

No. 11-982

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**In the Supreme Court of the United States**

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

*v.*

NIKE, INC.

---

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

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**BRIEF FOR THE UNITED STATES AS AMICUS CURIAE  
SUPPORTING VACATUR AND REMAND**

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### **QUESTION PRESENTED**

Whether a trademark holder's delivery of a covenant not to enforce the mark against the competitor's existing products and "colorable imitations" of those products moots the competitor's action for a declaratory judgment that the trademark is invalid.

**TABLE OF CONTENTS**

	Page
Interest of the United States .....	1
Statement .....	2
Summary of argument .....	7
Argument.....	11
I. In an action seeking a declaration that a trademark is invalid, the trademark owner’s covenant not to sue may render the action moot if the trademark holder demonstrates that it is absolutely clear that a concrete dispute between the parties is not reasonably likely to recur .....	11
A. Article III requires that a live controversy persist throughout an action, but different standards are used to determine whether a controversy exists at the outset of a suit and whether it has been mooted by post-filing events .....	11
B. Petitioner’s counterclaim for a declaration of invalidity presented a live controversy at the time it was filed.....	15
C. The jurisdictional question presented by respondent’s execution of a covenant not to sue is whether this case is moot, and that question should be analyzed under the “voluntary cessation” framework.....	17
1. A covenant not to sue may render an invalidity challenge moot.....	17
2. Whether a covenant not to sue moots an invalidity challenge should be analyzed under the “voluntary cessation” doctrine .....	21
3. In order to moot a validity challenge by providing a covenant not to sue, a trademark holder should be required to demonstrate that it is absolutely clear that a concrete dispute between the parties is not reasonably likely to recur .....	23

IV

Table of Contents–Continued: Page

    4. Even if the covenant does not render the  
        case moot, the district court has discretion  
        to dismiss the suit ..... 26

    II. The Court should remand this case for further  
        proceedings ..... 28

Conclusion ..... 32

**TABLE OF AUTHORITIES**

Cases:

*Abbott Labs. v. Gardner*, 387 U.S. 136 (1967) ..... 12

*Adarand Constructors, Inc. v. Slater*, 528 U.S. 216  
(2000) ..... 24, 28

*Aetna Life Ins. Co. v. Haworth*, 300 U.S. 227 (1937) ..... 11, 15

*Alvarez v. Smith*, 130 S. Ct. 576 (2009) ..... 8, 11, 13

*Arizonans for Official English v. Arizona*, 520 U.S. 43  
(1997) ..... 12

*Altwater v. Freeman*, 319 U.S. 359 (1943) ..... 20

*Babbitt v. United Farm Workers Nat’l Union*,  
442 U.S. 289 (1979) ..... 16

*Benitec Austl., Ltd. v. Nucleonics, Inc.*, 495 F.3d 1340  
(Fed. Cir. 2007), cert. denied, 553 U.S. 1014  
(2008) ..... 23, 24, 25

*Bennett v. Spear*, 520 U.S. 154 (1997) ..... 31

*Buckhannon Bd. & Care Home, Inc. v. West Va. Dep’t  
of Health & Human Res.*, 532 U.S. 598 (2001) ..... 31

*Cardinal Chem. Co. v. Morton Int’l, Inc.*, 508 U.S. 83  
(1993) ..... 17, 20, 21

*County of L.A. v. Davis*, 440 U.S. 625 (1979) ..... 24

*Deakins v. Monaghan*, 484 U.S. 193 (1988) ..... 18

*FEC v. Wisconsin Right To Life, Inc.*, 551 U.S. 449  
(2007) ..... 19

Cases–Continued:	Page
<i>Friends of the Earth, Inc. v. Laidlaw Env'tl. Servs. (TOC), Inc.</i> , 528 U.S. 167 (2000).....	<i>passim</i>
<i>Golden v. Zwickler</i> , 394 U.S. 103 (1969).....	18, 26
<i>Gwaltney of Smithfield, Ltd. v. Chesapeake Bay Found., Inc.</i> , 484 U.S. 49 (1987).....	14
<i>International Order of Job's Daughters v. Lindeburg &amp; Co.</i> , 727 F.2d 1087 (Fed. Cir. 1984).....	27
<i>Iron Arrow Honor Soc'y v. Heckler</i> , 464 U.S. 67 (1983).....	13
<i>Knox v. Service Employees Int'l Union, Local 1000</i> , 132 S. Ct. 2277 (2012).....	12
<i>Levy v. Kosher Overseers Ass'n of Am., Inc.</i> , 104 F.3d 38 (2d Cir. 1997) .....	27
<i>Lewis v. Continental Bank Corp.</i> , 494 U.S. 472 (1990) .....	9, 15, 18, 19, 31
<i>Lipton Indus., Inc. v. Ralston Purina Co.</i> , 670 F.2d 1024 (C.C.P.A. 1982) .....	27
<i>Lujan v. Defenders of Wildlife</i> , 504 U.S. 555 (1992) .....	11
<i>MedImmune, Inc. v. Genentech, Inc.</i> , 549 U.S. 118 (2007) .....	<i>passim</i>
<i>Murphy v. Hunt</i> , 455 U.S. 478 (1982) .....	12
<i>National Park Hospitality Ass'n v. Department of the Interior</i> , 538 U.S. 803 (2003) .....	12
<i>Public Serv. Comm'n v. Wycoff Co.</i> , 344 U.S. 237 (1952) .....	27
<i>Reno v. Catholic Soc. Servs., Inc.</i> , 509 U.S. 43 (1993) .....	26
<i>Spencer v. Kemna</i> , 523 U.S. 1 (1998).....	11, 12
<i>Steffel v. Thompson</i> , 415 U.S. 452 (1974) .....	15, 18
<i>Terrace v. Thompson</i> , 263 U.S. 197 (1923) .....	25
<i>Traffix Devices, Inc. v. Marketing Displays, Inc.</i> , 532 U.S. 23 (2001).....	4
<i>United Pub. Workers v. Mitchell</i> , 330 U.S. 75 (1947) .....	16

VI

Cases–Continued:	Page
<i>United States v. Juvenile Male</i> , 131 S. Ct. 2860 (2011) .....	11
<i>Vitek v. Jones</i> , 445 U.S. 480 (1980) .....	19
<i>Young v. AGB Corp.</i> , 152 F.3d 1377 (Fed. Cir. 1998).....	27
Constitution, statutes and regulations:	
U.S. Const. Art. III.....	<i>passim</i>
§ 2 .....	11
Declaratory Judgment Act, 28 U.S.C. 2201 <i>et seq.</i> .....	3
28 U.S.C. 2201(a).....	8, 26
Trademark Act of 1946, ch. 540, 60 Stat. 427 (15 U.S.C. 1051 <i>et seq.</i> ) .....	2
15 U.S.C. 1051 .....	1
15 U.S.C. 1051(a)(1).....	2
15 U.S.C. 1052.....	1, 27
15 U.S.C. 1052(e) .....	2
15 U.S.C. 1052(f).....	3, 4
15 U.S.C. 1057(b) (2006 & Supp. IV 2010) .....	2
15 U.S.C. 1064.....	1, 3, 27
15 U.S.C. 1067(a) .....	27
15 U.S.C. 1068.....	27
15 U.S.C. 1071 (2006 & Supp. IV 2010) .....	3, 27
15 U.S.C. 1114(1)(a).....	3
15 U.S.C. 1115(a) .....	2
15 U.S.C. 1117(a) .....	6, 31
15 U.S.C. 1119.....	3, 4, 7
15 U.S.C. 1125(a) .....	2, 3
15 U.S.C. 1127.....	2
28 U.S.C. 1367.....	32
28 U.S.C. 1367(c) .....	32
35 U.S.C. 2(a) .....	2

VII

Regulations—Continued:	Page
37 C.F.R.:	
Section 2.120(a).....	3
Section 2.122(a).....	3

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**INTEREST OF THE UNITED STATES**

This case concerns whether, and in what circumstances, a declaratory judgment action challenging the validity of a federally registered trademark can be rendered moot by the trademark holder's delivery of a binding covenant not to sue the plaintiff for trademark infringement. The United States Patent and Trademark Office (PTO) plays a central role in the administration of the federal trademark system. See 15 U.S.C. 1051 *et seq.* In particular, the PTO's Trademark Trial and Appeal Board has statutory responsibility to decide whether trademarks should be registered, 15 U.S.C. 1051-1052, and to adjudicate the validity of federal trademarks in the context of petitions for cancellation of registration and other proceedings, see 15 U.S.C. 1064. The

United States therefore has a substantial interest in the question presented.

#### STATEMENT

1. In the Trademark Act of 1946 (Lanham Act), ch. 540, 60 Stat. 427 (15 U.S.C. 1051 *et seq.*), Congress created a comprehensive national registration system for trademarks and established a federal administrative and judicial framework for protecting trademarks against infringement, dilution, and unfair competition. The Lanham Act defines a trademark as “any word, name, symbol, or device, or any combination thereof” that is used “to identify and distinguish [a person’s] goods \* \* \* from those manufactured or sold by others and to indicate the source of the goods.” 15 U.S.C. 1127.

The “owner of a trademark used in commerce” may apply to the PTO to register the mark on PTO’s “principal register.” 15 U.S.C. 1051(a)(1); 35 U.S.C. 2(a). In determining whether to register the mark, the PTO evaluates whether the mark satisfies the statutory definition of a trademark and complies with other requirements, including that the mark not be “merely descriptive” and that it not “comprise[] any matter that, as a whole, is functional.” 15 U.S.C. 1052(e). While the Lanham Act provides protection against the infringement of unregistered trademarks, see 15 U.S.C. 1125(a), registration constitutes *prima facie* evidence of the validity of the mark and confers certain other protections. See 15 U.S.C. 1057(b) (2006 & Supp. IV 2010); 15 U.S.C. 1115(a).

Any person “who believes that he is or will be damaged” by the registration of a trademark may apply to the PTO’s Trademark Trial and Appeal Board (TTAB) to “cancel a registration of [the] mark” on the ground that it does not comply with a statutory requirement.

15 U.S.C. 1064. The cancellation proceeding is an adversarial one in which the parties may conduct discovery and present evidence in accordance with the Federal Rules of Civil Procedure and Evidence. 37 C.F.R. 2.120(a), 2.122(a). A party who is “dissatisfied” with the TTAB’s decision may seek judicial review in the Federal Circuit or in district court. 15 U.S.C. 1071 (2006 & Supp. IV 2010).

A trademark holder may bring a civil action for infringement against any person who, without consent and in a manner likely to cause confusion, “use[s] in commerce any reproduction[] \* \* \* or colorable imitation of a registered mark in connection with the sale” or advertising of goods or services. 15 U.S.C. 1114(1)(a); see also 15 U.S.C. 1125(a). A party who faces a threat that the trademark owner will enforce its rights, or who has been sued for infringement, may bring a claim under the Declaratory Judgment Act, 28 U.S.C. 2201 *et seq.*, seeking a declaration that the trademark is invalid. In an “action involving a registered mark,” a party may also seek an order directing the PTO to cancel the registration. 15 U.S.C. 1119.

2. a. Respondent owns a registered trademark consisting of certain exterior design elements for use on its “Air Force 1” basketball shoe.<sup>1</sup> See Registration No. 3,451,905 (the ‘905 registration); S.J.A. 1. The mark was registered pursuant to Section 2(f) of the Lanham Act,

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<sup>1</sup> Specifically, the trademark encompasses “the design of the stitching on the exterior of the shoe, the design of the material panels that form the exterior body of the shoe, the design of the wavy panel on top of the shoe that encompasses the eyelets for the shoe laces, the design of the vertical ridge pattern on the sides of the sole of the shoe, and the relative position of these elements to each other.” S.J.A. 1.

15 U.S.C. 1052(f), based on respondent's showing that the mark had acquired distinctiveness as used on footwear. Cf. *Traffix Devices, Inc. v. Marketing Displays, Inc.*, 532 U.S. 23, 28 (2001) ("trade dress can be protected under federal law"). Petitioner is a competing shoe manufacturer that sells a line of athletic shoes. Pet. App. 22a.

Respondent initiated this action against petitioner, alleging, *inter alia*, that certain of petitioner's shoes infringed and diluted Nike's Air Force 1 trademark. J.A. 36a-44a. Petitioner responded by filing a counterclaim under the Declaratory Judgment Act. Petitioner sought a declaration that the mark depicted in the '905 registration is invalid under federal and New York law, and, alternatively, that petitioner's accused shoe design did not infringe or dilute respondent's trademark. J.A. 55a-58a. Based on its invalidity counterclaim, petitioner also asked the district court to cancel respondent's registration pursuant to 15 U.S.C. 1119. J.A. 58a.

During discovery, respondent delivered to petitioner and filed with the district court an executed covenant not to sue. In that covenant, respondent "unconditionally and irrevocably" agreed to "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 petitioner or its related businesses

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 [petitioner's] current and/or previous footwear product designs, and any colorable imitations thereof, regardless of whether that footwear is produced, distributed, offered for sale, adver-

tised, sold, or otherwise used in commerce before or after the Effective Date of this Covenant.

J.A. 142a-143a.

After delivering the covenant not to sue, respondent moved to voluntarily dismiss its claims against petitioner with prejudice, and to dismiss petitioner's invalidity counterclaims on the ground that the covenant had eliminated any continuing case or controversy. Pet. App. 4a-5a. Petitioner opposed dismissal of its invalidity counterclaim, arguing that respondent should bear the burden of establishing that its voluntary cessation had mooted the case, and that respondent could not satisfy that burden. Pet. Br. 16; Pet. App. 25a. In support of its argument that a concrete controversy survived respondent's covenant, petitioner presented an affidavit of its president, who stated that petitioner had plans to introduce new versions of its shoe lines into the market, J.A. 171a-174a; affidavits from three potential investors, who asserted that they would not consider investing in petitioner's business until respondent's registration was cancelled, J.A. 168a-170a, 178a-183a; and an affidavit from one of petitioner's executives, who stated that respondent had intimidated retailers into refusing to carry petitioner's shoes, J.A. 175a-177a.

b. The district court dismissed petitioner's counterclaims. Pet. App. 21a-39a. The court held that petitioner, as the party "seeking to invoke the Court's declaratory judgment jurisdiction, \* \* \* bears the burden of demonstrating that the Court has subject matter jurisdiction over its counterclaims." *Id.* at 25a. The court therefore required petitioner to establish that a concrete controversy survived the covenant, either because the covenant "does not extend to future sales of the same product as was previously sold," or because petitioner

had “taken meaningful preparatory steps toward developing new or updated products not covered by the covenant not to sue.” *Id.* at 29a (internal quotation marks, alterations, and citations omitted).

The district court concluded that petitioner had failed to demonstrate an ongoing case or controversy, and the court accordingly dismissed the counterclaims. Pet. App. 29a, 38a. The court read the covenant “broad[ly],” concluding that “any of [petitioner’s] future products that arguably infringed the Nike Mark would be ‘colorable imitations’” of petitioner’s current shoe lines, and therefore protected by the covenant. *Id.* at 29a n.2 (quoting covenant). The court also concluded that petitioner had not presented evidence that it had made meaningful preparations to sell shoes that might fall outside the covenant’s protections. *Id.* at 31a.

The court also denied petitioner’s application for attorney’s fees under the Lanham Act, 15 U.S.C. 1117(a), finding no evidence that respondent had brought its infringement suit in bad faith. Pet. App. 38a-39a.

2. The court of appeals affirmed. Pet. App. 1a-20a. The court explained that, under this Court’s decision in *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 127 (2007), which discussed the showing necessary to establish that a request for a declaration that a patent is invalid presents an Article III controversy, the dispute between the parties must be “real and substantial.” Pet. App. 11a. In determining whether a covenant not to sue “eliminates a justiciable case or controversy,” the court found relevant “(1) the language of the covenant, (2) whether the covenant covers future, as well as past, activity and products, and (3) evidence of intention \* \* \* on the part of the party asserting jurisdiction” to engage in conduct not covered by the covenant. *Id.* at 13a.

The court concluded that it was “hard to imagine a scenario that would potentially infringe the ’905 mark and yet not fall under the Covenant,” and that petitioner “has not asserted any intention to market any such shoe.” Pet. App. 14a. The court found petitioner’s investor affidavits to be insufficient to support Article III jurisdiction, reasoning that “potential investor concerns about infringement lawsuits against the company, despite [respondent’s] broad Covenant, fail to establish the sort of genuinely adverse legal interests \* \* \* that *MedImmune* requires.” *Id.* at 15a-16a. The court also rejected petitioner’s argument that the cancellation remedy provided in 15 U.S.C. 1119 provides an independent basis of federal subject matter jurisdiction.<sup>2</sup> Pet. App. 17a-18a. Finally, the court affirmed the district court’s denial of attorney’s fees. *Id.* at 20a.

#### SUMMARY OF ARGUMENT

When it was filed, petitioner’s declaratory judgment counterclaim presented a case or controversy within the district court’s jurisdiction. When respondent withdrew its infringement claims and provided petitioner with a covenant not to sue, the question became whether these post-filing events eliminated the controversy, rendering the case moot. Because respondent contends that its voluntary alteration of its own conduct—its decision not to enforce its trademark against petitioner, and its provision of a covenant not to sue—renders the invalidity claim moot, the case should be analyzed under the “voluntary cessation” doctrine. See *Friends of the Earth, Inc. v. Laidlaw Env’tl. Servs. (TOC), Inc.*, 528 U.S. 167, 189-190 (2000). Thus, respondent should be required to demonstrate that, in view of the covenant’s terms and

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<sup>2</sup> Petitioner does not renew that argument before this Court.

the activities in which petitioner currently engages or has plans to engage, it is “absolutely clear” that a concrete dispute between the parties “could not reasonably be expected to recur.” *Id.* at 190. Because the lower courts did not require respondent to make that showing, and because both the scope of the covenant and petitioner’s planned business activities are unclear from the record, this Court should remand the case for further proceedings.

I. Article III of the Constitution requires that an “actual controversy” between the parties “must be extant” not only “at the time the complaint is filed,” but also through “all stages” of the litigation. *Alvarez v. Smith*, 130 S. Ct. 576, 580 (2009). The dispute between the parties must at all times remain “definite and concrete, touching the legal relations of parties having adverse legal interests.” *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 127 (2007).

When it was filed, petitioner’s request for a declaration that respondent’s trademark was invalid presented an Article III controversy. A party who wishes to engage in conduct that may infringe a trademark may file suit under the Declaratory Judgment Act, 28 U.S.C. 2201(a), to seek a declaration of invalidity without first exposing itself to liability. Such a suit presents an Article III controversy if the declaratory judgment plaintiff faces a “genuine threat of enforcement” that has deterred it from engaging in conduct that may infringe the mark. *MedImmune*, 549 U.S. at 129. Here, that standard was satisfied, as respondent had not only threatened enforcement, but had filed an infringement action against petitioner.

Respondent’s midstream dismissal of its infringement claims, and its provision of a covenant not to sue

for future acts of infringement, had the potential to vitiate the controversy that formed the basis for petitioner's request for a declaratory judgment by eliminating any reasonable prospect that the trademark would have an impact on petitioner's current or planned business activities. In that event, any continuing disagreement between the parties over the validity of the trademark would be simply an abstract dispute that does not suffice to create a live, justiciable controversy. See *Lewis v. Continental Bank Corp.*, 494 U.S. 472, 479 (1990).

Contrary to petitioner's argument, the public interest in preventing possibly invalid trademarks from inhibiting competitive activity does not counsel against permitting trademark owners to use covenants to moot invalidity suits. To moot an action, a covenant must eliminate a reasonable likelihood that the trademark owner will be able to enforce the trademark based on the plaintiff's current or planned business activities—thus obviating the trademark's inhibitive effect on the plaintiff's business. The possibility that the trademark owner might enforce its trademark against others not before the court is insufficient to sustain Article III jurisdiction in the absence of a controversy between the parties.

Whether a trademark owner's covenant moots the case should be evaluated under the established standard for determining whether a defendant's voluntary cessation renders a case moot. The trademark holder should be required to demonstrate that it is "absolutely clear" that a concrete dispute between the parties "could not reasonably be expected to recur." *Friends of the Earth*, 528 U.S. at 190. That inquiry will turn on both the scope of the covenant and the declaratory judgment plaintiff's intended activities. Because information concerning the latter point is uniquely within the plaintiff's possession,

the plaintiff should bear the burden of identifying activities that it believes may not be covered by the covenant. Ultimately, if the trademark holder persuades the court that the covenant is broad enough to eliminate any reasonable likelihood that the activities the plaintiff has identified will be deterred by the threat of enforcement, the court should dismiss the case as moot.

Even if a case is not moot, however, the court in a declaratory judgment action has equitable discretion to dismiss the suit if it determines that declaratory relief is not warranted. *United States v. W.T. Grant Co.*, 345 U.S. 629, 632 (1953). In undertaking that assessment, the court should take into account the declaratory judgment plaintiff's ability to seek cancellation of the trademark before the PTO, a procedure that enables the agency to apply its expertise in the first instance.

II. This Court should remand the case to permit the lower courts to apply the correct standard. Because the lower courts did not require respondent to demonstrate that a concrete dispute between the parties could not reasonably be expected to recur, the factual record is not sufficiently developed to determine whether respondent can satisfy that burden. In particular, the parties have not had the opportunity to develop evidence on both the scope of the covenant and petitioner's business activities in light of the proper standard. If the district court determines on remand that the case is not moot, it can consider whether adjudication of the declaratory judgment counterclaim represents a sound exercise of its discretion.

## ARGUMENT

**I. IN AN ACTION SEEKING A DECLARATION THAT A TRADEMARK IS INVALID, THE TRADEMARK OWNER'S COVENANT NOT TO SUE MAY RENDER THE ACTION MOOT IF THE TRADEMARK HOLDER DEMONSTRATES THAT IT IS ABSOLUTELY CLEAR THAT A CONCRETE DISPUTE BETWEEN THE PARTIES IS NOT REASONABLY LIKELY TO RECUR****A. Article III Requires That A Live Controversy Persist Throughout An Action, But Different Standards Are Used To Determine Whether A Controversy Exists At The Outset Of A Suit And Whether It Has Been Mooted By Post-Filing Events**

Article III of the Constitution grants the Judicial Branch authority to adjudicate “Cases” or “Controversies.” U.S. Const. Art. III, § 2. As a result, an “actual controversy must be extant” not only “at the time the complaint is filed,” but also through “all stages” of the litigation. *Alvarez v. Smith*, 130 S. Ct. 576, 580 (2009). The dispute between the parties must at all times remain “definite and concrete, touching the legal relations of parties having adverse legal interests.” *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 127 (2007) (quoting *Aetna Life Ins. Co. v. Haworth*, 300 U.S. 227, 240-241 (1937) (*Aetna*)). Thus, “[t]hroughout the litigation, the party seeking relief must have suffered, or be threatened with, an actual injury traceable to the defendant and likely to be redressed by a favorable judicial decision.” *United States v. Juvenile Male*, 131 S. Ct. 2860, 2864 (2011) (quoting *Spencer v. Kemna*, 523 U.S. 1, 7 (1998)).

At the outset of an action, the existence of an Article III controversy is generally evaluated under the rubrics of standing and ripeness. See *MedImmune*, 549 U.S. at

128 n.8. The doctrine of standing requires the party invoking federal court jurisdiction to demonstrate the existence of a live controversy—a concrete dispute between the parties—by showing that he has suffered an injury in fact, caused by the defendant’s allegedly unlawful conduct, that can be redressed by a judicial decree. See, e.g., *Lujan v. Defenders of Wildlife*, 504 U.S. 555, 559-561 (1992). The plaintiff thus must demonstrate that, under the facts as they prevailed at the time suit was filed, *id.* at 569 n.4, he has a “personal interest \* \* \* at the commencement of the litigation,” *Arizonaans for Official English v. Arizona*, 520 U.S. 43, 68 n.22 (1997). Ripeness doctrine, which rests on both Article III and prudential considerations, similarly requires the plaintiff to demonstrate that the controversy is “felt in a concrete way by the challenging part[y],” and that the issues are not simply “abstract disagreements,” but rather, are sufficiently well-defined to be “appropriate for judicial resolution.” *Abbott Labs. v. Gardner*, 387 U.S. 136, 148-149 (1967); see *National Park Hospitality Ass’n v. Department of the Interior*, 538 U.S. 803, 807-808 (2003).

When a party contends that factual or legal developments *since* the filing of suit have eliminated the case or controversy, the doctrine of mootness applies. *Spencer*, 523 U.S. at 7. Because mootness, like standing and ripeness, gives effect to Article III’s case or controversy requirement, *ibid.*, a case becomes moot “when the issues presented are no longer ‘live’ or the parties lack a legally cognizable interest in the outcome,” *Murphy v. Hunt*, 455 U.S. 478, 481 (1982) (per curiam) (internal quotation marks omitted), or when “it is impossible for a court to grant any effectual relief whatever to the prevailing party,” *Knox v. Service Employees Int’l Union*,

*Local 1000*, 132 S. Ct. 2277, 2287 (2012) (internal quotation marks omitted). Even if the parties “continue to dispute the lawfulness” of the conduct that gave rise to the lawsuit, the case is moot if “that dispute is no longer embedded in any actual controversy about the plaintiffs’ particular legal rights.” *Alvarez*, 130 S. Ct. at 580.

Like principles of standing and ripeness, mootness doctrine serves to determine whether an Article III controversy exists. In some respects, however, the mootness inquiry is guided by rules distinct from the doctrines that apply when a plaintiff initially seeks to invoke federal jurisdiction. See *Friends of the Earth, Inc. v. Laidlaw Env’tl. Servs. (TOC), Inc.*, 528 U.S. 167, 190 (2000). Under certain “long-recognized exceptions” to mootness, “there are circumstances in which the prospect that a defendant will engage in (or resume) harmful conduct may be too speculative to support standing, but not too speculative to overcome mootness.” *Ibid.*

This case involves the exception to mootness that applies when a defendant contends, in the context of a suit for prospective relief, that its voluntary conduct has obviated the plaintiff’s interest in the action. Ordinarily, “voluntary cessation of allegedly illegal conduct does not deprive the tribunal of power to hear and determine the case, *i.e.*, does not make the case moot.” *United States v. W.T. Grant Co.*, 345 U.S. 629, 632 (1953). Dismissing a suit as moot in that circumstance would leave the defendant “free to return to [its] old ways after the threat of a lawsuit ha[s] passed.” *Iron Arrow Honor Soc’y v. Heckler*, 464 U.S. 67, 72 (1983) (per curiam) (internal quotation marks omitted). The defendant’s voluntary cessation of the challenged acts therefore does not vitiate the plaintiff’s concrete interest in resolving the “dispute over the legality of the challenged practices,” un-

less it is clear that those practices are unlikely to recur. *W.T. Grant Co.*, 345 U.S. at 632. Absent that assurance, “[a] controversy may remain to be settled.” *Ibid.* A “defendant claiming that its voluntary compliance moots a case” therefore “bears the formidable burden of showing it is absolutely clear the allegedly wrongful behavior could not reasonably be expected to recur.” *Friends of the Earth, Inc.*, 528 U.S. at 190.

This standard, and its placement of the burden on the defendant claiming mootness, balances concerns about manipulation of the court’s jurisdiction with Article III’s case or controversy requirement. When a defendant takes actions that subject it to suit, and later argues that it has changed its behavior and that the suit therefore should be dismissed, the court must guard against the possibility that the defendant is attempting to manipulate the court’s jurisdiction in order to preserve its ability to engage in the challenged conduct in the future. See, e.g., *Gwaltney of Smithfield, Ltd. v. Chesapeake Bay Found., Inc.*, 484 U.S. 49, 66-67 (1987). That concern makes it appropriate to place the heavy burden of establishing mootness on the defendant. At the same time, that burden is not, and should not be, impossible to satisfy, because concerns about manipulation cannot override Article III’s requirements. If the defendant demonstrates that it is absolutely clear that the challenged conduct is not reasonably likely to recur, then the plaintiff lacks any continuing interest in establishing the illegality of the conduct, and no Article III controversy remains. See *ibid.* That is so even if the defendant’s abandonment of the challenged conduct was prompted by a desire to moot the case and avoid adjudication.

**B. Petitioner’s Counterclaim For A Declaration Of Invalidity Presented A Live Controversy At The Time It Was Filed**

1. Under the Declaratory Judgment Act, a party who wishes to engage in conduct that may infringe a patent or trademark may seek a declaration of invalidity without first exposing itself to liability. *MedImmune*, 549 U.S. at 129-130; 28 U.S.C. 2201(a) (a plaintiff may obtain a declaration of “the rights and other legal relations of any interested party” in “case[s] of actual controversy”). To satisfy the requirements of Article III, a declaratory judgment action must present a sufficiently “definite and concrete” dispute between the parties to permit the court to resolve the parties’ “adverse legal interests,” rather than merely “advising what the law would be upon a hypothetical state of facts.” *MedImmune*, 549 U.S. at 127; see also *Aetna*, 300 U.S. at 240-241.

A plaintiff seeking a declaration of trademark invalidity must therefore demonstrate that it faces a “genuine threat of enforcement”—such as a threatened infringement action by the trademark holder—that has deterred it from engaging in particular conduct that may infringe the mark. *MedImmune*, 549 U.S. at 129. The threatened enforcement action need not have come to pass, nor need it be “imminent.” *Ibid.* Just as in declaratory actions challenging the validity of a statute, the declaratory judgment plaintiff need not actually expose itself to liability, so long as it has been effectively “coerced” by the threat of enforcement into forgoing conduct that would be legal if the trademark were invalid. *Ibid.* (drawing parallel to declaratory judgment actions challenging statutes as invalid); see, e.g., *Steffel v. Thompson*, 415 U.S. 452, 459, 475 (1974). “The dilemma posed by that coercion—putting the challenger to the choice

between abandoning his rights or risking” enforcement—creates a live controversy under Article III. *MedImmune*, 549 U.S. at 129.

While the threat of enforcement need not be imminent, it must be real. Absent any genuine threat of enforcement against the plaintiff itself, a plaintiff’s desire to establish the invalidity of a trademark is insufficient to create a live controversy. In that circumstance, a declaration that the trademark is invalid would not address any actual injury by enabling the plaintiff to engage in particular conduct that it had previously been induced to forgo. The plaintiff would therefore lack the necessary concrete interest in the trademark’s validity. While the plaintiff might disagree with the trademark holder about whether the mark is valid, that abstract disagreement about a question of law does not in itself create a live controversy under Article III. See, e.g., *Lewis v. Continental Bank Corp.*, 494 U.S. 472, 479 (1990) (plaintiff “must establish that it has a specific live grievance against the application of the statutes,” not just an “abstract disagree[men]t over the constitutionality of such application”) (brackets in original; internal quotation marks omitted); *Babbitt v. United Farm Workers Nat’l Union*, 442 U.S. 289, 298-299 (1979) (plaintiff must demonstrate threat of enforcement); *United Pub. Workers v. Mitchell*, 330 U.S. 75, 86-91 (1947) (same).

2. Here, the district court had Article III jurisdiction over petitioner’s invalidity counterclaim when that claim was filed. The dispute between the parties was not the sort of abstract disagreement over the validity of respondent’s trademark, divorced from any concrete effect on petitioner’s conduct of its business, that would be insufficient to create a controversy. Indeed, while a threat of future enforcement that inhibited petitioner’s com-

mercial activities would have been sufficient to establish jurisdiction, see *MedImmune*, 549 U.S. at 130, petitioner had “actually been charged with infringement” of respondent’s trademark, *Cardinal Chem. Co. v. Morton Int’l, Inc.*, 508 U.S. 83, 96 (1993), when it filed its declaratory-judgment counterclaim. As a result, “there [was], *necessarily*, a case or controversy adequate to support jurisdiction of a complaint, or a counterclaim, under the [Declaratory Judgment] Act.” *Ibid.*

**C. The Jurisdictional Question Presented By Respondent’s Execution Of A Covenant Not To Sue Is Whether This Case Is Moot, And That Question Should Be Analyzed Under The “Voluntary Cessation” Framework**

Because petitioner’s invalidity counterclaim presented an Article III controversy when it was filed, the question currently before the Court is whether post-filing events have rendered the case moot. Respondent’s mootness argument is premised on its own provision of a covenant not to sue, and not on any abandonment by petitioner of the commercial activities that respondent previously alleged to be infringing. The mootness issue is therefore properly analyzed under the framework developed by this Court for cases involving a defendant’s “voluntary cessation” of allegedly unlawful conduct.

***1. A covenant not to sue may render an invalidity challenge moot***

A sufficiently broad covenant not to sue may render moot an action seeking a declaration of invalidity by freeing the declaratory judgment plaintiff to engage in its desired activities without any threat of enforcement. Petitioner is therefore incorrect in contending (Br. 33-

34; see Br. 23-24) that “[n]o covenant, no matter how broad, can eradicate” a live controversy.

In an action seeking a declaration of invalidity, the existence of an Article III controversy turns on the plaintiff’s demonstration that the prospect of trademark enforcement has a concrete impact on its business activities. *MedImmune*, 549 U.S. at 129-130. For that reason, post-filing actions that eliminate any meaningful prospect that the trademark will have an impact on the plaintiff’s business will moot the case. See *Golden v. Zwickler*, 394 U.S. 103, 109-110 (1969) (action seeking declaration that statute was invalid was moot where possibility that plaintiff would face enforcement in the future was “wholly conjectural”); *Steffel*, 415 U.S. at 460. To be sure, a prediction of future enforcement that would be too speculative to establish an Article III controversy at the outset of a case may be sufficiently plausible to prevent a previously live dispute from becoming moot. But if all realistic prospect of enforcement against the plaintiff is eliminated, so that the trademark ceases to have any concrete effect on the plaintiff’s current or anticipated conduct, the plaintiff no longer has a cognizable interest in establishing the trademark’s invalidity. See *Lewis*, 494 U.S. at 479. A sufficiently broad covenant not to sue could achieve that result by rendering the trademark owner legally unable to enforce the mark against anything the plaintiff is doing or plans to do. Cf. *Deakins v. Monaghan*, 484 U.S. 193, 200 n.4 (1988) (finding case moot where plaintiffs would be legally unable to assert the same claims against the same defendants in the future).

Petitioner is therefore wrong to contend (Br. 23, 25) that a covenant not to sue can never moot an invalidity action if the parties continue to disagree about whether

the trademark is valid. A dispute over that legal principle would be insufficient to establish a case or controversy at the outset of an action, see p. 16, *supra*, and it is also insufficient to support jurisdiction once a plaintiff no longer has any concrete stake in the court's resolution of that disagreement. See *Lewis*, 494 U.S. at 479 (case was moot despite “abstract disagree[men]t” over the constitutionality of challenged statute).

That is so even though dismissing a case as moot on the basis of a covenant not to sue the declaratory judgment plaintiff would allow the trademark holder to continue to enforce its rights against *other* competitors who are not parties to the suit. But cf. Pet. Br. 27, 40-43. “[T]he Article III question is not whether the requested relief would be nugatory as to the world at large, but whether [the plaintiff] has a stake in that relief.” *Lewis*, 494 U.S. at 479. Accordingly, the Court has always evaluated mootness by examining the continuing interests possessed by the parties to the suit, not those of hypothetical third parties or the public at large. See, e.g., *Vitek v. Jones*, 445 U.S. 480, 486-487 (1980) (evaluating whether the “reality of the controversy between [the plaintiff] and the State has \* \* \* been lessened” by the State’s voluntary cessation, and concluding that the case was not moot because the plaintiff himself could be subject to the same official conduct in the future); see also *FEC v. Wisconsin Right To Life, Inc.*, 551 U.S. 449, 462 (2007) (case is not moot if dispute is capable of repetition with respect to the same complaining party but is likely to evade review); *Lewis*, 494 U.S. at 479.

Petitioner is therefore incorrect in arguing (Br. 21) that the public interest in preventing potentially invalid trademarks from inhibiting competitive activity weighs against permitting trademark owners to use covenants

to moot invalidity actions. Before the Declaratory Judgment Act was enacted, a patent or trademark owner could attempt to paralyze its competitors by threatening to file infringement suits, while preventing an adjudication of the parties' rights by refusing to carry out the threat. *Cardinal Chem. Co.*, 508 U.S. at 95-96. The potential for trademark owners to create that "scarecrow" effect was largely ameliorated by the Declaratory Judgment Act's authorization of preemptive invalidity actions. See *ibid.* Because the "scarecrow" effect depends on a trademark holder's *legal right* to sue a competitor for infringement, a sufficiently broad covenant not to sue can extinguish that "scarecrow" effect upon the plaintiff in substantially the same way as a judicial declaration of invalidity. To be sure, the trademark may still have a "scarecrow" effect on *other* competitors who have not received a similar promise. But because Article III's controversy requirement is plaintiff-specific, neither that potential impact on third parties not before the court, nor the general public interest in identifying invalid trademarks, is sufficient to keep the controversy between the parties alive. See p. 19, *supra*.

Finally, petitioner argues (Br. 18-19, 23-24) that "[t]his case is highly similar" to *Cardinal Chemical*, 508 U.S. at 98, and *Altwater v. Freeman*, 319 U.S. 359 (1943), in which this Court held that a challenge to the validity of a patent is not necessarily mooted by a ruling that the accused device did not infringe. Those decisions are inapposite. The Court explained in *Altwater* that "the controversy between the parties did not come to an end on the dismissal of the bill for non-infringement, since their dispute went beyond the single claim and the particular accused devices involved in that suit." *Id.* at 363-364 (citation omitted). In *Cardinal Chemical*, this Court quot-

ed that language in disapproving the Federal Circuit’s categorical rule that judgments of patent validity should always be vacated if the court of appeals affirms the district court’s finding of non-infringement. See 508 U.S. at 94, 96.<sup>3</sup>

The Court in *Altvater* and *Cardinal Chemical* thus recognized that, even when a particular accused device has been found not to infringe a patent, the patent’s potential application to *other* products manufactured by the alleged infringer may give the parties a continuing concrete stake in the question whether the patent is valid. Those decisions indicate that a covenant not to sue may be insufficient to moot a declaratory judgment counterclaim if the covenant is limited to the particular product at issue in the original infringement action. They do not, however, support a categorical rule that a covenant not to sue can *never* eliminate a prior Article III controversy between a patent or trademark holder and an alleged infringer.

**2. *Whether a covenant not to sue moots an invalidity challenge should be analyzed under the “voluntary cessation” doctrine***

In arguing that petitioner’s declaratory judgment counterclaim is moot, respondent relies on its own unilateral promise not to sue, not on any alteration in petitioner’s business activities. The “voluntary cessation” doctrine therefore provides the appropriate framework for resolving the mootness question presented by this case.

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<sup>3</sup> The Court in *Cardinal Chemical* further explained that a court of appeals finding of non-infringement remained subject to review and potential reversal by this Court. 508 U.S. at 97.

Although respondent initiated this litigation by suing for infringement, it is the defendant with respect to the counterclaim that is the subject of the current mootness inquiry. And while the Declaratory Judgment Act authorizes preemptive validity challenges even when no infringement suit has been filed, respondent's commencement of suit provided especially clear evidence that it was prepared to enforce the '905 trademark against petitioner. Respondent's dismissal of its original infringement suit, combined with its promise not to commence similar actions in the future, thus represents the "voluntary cessation" of the conduct that had previously given rise to a live controversy as to the trademark's validity. And because the covenant not to sue was drafted by respondent unilaterally, respondent alone determined how broad petitioner's protections against future suits would be. It is therefore appropriate to require respondent to demonstrate that the covenant satisfies the demanding standard articulated in this Court's "voluntary cessation" precedents. Cf. *Friends of the Earth*, 528 U.S. at 190.

That conclusion is reinforced by the fact that covenants not to sue, when proffered as bases for dismissal of ongoing challenges to the promisor's patent or trademark, may implicate the concerns about jurisdictional manipulation that underpin the voluntary cessation doctrine. See p. 14, *supra*. A trademark owner may have many legitimate reasons to reconsider its initial decision to enforce its mark after the potential infringer brings an invalidity counterclaim. Here, for instance, respondent asserts that post-suit developments convinced it that petitioner's allegedly infringing "activities were no longer significant enough to warrant the cost of litigation." Br. in Opp. 4. In some cases, however, a

trademark owner might attempt, through use of an artfully drafted covenant, to moot a pending invalidity claim while preserving its ability to enforce its trademark against the plaintiff in the future. See *Benitec Austl., Ltd. v. Nucleonics, Inc.*, 495 F.3d 1340, 1353-1354 (Fed. Cir. 2007) (*Benitec*) (Dyk, J., dissenting) (discussing this concern), cert. denied, 553 U.S. 1014 (2008). Such efforts are closely analogous to the jurisdictional manipulations that “voluntary cessation” principles are intended to prevent, and they are appropriately addressed through application of the same legal standard, *i.e.*, by placing upon the trademark owner the burden of establishing that its covenant is sufficiently comprehensive to eliminate the controversy between the parties.

**3. *In order to moot a validity challenge by providing a covenant not to sue, a trademark holder should be required to demonstrate that it is absolutely clear that a concrete dispute between the parties is not reasonably likely to recur***

A trademark holder who asserts that its covenant has rendered a declaratory judgment action moot should be required to demonstrate that it is “absolutely clear” that a concrete dispute between the parties over the allegedly invalid trademark “could not reasonably be expected to recur.” *Friends of the Earth*, 528 U.S. at 190. In other words, the trademark holder must establish the absence of any meaningful likelihood that the threat of enforcement will again have a concrete impact on the plaintiff’s conduct of its business.

This formulation is consistent with the established standard used to determine whether a defendant’s voluntary conduct moots a case, while reflecting the fact that the continuing existence of an Article III controversy—whether the trademark will continue to inhibit

the declaratory judgment plaintiff’s activities—turns on the plaintiff’s intentions as well as on the scope of the trademark holder’s covenant. The Court has traditionally stated the voluntary cessation standard in terms of whether “the [defendant’s] allegedly wrongful behavior” is likely to recur, because it is ordinarily the defendant’s allegedly wrongful behavior alone that gives rise to the controversy between the parties.<sup>4</sup> *Adarand Constructors, Inc. v. Slater*, 528 U.S. 216, 221-222 (2000) (*Adarand*) (per curiam); *Friends of the Earth*, 528 U.S. at 190. In the trademark-infringement context, however, the continuing existence of an Article III controversy depends on *both* parties’ future actions. It is therefore appropriate to frame the inquiry as whether it is “absolutely clear” that a live dispute between the parties “could not reasonably be expected to recur.” *Friends of the Earth*, 528 U.S. at 190; see *Benitec*, 495 F.3d at 1354 (Dyk, J., dissenting) (proposing that patent holder should be required to show that “there is no reasonable likelihood that the controversy over the patent’s validity and enforceability will recur”).

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<sup>4</sup> Petitioner states (Br. 20) that the Court’s precedents require a defendant to show that it is “‘absolutely clear’ [the plaintiff] would never again be adversely affected” by the defendant’s conduct. That truncated formulation incorrectly suggests that the Court has required absolute certainty that the controversy will not arise again. See *Friends of the Earth*, 528 U.S. at 190. Petitioner also asserts that the “complete mootness test” includes the requirement that “interim relief or events have completely \* \* \* eradicated the effects of the alleged violation.” Br. 26 (quoting *County of L.A. v. Davis*, 440 U.S. 625, 631 (1979)). That formulation, which the Court has not invoked in more recent cases, see *Friends of the Earth*, 528 U.S. at 190, is simply another way to state the requirement that the defendant’s cessation must eliminate any continuing concrete interest in the controversy.

Although the ultimate burden of making that showing rests with the trademark holder, the plaintiff should be required to identify any current activities, or concrete plans to undertake activities in the future, that it believes may not be covered by the covenant.<sup>5</sup> See *Benitec*, 495 F.3d at 1354 (Dyk, J., dissenting) (explaining that potential infringer had identified concrete plans to undertake activity that was not encompassed by the covenant not to sue). Information about these activities is uniquely within the plaintiff's possession, and placing the burden of production on the plaintiff reduces the need for potentially extensive discovery into the plaintiff's activities and plans.<sup>6</sup> In response to the plaintiff's assertions, the trademark holder should bear the burden

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<sup>5</sup> The party challenging the trademark need not, as the district court held, show that it has engaged in “[m]eaningful preparatory steps \* \* \* which suggest that \* \* \* [the plaintiff] would and could begin production immediately.” Pet. App. 30a. Rather, it is sufficient if the plaintiff establishes that it plans to engage in conduct that it believes remains under the threat of enforcement. Indeed, the Court has not suggested that a declaratory judgment plaintiff must demonstrate even at the outset of an action that it could *immediately* engage in the conduct that it claims is deterred by the threat of enforcement. See, e.g., *Terrace v. Thompson*, 263 U.S. 197, 215-216 (1923).

<sup>6</sup> The plaintiff need not concede, as petitioner suggests (Br. 35), that the trademark owner would have a colorable infringement claim based on the plaintiff's identified activities. And disclosing planned activities should not leave the plaintiff at a disadvantage vis-à-vis the trademark holder. If the plaintiff's evidence convinces the court that the case is not moot, then the plaintiff will obtain an adjudication of its invalidity challenge and greater certainty about what conduct it may legally undertake in the future. Conversely, if the court concludes that the covenant moots the case, that determination will reflect the court's conclusion that the plaintiff's identified future activities fall within the covenant's protection.

of establishing that the covenant as written or modified encompasses the identified activities. In rare cases, a trademark owner might also demonstrate mootness by showing that, although particular hypothetical activities would fall outside the covenant, the plaintiff's prediction that it will engage in those activities is "wholly conjectural," *Golden*, 394 U.S. at 109, or otherwise unworthy of credence. If the court, after testing the covenant's language against the plaintiff's anticipated future activities, is satisfied that it is absolutely clear that a controversy between the parties may not reasonably be expected to recur, it should conclude that the case is moot. *Friends of the Earth*, 528 U.S. at 190-191.

**4. *Even if the covenant does not render the case moot, the district court has discretion to dismiss the suit***

Because declaratory relief is an equitable remedy, the court has discretion to decline to issue a declaration even if the case presents an Article III controversy. See, e.g., *Reno v. Catholic Soc. Servs., Inc.*, 509 U.S. 43, 57 (1993); see 28 U.S.C. 2201(a) (a court "may declare the rights and other legal relations of any interested parties") (emphasis added). "[T]he [plaintiff] must satisfy the court that relief is needed" by showing that "there exists some cognizable danger of recurrent violation, something more than the mere possibility which serves to keep the case alive." *W.T. Grant Co.*, 345 U.S. at 633. Even if the district court concludes that the trademark owner's covenant has not rendered the case moot, the court retains discretion to decide that the plaintiff's request for a declaration of invalidity should be dismissed on the ground that relief is not warranted.

Particularly relevant to that question is the declaratory judgment plaintiff's opportunity to challenge the validity of a registered mark before the PTO. Any per-

son “who believes that he is or will be damaged” by the registration of the mark may petition the TTAB “to cancel a registration of a mark.” See 15 U.S.C. 1064, 1067(a), 1068. A party whose activities have been deterred by concern that the trademark will be enforced against him may petition the TTAB to cancel the registration, see *Lipton Indus., Inc. v. Ralston Purina Co.*, 670 F.2d 1024, 1029 (C.C.P.A. 1982), and the TTAB may cancel the mark based on any statutory ground of invalidity, including that the mark is functional or merely descriptive. 15 U.S.C. 1052; *Young v. AGB Corp.*, 152 F.3d 1377, 1379-1380 (Fed. Cir. 1998); *International Order of Job’s Daughters v. Lindeburg & Co.*, 727 F.2d 1087, 1091 (Fed. Cir. 1984). The TTAB may evaluate the same types of evidence that a district court would consider in an invalidity challenge, and its administrative determinations may have preclusive effect between the parties in subsequent litigation. See *Levy v. Kosher Overseers Ass’n of Am., Inc.*, 104 F.3d 38, 42 (2d Cir. 1997). The losing party may obtain judicial review in the Federal Circuit or in district court. 15 U.S.C. 1071 (2006 & Supp. IV 2010).

Because the cancellation procedure permits the PTO to apply its expertise in the statutory registration requirements in the first instance and reflects Congress’s intent that the PTO be the principal forum for registration challenges, the court in a declaratory judgment suit should take into account the plaintiff’s ability to seek cancellation from the PTO in deciding whether to adjudicate the case. Cf. *Public Serv. Comm’n v. Wycoff Co.*, 344 U.S. 237, 246 (1952) (explaining that declaratory judgment procedure should “not be used to pre-empt and prejudice issues that are committed for initial decision to an administrative body”).

## II. THE COURT SHOULD REMAND THIS CASE FOR FURTHER PROCEEDINGS

In this case, the lower courts did not view the jurisdictional issue raised by respondent's covenant as one of voluntary cessation and mootness. Rather, both courts below proceeded as though they were determining at the outset of an action whether an Article III controversy existed. See Pet. App. 9a-17a, 29a-34a. As a result, the lower courts failed to require respondent to demonstrate that it is absolutely clear that a concrete dispute between the parties could not reasonably be expected to recur. Cf. *Adarand*, 528 U.S. at 221 (court of appeals treated mootness issue as though it concerned standing, and thereby "placed the burden of proof on the wrong party"). This Court should remand the case for further proceedings in which the parties can develop the record on both the scope of the covenant and petitioner's business activities, and the courts below can apply the proper standard to the record so compiled.

A. Respondent's ability to satisfy its demanding burden turns on whether the covenant is broad enough to encompass not only petitioner's current products, but also any intended future products. Neither the scope of the covenant nor petitioner's intentions are clear from the current record.

Although the covenant bars "any possible cause of action" involving "trademark infringement, unfair competition, or dilution," it does so only with respect to petitioner's "current and/or previous footwear product designs, *and any colorable imitations thereof.*" Pet. App. 24a (emphasis added). It is not clear from the record how respondent defines the term "colorable imitations." See, e.g., Resp. C.A. Br. 27-28 (arguing, without defining "colorable imitation," that the covenant is "robust," and

that “there is not a single shoe made or sold by [petitioner] when [respondent] executed the covenant that can give rise to a lawsuit”) (emphasis added). As the drafter of the covenant and the party bearing the ultimate burden of demonstrating mootness, respondent must explain the meaning of the terms it has chosen. Alternatively, nothing would prevent respondent on remand from providing a new covenant that eliminated any ambiguity in the current document.

According to the court of appeals, respondent represented at oral argument that the covenant would permit respondent to sue petitioner if petitioner “were to manufacture an exact copy of the Air Force 1 shoe.” Pet. App. 15a n.5. Even if the only suit permitted by the covenant were one based on petitioner’s making an exact replica of the shoe, petitioner’s invalidity claim would not necessarily be moot. If respondent’s trademark were invalid and its shoe design were in the public domain, then respondent’s competitors would have the right to create exact copies of that design. Thus, if petitioner demonstrates that it has plans to create and sell exact copies of the Air Force 1, the covenant would not vitiate petitioner’s concrete interest in obtaining a declaration of invalidity because the covenant would not protect petitioner from the choice between forgoing conduct that it believes is legal and subjecting itself to potential infringement liability. See *MedImmune*, 549 U.S. at 129.

There is little evidence in the record, however, concerning petitioner’s intentions. Petitioner asserted in general terms that as of 2010, it was developing additional shoe lines, and that in the near future it intended to introduce some new lines into the market. J.A. 173a. Petitioner did not elaborate on those plans, or state

whether it was concerned that its anticipated future activities would not be covered by the covenant's language. A remand to the lower courts will provide an opportunity for the parties to develop a more complete record in light of the correct standard.

B. Petitioner argues on several grounds that its invalidity claim remains live regardless of the scope of the covenant and petitioner's planned activities. As currently presented, none of those grounds establishes the existence of a live controversy.

First, petitioner argues (Br. 25) that the controversy remains live because petitioner continues to dispute the validity of respondent's trademark. But if respondent's covenant prevents the trademark from having any continuing impact on petitioner's planned activities, the parties' abstract disagreement over a legal question cannot keep the case from being moot. See pp. 19-20, *supra*.

Second, petitioner asserts (Br. 33) that the continuing existence of the registered trademark will deter investors and retailers from doing business with petitioner. Petitioner relies on declarations from investors who state that, although they have reviewed the covenant, they would consider investing in petitioner's business only "if the '905 Registration was cancelled and it was clearly established that [respondent] has no right to object to [petitioner's] sale of shoes." J.A. 170a, 180a, 182a-183a. But if the language of the covenant is sufficiently broad as to eliminate any reasonable likelihood of future enforcement against the petitioner, third parties' unfounded concerns that respondent might nevertheless object to petitioner's activities cannot suffice to create

an Article III controversy.<sup>7</sup> Cf. *Bennett v. Spear*, 520 U.S. 154, 167 (1997) (“injury must be fairly traceable to the challenged action of the defendant, and not the result of the independent action of some third party not before the court”).

Third, petitioner argues (Br. 27) that it retains a cognizable interest in its invalidity claim because respondent relied in part on the fact that its trademark was registered in defending against petitioner’s claim for attorneys’ fees. But the invalidation of respondent’s trademark would not have established that respondent brought its infringement action “in bad faith” or that the action was an “exceptional” case warranting an award of attorneys’ fees. Pet. App. 38a; see 15 U.S.C. 1117(a). And in any event, the fact that a case becomes moot generally prevents a plaintiff from receiving attorney’s fees because mootness prevents the plaintiff from prevailing on the merits of its claims. See, e.g., *Buckhannon Bd. & Care Home, Inc. v. West Va. Dep’t of Health & Human Res.*, 532 U.S. 598, 606 (2001). That potential impact on a defendant’s fee liability “is, of course, insufficient to create an Article III case or controversy where none exists on the merits of the underlying claim.” *Lewis*, 494 U.S. at 480.

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<sup>7</sup> Petitioner has also alleged that retailers “feared” that respondent would take coercive measures—such as “[l]os[ing]’ the retailer’s Nike order”—if they carried petitioner’s shoes. J.A. 177a. While allegations that respondent could be expected to enforce its trademark rights against petitioner’s retailers might give petitioner a cognizable interest in its invalidity claim, petitioner’s allegations of extra-legal conduct do not create an Article III controversy. Petitioner does not explain how invalidating respondent’s trademark would prevent respondent from engaging in the coercive measures that petitioner describes.

C. On remand, the district court may also consider whether petitioner’s invalidity claim should be dismissed even if the action is not moot. See pp. 26-27, *supra*. In conducting that inquiry, the court may take into account petitioner’s right to petition the PTO to cancel respondent’s trademark registration on the grounds asserted in its invalidity counterclaim. See Pet. Br. 11; J.A. 57a-58a.<sup>8</sup>

#### CONCLUSION

The judgment of the court of appeals should be vacated and the case remanded for further proceedings.

Respectfully submitted.

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<sup>8</sup> The fact that the PTO would be unable to adjudicate petitioner’s claims that the trademark is invalid under state law does not establish that the district court should not dismiss the suit. The district court has supplemental jurisdiction over those state-law claims under 28 U.S.C. 1367. When a district court concludes that a plaintiff’s federal claims should be dismissed, the court may dismiss as well any additional claims falling within the court’s supplemental jurisdiction. See 28 U.S.C. 1367(c).