neither the “future sales” factor nor the “meaningful preparatory steps” factor favor Defendant. *ICOS*, 699 F. Supp. 2d at 669.

In fact, none of the rationales influencing then-District Judge Chin’s decision in *ICOS* are present in this action. In four related cases before Judge Chin, the *ICOS* plaintiffs sought declaratory judgments that several of the defendant’s patents were invalid and that they were not infringing those patents. *Id.* at 665. After the defendant delivered covenants not to sue to the plaintiffs, the defendants moved to dismiss the four actions under Rule 12(b)(1). *Id.* at 666-67. Finding that the covenants did not divest the court of subject matter jurisdiction, Judge Chin denied the defendant’s motion. *Id.* His decision was based on the fact that (1) the covenants did not “explicitly cover future sales of products that existed at the time of the covenants,” (2) the covenants did not “cover future products,” (3) the covenants did not cover related patents involving the same underlying technology, (4) plaintiffs

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refused to amend the covenants in order to cure their defects, and (5) the parties had a history of litigation. *Id.* at 670-71. With respect to the first two reasons, the Court repeats that the March 19 covenant clearly applies to future sales of products that existed at the time of covenant and also covers future, new products that would be “colorable imitations” of any of Defendant’s previous or current footwear designs. The third and fourth factors are not present here, as the parties do not discuss any trademark related to the 905 Registration and the Court has not asked Plaintiff—and Plaintiff has not refused—to cure any defect in the March 19 covenant.

With respect to the final reason—the parties’ litigation history—the only other action between the parties of which the Court is aware is a complaint filed *by Defendant* in Texas after Plaintiff filed this action. (See Maurer Decl. ¶ 5.) On the other hand, the parties in *ICOS* had a long, protracted history of litigation, with multiple actions filed by both parties, spanning the course of a decade. *ICOS*, 699 F. Supp. 2d at 666-67; *see also Diamonds.net*, 590 F. Supp. 2d at 598 (“While a threat of suit is not necessary to declaratory judgment jurisdiction, an aggressive litigation strategy such as plaintiffs’ may signal the existence of an actual controversy.”) (internal citation omitted). Therefore, the Court has no reason to believe that Plaintiff has plans to bring any future action against Defendant.

Nevertheless, Defendant argues that its counterclaims standing alone—even after the March 19 covenant—present a justiciable controversy. It argues that the 905



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Registration continues “to interfere with Yums’ ability to carry on a lawful business in making and selling YUMS-branded shoes.” (Def.’s Opp’n at 19.) In support of this assertion, Defendant has submitted affidavits from potential investors. For example, the Affidavit of Vincent Piras (the “Piras Aff.”), dated April 23, 2010, states that, although he has seen the 905 Registration and the March 19 covenant, he continues to refuse to invest in Defendant “because the covenant discusses application only to existing designs and colorable imitations thereof.” (Piras Aff. ¶ 6.) Piras further explains, “I would *consider* reinvesting in Yums if the 905 Registration was cancelled *and* it was clearly established that Nike has no right to object to Yums [sic] sale of shoes *similar to* Air Force I.” (*Id.* (emphases added).)

As an initial matter, Piras will only “consider” investing in Defendant if the 905 Registration was cancelled and he was assured that Nike has no right to object to shoes similar to the Air Force I. (*See also* Affidavit of Kyle Schnable, ¶ 6, dated April 23, 2010 (“[I]f the 905 Registration was cancelled and it was clearly established that Nike has no right to object to Yums [sic] sale of shoes *similar to* the Air Force I, I would strongly *reconsider*” investing in Defendant.”) (emphases added); Affidavit of Marvin Wilson, ¶ 6, dated April 25, 2010 (substantially the same).) Thus, there is no evidence that even the cancellation of the 905 Registration *would* persuade investors like Piras to invest in Defendant. Rather, cancellation of the 905 Registration only *might* persuade these investors.

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Additionally, the Court does not place the same significance as Piras on the distinction between shoe designs “similar to” the Air Force I and designs that are “colorable imitations” of current designs by Defendant. As described above, the Court interprets the phrase “colorable imitations” in the March 19 covenant broadly, and thus the Court sees little difference between the assurances Defendant’s potential investors seek and the scope of the March 19 covenant.

Therefore, in light of the March 19 covenant, the Court concludes that the existence of the 905 Registration alone does not create a “substantial controversy. . . of sufficient immediacy and reality to warrant the issuance of a declaratory judgment.” *MedImmune*, 549 U.S. at 127 (internal quotation marks omitted); *see also Benitec*, 495 F.3d at 1347-48 (dismissing the defendant’s counterclaims in light of the plaintiff’s execution of a covenant not to sue); *Amerimax Real Estate Partners, Inc. v. RE/MAX Int’l, Inc.*, 600 F. Supp. 2d 1003, 1008-10 (N.D. Ill. 2009) (same); *Furminator, Inc. v. Ontel Prods. Corp.*, 246 F.R.D. 579, 590-92 (E.D. Mo. 2007) (same); *Crossbow Tech., Inc. v. YH Tech.*, 531 F. Supp. 2d 1117, 1121-24 (N.D. Cal. 2007) (same).

## 2. Cancellation

Alternatively, Defendant maintains that its counterclaim seeking cancellation of the 905 Registration pursuant to 15 U.S.C. § 1119 is an independent basis for the Court’s continued subject matter jurisdiction. The Court disagrees.

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Section 1119 provides that “[i]n any action involving a registered mark the court may determine the right to registration, order the cancellation of registrations, in whole or in part, restore cancelled registrations, and otherwise rectify the register with respect to the registrations of any party to the action.” 15 U.S.C § 1119. However, if no “action involving a registered mark” is before a district court, then a party seeking cancellation must obtain such relief from the United States Patent and Trademark Office. Significantly, the law is clear that “a federal court’s authority to determine registrability . . . depends on a properly-instituted and otherwise jurisdictionally-supported action involving a registered trademark.” *Manganaro Foods, Inc. v. Manganaro’s Hero-Boy, Inc.*, No. 01 Civ. 849 (JGK), 2002 WL 1560789, at \*10 (S.D.N.Y. July 15, 2002) (citations omitted); *see also Ditri v. Coldwell Banker Residential Affiliates, Inc.*, 954 F.2d 869, 873-74 (3d Cir. 1992) (“[A] controversy as to the validity of or interference with a registered mark must exist before a district court has jurisdiction to grant the cancellation remedy.”); McCarthy on Trademarks and Unfair Competition § 30:110 (4th ed. 2010) (“[Section 1119] alone does not create grounds for federal jurisdiction”).

Defendant attempts to distinguish this action from such precedent by arguing that, at the time Defendant answered the complaint, the Court *had* jurisdiction to cancel the registration under Section 1119. In other words, it was only a subsequent event—the March 19 covenant—that divested the Court of jurisdiction. Defendant, in essence, argues that it is unfair for Plaintiff to have instituted this action, for Defendant to have properly

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counterclaimed for declaratory relief and cancellation, and then for Plaintiff's unilateral execution of the March 19 covenant to prevent the Court from deciding the validity of the 905 Registration.

Although some courts in other districts have agreed with Defendant's argument, *see, e.g., Bancroft & Masters, Inc. v. Augusta Nat'l, Inc.*, 223 F.3d 1082, 1085 (9th Cir. 2000), the Court is aware of no such authority in this Circuit. To the contrary, a long line of cases recognizes that Section 1119 does not provide for a concurrent remedy to seeking cancellation before the Patent and Trademark Office, if concurrent is "taken to mean ... that an original suit may be instituted ... in the district court for cancellation of another's federal registration where no other basis of jurisdiction is present.... [Rather, Section 1119] assumes a properly instituted and *otherwise jurisdictionally supportable* action involving a registered mark." *Univ. Sewing Mach. Co. v. Standard Sewing Equip. Corp.*, 185 F. Supp. 257, 260 (S.D.N.Y. 1960) (emphasis added); *see Bruce Winston*, 2010 WL 3629592 at \*6 ("The existence of the dispute over the registrability of the plaintiff's mark is an insufficient basis to continue the action in this Court."); *cf. GMA Accessories, Inc. v. Idea Nuova, Inc.*, 157 F. Supp. 2d 234, 241 (S.D.N.Y. 2000) (denying a motion to dismiss for lack of subject matter jurisdiction on the basis of the continued presence of a case or controversy, not due to the presence of a cancellation counterclaim itself).

The logical extension of these cases is that, if an event subsequent to the pleadings strips a court of jurisdiction over the action, the court is also stripped of the ability to order cancellation of a registered trademark

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pursuant to Section 1119.<sup>3</sup> *See, e.g., CIBER, Inc. v. CIBER Consulting, Inc.*, 326 F. Supp. 2d 886, 892-93 (N.D. Ill. 2004) (dismissing a counterclaim for cancellation under Section 1119 for lack of a justiciable controversy after plaintiff's executed a covenant not to sue). After the March 19 covenant, there remains no "substantial controversy ... of sufficient immediacy and reality to warrant the issuance of a declaratory judgment." *MedImmune*, 549 U.S. at 127. Therefore, the Court must dismiss Defendant's counterclaims. *See Sewing Mach.*, 185 F. Supp. at 260.

Although some inefficiency results from requiring Defendant to now institute an administrative proceeding before the Patent and Trademark Office in order to seek cancellation of the 905 Registration, "no amount of 'prudential reasons' or perceived increases in efficiency, however sound, can empower a federal court to hear a

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3. It is also worth noting that the Second Circuit has indicated in dicta that "[i]f a district court action involves only the issue of whether a mark is entitled to registration and if subject matter jurisdiction is available, the doctrine of primary jurisdiction might well be applicable." *Goya Foods, Inc. v. Tropicana Prods., Inc.*, 846 F.2d 848, 853 (2d Cir. 1988) (citation omitted). Because the doctrine of primary jurisdiction "guards against premature judicial encroachment upon an agency's sphere of responsibility and expertise," *id.* at 851, a district court facing such a situation should await a decision on registration from the Patent and Trademark Office, as "the benefits of awaiting the decision of the [Patent and Trademark Office] would rarely, if ever, be outweighed by the litigants' need for a prompt adjudication," *id.* at 853. This dicta lends support to the Court's conclusion that, in the present posture of this case, the Patent and Trademark Office is the proper venue for Defendant to seek cancellation.

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case where there is no extant case or controversy.” *Dow Jones & Co., Inc. v. Abblaise Ltd.*, 606 F.3d 1338, 1348 (Fed. Cir. 2010); *see also Diamonds.net*, 590 F. Supp. 2d at 596 (explaining that while federal jurisdiction should not be subject to the parties’ manipulation, a court cannot “respond to jurisdictional gamesmanship” by simply continuing to exercise jurisdiction unless Article III’s case or controversy requirement is met, as it is “an unwaivable constitutional limitation on the authority of the federal courts”); *CIBER*, 326 F. Supp. 2d at 892-93 (same).

Accordingly, the counterclaims of Defendant are dismissed pursuant to Rule 12(b)(1) of the Federal Rules of Civil Procedure for lack of subject matter jurisdiction.

### 3. Attorney’s Fees

On the basis of the March 19 covenant, Defendant is petitioning for an award of attorney’s fees under Section 35 of the Lanham Act. That section, however, provides for the recovery of attorneys’ fees in “exceptional cases.” 15 U.S.C. § 1117(a). In order for a case to be considered “exceptional,” the Second Circuit requires a showing of bad faith. *Conopco, Inc. v. Campbell Soup Co.*, 95 F.3d 187, 194 (2d Cir. 1996). “An action is brought in bad faith when the claims are ‘entirely without color and made for reasons of harassment or delay or for other improper purposes.’” *Gamla Enters. N. Am., Inc. v. Lunor-Brillen Design U. Vertriebs GmbH*, No. 98 Civ. 992 (MGC), 2000 WL 193120, at \*4 (S.D.N.Y. Feb. 17, 2000) (quoting *Browning Debenture Holders’ Comm. v. DASA Corp.*, 560 F.2d 1078, 1089 (2d Cir. 1977)). “The test is conjunctive and neither

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meritlessness alone nor improper purpose alone will suffice.” *Sierra Club v. U.S. Army Corps of Eng’rs*, 776 F.2d 383, 390 (2d Cir. 1985). Accordingly, “defendants are rarely awarded attorney’s fees in trademark infringement cases.” *Banff, Ltd. v. Colberts, Inc.*, 810 F. Supp. 79, 80 n.2 (S.D.N.Y. 1992), *aff’d*, 996 F.2d 33 (2d Cir. 1993).

The Court finds 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. *Cf. Orient Express Trading Co. v. Federated Dept Stores, Inc.*, 842 F.2d 650, 655 (2d Cir. 1988) (affirming an award of attorney’s fees to defendants in a trademark action where plaintiffs filed seventeen trademark applications in order “to instigate ‘vexatious’ litigation”); *Gamla*, 2000 WL 193120, at \*5. Accordingly, Plaintiff’s request for an award of attorney’s fees is denied.

**III. CONCLUSION**

For the foregoing reasons, Plaintiff’s motion to dismiss its claims with prejudice and Defendant’s counterclaims without prejudice is GRANTED in its entirety.

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The Clerk of the Court is directed to terminate the motion located at Doc. No. 35 and to close this case.

SO ORDERED.

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RICHARD J. SULLIVAN  
UNITED STATES DISTRICT JUDGE

Dated: January 20, 2011  
New York, New York