

No. 11-982

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In the

**Supreme Court of the United States**

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ALREADY, LLC D/B/A YUMS,

*Petitioner,*

v.

NIKE, INC.,

*Respondent.*

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

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**BRIEF OF AMICI CURIAE INTELLECTUAL  
PROPERTY OWNERS ASSOCIATION IN SUPPORT OF  
NEITHER PARTY**

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## INTEREST OF THE AMICI CURIAE

Amicus curiae Intellectual Property Owners Association (IPO) is a trade association representing companies and individuals in all industries and fields of technology who own or are interested in intellectual property rights.<sup>1</sup> IPO's membership includes more than 200 companies and more than 12,000 individuals who are involved in the association either through their companies or as inventors, authors, executives, law firms, or attorney members. Founded in 1972, IPO represents the interests of all owners of intellectual property. IPO regularly represents the interests of its members before government entities and has filed amicus curiae briefs in this Court and other courts on significant issues of intellectual property law. The IPO Board of Directors approved the filing of this brief. A list of IPO board members can be found in the Appendix.<sup>2</sup>

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<sup>1</sup> No counsel for a party authored this brief in whole or in part, and no such counsel or party made a monetary contribution intended to fund the preparation or submission of this brief. No person other than the amicus curiae, or its counsel made a monetary contribution to its preparation or submission. Both parties in this case consented to the filing of amicus briefs in support of neither party by emails submitted to IPO on August 10, 2012.

<sup>2</sup> IPO procedures require approval of positions in briefs by a two-thirds majority of directors present and voting.

## INTRODUCTION

Although this case presents the issue of whether a trademark owner's covenant not to sue resolved the case or controversy that conferred the district court with subject matter jurisdiction over the trademark infringement action, it raises questions important to the owners of all forms of intellectual property. IPO, as an organization that seeks to promote proper administration of the laws for all types of intellectual property rights, submits this brief to suggest a standard that balances the right of intellectual property owners to choose when and where to enforce their rights against a putative infringer's right to resolution of the case or controversy that conferred the district court with subject matter jurisdiction over the infringement action in the first place. In sum, when an intellectual property owner grants a covenant not to sue that resolves all then-existing infringement allegations, and there is nothing in the record to suggest a real and concrete infringement dispute still exists, there is no longer an actual case or controversy.

In this case IPO takes no position on the proper interpretation of the specific language of the covenant not to sue. Hence, IPO supports neither party. But if the record supports a finding that the covenant not to sue resolved all issues of infringement of the trademark-in-suit by (1) the petitioner's past, current and future sales of the allegedly infringing shoes, including shoes not more than colorably different from the allegedly infringing shoes, and (2) future sales of any shoes for which a real and concrete dispute currently exists, such as shoes for which real and substantial

commercialization activity has already occurred, then the covenant not to sue for infringement ended the case or controversy and thus the district court's subject matter jurisdiction over the invalidity counterclaim.

A judicial challenge to the validity of an intellectual property right following the issuance of such a comprehensive covenant not to sue -- perhaps citing the policy justification that such challenges further a public interest in testing the validity of intellectual property rights -- is not a real "case or controversy" if the challenger no longer faces any actual and existing risk of infringement. There are other venues where an Article III "case or controversy" is not required and a party still may have standing to challenge the validity of the intellectual property right, such as administrative challenges against patents and registered trademarks in the United States Patent and Trademark Office, but a federal court lacks subject matter jurisdiction once the infringement dispute has ended through issuance of the covenant not to sue for infringement.

Public policy considerations support this conclusion at least as strongly as any public interest that may exist in allowing judicial challenges to intellectual property rights. Allowing challenges when there is no live infringement dispute undermines the interests of finality and judicial economy, creates the potential for needless litigation, and even risks collusive litigation to reaffirm or bolster intellectual property rights where the challenger has no real motive to invalidate the right.

In sum, IPO here advocates a middle ground approach, one that neither allows an intellectual property owner to eliminate jurisdiction by issuing a narrowly-tailored covenant not to sue that ends only the specific claims pled, while leaving other existing disputes to linger, nor one that requires the intellectual property owner to forego all future enforcement of its rights against any future infringing activities of the defendant, no matter how unrelated to the current dispute. Between these extremes is an approach that is faithful to Constitutional limits on subject matter jurisdiction of the federal courts and the Court's longstanding declaratory judgment jurisprudence: a covenant not to sue for infringement divests a court of jurisdiction if it resolves the issues of infringement raised by the alleged infringer's past and current activities, as well as future continuation of those activities, along with any other real and concrete disputes that may then exist regarding infringement of the intellectual property at issue by the defendant. This is the line that IPO urges the Court to draw in this case.

### **SUMMARY OF THE ARGUMENT**

The Court's *MedImmune v. Genentech* opinion sets forth the framework for determining whether an Article III "case or controversy," and hence an "actual controversy" under the Declaratory Judgment Act, 28 U.S.C. §§ 2201-02, exists to confer subject matter jurisdiction over intellectual property disputes in the federal courts. While the standard is flexible and depends on the facts of each case, it does require the controversy to be "definite and concrete"

and “real and substantial.” Such requirements cease to exist when an intellectual property owner provides an accused infringer with an appropriately comprehensive covenant not to sue – *i.e.*, a promise not to sue for infringement of the intellectual property rights at issue in the case that resolves the issues of infringement raised by the alleged infringer’s past and current activities, as well as future continuation of those activities, along with any other real and concrete disputes that may then exist regarding infringement of the intellectual property at issue by the defendant.

In many if not most cases, a covenant covering the putative infringer’s past and current activities, as well as future continuation of those activities with only insubstantial alterations, will suffice. However, in some actions an actual controversy with respect to infringement of the intellectual property at issue also may extend to then-existing activities of the alleged infringer that have progressed to the point where real and substantial preparations have been made for commercialization, such that the dispute as to those activities also meets the *MedImmune* requirements of a real, definite and concrete controversy. In such cases, the court retains subject matter jurisdiction unless the covenant not to sue includes any such disputes that would be capable of meeting the *MedImmune* jurisdictional threshold if they had been brought as stand-alone declaratory judgment actions.

The approach IPO advocates promotes the resolution of needless litigation (for the parties and the courts) while fully protecting the party charged with infringement from liability arising from any of

its actions that have raised an actual dispute. It balances, on the one hand, an accused infringer's interests in resolving the dispute and any public interest in clarifying the scope of intellectual property rights, against, on the other hand, the intellectual property owner's interests in ending the costs and burdens of litigation and the public interest in finality and judicial economy once existing disputes have been resolved. The accused infringer wishing to continue its challenge to the formerly-asserted intellectual property still may do so through a number of administrative challenges available in the United States Patent and Trademark Office. But once a covenant not to sue eliminates an Article III "case or controversy" as to infringement, the jurisdiction of a federal court to preside over the validity challenge ends.

## ARGUMENT

In framing the issue presented by this case, it is important to keep in mind what this case is not about. To be sure, a parallel situation arises in the Court's jurisprudence regarding subject matter jurisdiction over declaratory judgment counterclaims against intellectual property owners when a claim of infringement has been resolved, but not by way of a covenant not to sue. Although the same Article III "case or controversy" requirement determines whether subject matter jurisdiction exists in each setting, an appropriate covenant not to sue can eliminate any actual controversy in a way that a judicial determination of noninfringement does not.

Thus, the question here is distinguishable from the question of whether subject matter jurisdiction continues to exist over an invalidity counterclaim once a defendant has prevailed with a judgment of noninfringement. In that circumstance, the infringement dispute is not dead, because the noninfringement judgment might be reversed on appeal or upon a *writ of certiorari* to the Court. Thus, an actual controversy remains and jurisdiction continues over the invalidity counterclaim. See *Cardinal Chem. Co. v. Morton Int'l, Inc.*, 508 U.S. 83 (1993) (holding that Federal Circuit's affirmance of noninfringement judgment did not constitute *per se* sufficient reason for vacating declaratory judgment holding patent invalid).

For similar reasons, this case is distinguishable from the situation that supported jurisdiction over the declaratory judgment counterclaim for invalidity in *Ivater v. Freeman*, 319 U.S. 359 (1943). In *Ivater*, the patent owner had not provided its licensee with a covenant not to sue that resolved all existing issues of infringement. To the contrary, the judgment of noninfringement only resolved part of the ongoing infringement dispute, and thus the court retained jurisdiction over the invalidity counterclaim. See *id.* at 363-64 (“But we are of the view that the issues raised by the present counterclaim were justiciable, and that the controversy between the parties did not come to an end on the dismissal of the bill for noninfringement, since their dispute went beyond the single claim and the particular accused devices involved in that suit.”) (citation omitted).

Likewise, the question presented here is distinguishable from the situation that supported declaratory judgment jurisdiction in *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118 (2007). In *MedImmune*, an actual controversy existed between the licensor and licensee as to whether the licensed patent was valid and covered the licensee's product. Far from promising not to sue for infringement, the patent owner threatened exactly that if royalties were not paid. *Id.* at 211 ("Petitioner did not think royalties were owing, believing that the Cabilly II patent was invalid and unenforceable, and that its claims were in any event not infringed by Synagis. Nevertheless, petitioner considered the letter to be a clear threat to enforce the Cabilly II patent, terminate the 1997 license agreement, and sue for patent infringement if petitioner did not make royalty payments as demanded.") (footnote omitted).

**I. A Covenant Not To Sue Divests A Federal Court Of Subject Matter Jurisdiction Over An Invalidity Counterclaim When It Resolves All Infringement Issues Raised By The Alleged Infringer's Past And Current Activities, As Well As Future Continuation Of Those Activities, Along With Any Other Real And Concrete Disputes That May Exist Regarding Whether The Alleged Infringer's Activities Infringe The Intellectual Property At Issue.**

Although the facts of *MedImmune* are distinguishable, the Court's opinion sets forth the framework for determining whether an Article III "case or controversy," and hence an "actual

controversy” under the Declaratory Judgment Act, exists to confer subject matter jurisdiction in the federal courts:

Our decisions have required that the dispute be “definite and concrete, touching the legal relations of parties having adverse legal interests”; and that it be “real and substantial” and “admi[t] 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 of facts.” ... Basically, the question in each case is whether the facts alleged, under all 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.”

*MedImmune*, 549 U.S. at 126 (quoting *Aetna Life Ins. Co. v. Haworth*, 300 U. S. 227, 240 (1937) and *Maryland Casualty Co. v. Pacific Coal & Oil Co.*, 312 U. S. 270, 273 (1941)).

The same standard applies in determining whether subject matter jurisdiction continues over a counterclaim seeking a declaratory judgment of invalidity once the owner of the intellectual property right at issue has provided the putative infringer with a comprehensive covenant not to sue for infringement. An “actual controversy” only remains if there continues to exist between the parties a “definite and concrete” dispute that is “real and

substantial.” If the covenant not to sue excuses all activity by the putative infringer that is currently “definite and concrete” and “real and substantial,” an actual controversy ceases to exist. Certainly the party originally charged with infringement may wish to continue its challenge to the validity of the formerly-asserted intellectual property right, but since none of its ongoing activity may be charged with infringement, any remaining dispute is as academic as it is one-sided. In the absence of any possibility of infringement, the mere continued existence of the intellectual property right causes no injury to the recipient of the covenant not to sue that is “of sufficient immediacy and reality to warrant the issuance of a declaratory judgment.”

Whether a particular covenant not to sue will suffice to end any actual controversy will depend on its wording and the alleged infringer’s activities. As it did in *MedImmune*, however, the Court can provide guidance that would be helpful to intellectual property owners and those charged with infringement alike.

IPO submits, for example, that a covenant not to sue divests the court of jurisdiction when it gives the alleged infringer two promises. First, the covenant not to sue must extend to the alleged infringer freedom from past liability and to continue its existing activities formerly charged with infringement (*e.g.*, existing trademark use or existing products charged with patent infringement). As the “any colorable imitations” language in the covenant not to sue at issue in this case reflects, the covenant cannot be so constrained that it prohibits even the most minor of modifications to the alleged infringer’s

activities that have no bearing on the issue of infringement. In this regard, the alleged infringer's freedom to modify its existing activities while retaining the immunity from suit conferred by the covenant would mirror the range of modified activities a finding of infringement encompasses. In each case, only minor variations that do not raise new issues of infringement are permitted. *See TiVo Inc. v. EchoStar Corp.*, 646 F.3d 869, 881 (Fed. Cir. 2011) (*en banc*) (defendant risks contempt of infringement judgment unless there is "more than a colorable difference" between the accused product and the adjudged infringing product such that "substantial open issues with respect to infringement exist") (citing *Cal. Artificial Stone Paving Co. v. Molitor*, 113 U.S. 609, 618 (1885) (defendant risks contempt if its new activity does not raise "a fair ground of doubt as to the wrongfulness of the defendant's conduct").

Second, the covenant not to sue must resolve any other real and concrete disputes that may then exist regarding infringement of the intellectual property at issue by the defendant. If existing activities of the defendant beyond those pled in the complaint have been put at issue, the covenant cannot leave such disputes unresolved. Here, the test should mirror the *MedImmune* test for subject matter jurisdiction in declaratory judgment actions. If existing activities of the alleged infringer beyond those specifically accused of infringement would be sufficient to support a stand-alone action seeking a declaratory judgment of noninfringement or invalidity, the covenant cannot leave that dispute unresolved.

However, the intellectual property owner need not forfeit all rights into the future to seek relief for any infringing activities in which the putative infringer may choose to engage. The alleged infringer, for its part, receives immunity for its activities that conferred jurisdiction over the original dispute, and activities for which there remains an actual, concrete dispute capable of judicial resolution. On the other hand, a justiciable dispute does not exist between the parties as to any hypothetical future activities. For example, the covenant not to sue need not encompass activities that have not progressed to the point where real and substantial preparations for commercialization have been made (*e.g.*, trademarks merely under consideration for use, or in the case of patents, products still under development).

Such a standard would not protect a party against infringement arising from activities that have yet to enter a commercial stage, but such protection is not needed to remove a justiciable controversy. For example, if the accused infringer is merely considering whether to use a new name for its product or service, different from the name accused of infringement by the trademark owner, the court would not have jurisdiction to issue an advisory opinion as to which names would infringe the trademark at issue and which would not. Likewise, in the case of future products that might someday be accused of infringing the patent for which a covenant not to sue has been issued, a product still under development could change so that it might or might not infringe in the future. Any dispute at the development stage, therefore, would be hypothetical, not yet “definite and concrete.”

An intellectual property owner should not be required to provide a covenant not to sue for future activities that the defendant is merely contemplating in order to remove a current controversy and divest a district court of jurisdiction. Because such hypothetical activities would not support a stand-alone declaratory judgment action under *MedImmune*, they cannot support continued jurisdiction over a declaratory judgment counterclaim once a covenant not to sue has been given. Requiring that the intellectual property owner extend blanket immunity to any future activities of the alleged infringer in order to end a judicial challenge to the validity of its intellectual property rights supports neither the efficient operation of the courts nor the fundamental purposes underlying intellectual property rights. In the case of trademarks, for example, the Court has explained that they serve the dual purposes of consumer protection and promoting investments in quality products and services:

[T]rademark law, by preventing others from copying a source-identifying mark, reduce[s] the customer's costs of shopping and making purchasing decisions, for it quickly and easily assures a potential customer that ... the item with this mark ... is made by the same producer as other similarly marked items that he or she liked (or disliked) in the past. At the same time, the law helps assure a producer that it (and not an imitating competitor) will reap the financial, reputation related

rewards associated with a desirable product.

*Qualitex Co. v. Jacobson Prods. Co.*, 514 U.S. 159, 163-64 (1995).

Each of these twin purposes would be undermined if a trademark owner were required to extend carte blanche immunity from suit to a putative infringer in order to end the validity challenge. Such a requirement would give the recipient of the covenant not to sue free rein to sow the seeds of consumer confusion in the marketplace by adopting whatever confusingly similar marks it desired. Moreover, the trademark owner would be left with little, if any, incentive to use the mark in connection with further sales of its products, since any goodwill it created through such sales would be at risk of appropriation by the recipient of the covenant not to sue. The mere fact that a trademark owner, like Nike in this case, determines that a particular competitor's actions do not create a sufficient likelihood of confusion to justify continued litigation does not justify destruction of the trademark in this manner by requiring that the covenant grant unfettered immunity from suit.

Application of the standard IPO proposes will, of course, vary from case to case. The district court must determine whether the covenant not to sue encompasses all "definite and concrete" disputes between the parties regarding the intellectual property rights at issue. If existing activities of the alleged infringer beyond those specifically accused of infringement have progressed to the point where they would support a stand-alone action seeking a

declaratory judgment of noninfringement or invalidity, the dispute continues unless the covenant not to sue encompasses such activities. In many cases, that determination will depend on whether those activities have progressed to the point where real and substantial preparations have been made towards commercialization of those activities.

**II. The Balanced Standard IPO Proposes For Determining Whether A Covenant Not To Sue Ends A Justiciable Case Or Controversy, Based On The Court's *MedImmune* Test, Is Good Public Policy.**

For intellectual property owners, there are many legitimate reasons to want to end infringement litigation after it has begun. For example, the intellectual property owner may discover during a lawsuit that damages are minimal and not worth the costs and disruption of further litigation. Or the intellectual property owner may learn during discovery that the facts do not support a persuasive infringement charge. In such circumstances, the plaintiff faces a choice. It may choose to dismiss its infringement action, which may or may not end a counterclaim seeking a declaration of invalidity. Or it can go further by providing the alleged infringer with a covenant not to sue for infringement, which, if sufficiently comprehensive, ends the dispute and thus ends subject matter jurisdiction over the invalidity counterclaim. In such circumstances, the Constitutional requirement that subject matter jurisdiction ceases to exist upon elimination of the case or controversy fully aligns with the interests of judicial economy and finality.

For accused infringers, freedom for their current actions and their definite, concrete forthcoming activities is as much protection as they can rightfully expect. As long as an actual controversy exists regarding infringement, they can continue to seek judicial assistance in furthering the public interest in challenging dubious assertions of intellectual property infringement. See *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969) (discussing policy interests in challenging invalid patents). Accused infringers can continue to challenge the intellectual property rights at issue as long as they still have sufficient interests, but once they are protected for their current and their forthcoming activities that raise an actual controversy, their interests and any public interest in challenging the intellectual property rights at issue should yield to the interests of judicial economy and finality. To hold otherwise might even raise the specter of collusive litigation to reaffirm or bolster intellectual property rights where the challenger has no real motive to invalidate the rights at issue.

IPO's proposed standard in no way leaves the recipient of the covenant not to sue without recourse if it wishes to continue to challenge the intellectual property rights previously asserted against it. The United States Patent and Trademark Office adjudicates administrative challenges to registered trademarks and patents even in the absence of an Article III case or controversy. For trademarks, "any person who believes that he is or will be damaged ... by the registration of a mark on the principal [trademark] register" can file a petition to cancel the trademark. See 15 U.S.C. § 1064. For patents, Congress has made a number of options available for

administratively challenging validity. “Any person at any time may file a request for reexamination by the Office of any claim of a patent” based on prior art patents or printed publications. *See* 35 U.S.C. § 302. And to address concerns about the availability of lower-cost, speedier alternatives to litigation for challenging patent validity, in its last session Congress passed the Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 (2011) (codified in scattered sections of 35 U.S.C.), which will add “*inter partes* review,” “post grant review” and a “transitional program for review of covered business method patents” to provide additional means by which members of the public can challenge patents they believe to be invalid. *Id.* at Sec. 6, 125 Stat. at 299–313 (codified at 35 U.S.C. §§ 311-19, 321-29); Sec. 18, 125 Stat. at 330 (codified at 35 U.S.C. § 321-29).

Finally, IPO’s proposed standard does not undermine existing safeguards against baseless assertions of intellectual property rights. An appropriate covenant not to sue only divests a district court of jurisdiction over the infringement claims and invalidity counterclaims; it does not end jurisdiction over other counterclaims that may have been pled, nor does it divest the court of its discretion to impose sanctions for bringing a baseless action or for litigation misconduct. *See Willy v. Coastal Corp.*, 503 U.S. 131, 137-39 (1992) (upholding Rule 11 sanctions order imposed by district court that lacked subject matter jurisdiction, because such an order “is collateral to the merits” and vindicates the court’s “interest in having rules of procedure obeyed”); *Highway Equip. Co., Inc. v. FECO, Ltd.*, 469 F.3d

1027, 1032 (Fed. Cir. 2006) (same result under 35 U.S.C. § 285). Thus, district courts will continue to have the power to award attorneys' fees or to impose other sanctions against a party asserting its intellectual property rights in bad faith. *See, e.g.*, FED. R. CIV. P. 11; 15 U.S.C. § 1117(a)(3) (for trademark infringement actions, "[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party"); 35 U.S.C. § 285 (same for patent infringement actions).

Accordingly, IPO's proposed standard should not raise concerns that it will condone the filing of weak infringement claims to harass defendants, or "hit and run" tactics where the plaintiff relies on the *in terrorem* effect of filing suit to achieve its objectives, and ends the case by issuing a covenant not to sue if the defendant puts forth a vigorous defense. The district courts have ample tools and discretion to guard against such potential abuses.

## CONCLUSION

IPO encourages the Court to adopt the proposal set forth herein: a covenant not to sue divests a federal court of subject matter jurisdiction over an invalidity counterclaim when it resolves all infringement issues raised by the alleged infringer's past and current activities, as well as future continuation of those activities, along with any other real and concrete disputes that may exist regarding whether the alleged infringer's then-existing activities infringe the intellectual property at issue.

Respectfully submitted.

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AUGUST 2012

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**APPENDIX**

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