

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF MICHIGAN

THE WEATHER UNDERGROUND, INC.,
a Michigan corporation,

Plaintiff,

vs.

Case No. 2:09-CV-10756
Hon. Marianne O. Battani

NAVIGATION CATALYST SYSTEMS, INC.,
a Delaware corporation; BASIC FUSION, INC.,
a Delaware corporation; CONNEXUS CORP.,
a Delaware corporation; and FIRSTLOOK, INC.,
a Delaware corporation,

Defendants.

Enrico Schaefer (P43506)
Brian A. Hall (P70865)
TRAVERSE LEGAL, PLC
810 Cottageview Drive, Unit G-20
Traverse City, MI 49686
231-932-0411
enrico.schaefer@traverselegal.com
brianhall@traverselegal.com
Lead Attorneys for Plaintiff

Anthony P. Patti (P43729)
HOOPER HATHAWAY, PC
126 South Main Street
Ann Arbor, MI 48104
734-662-4426
apatti@hooperhathaway.com
Attorneys for Plaintiff

William A. Delgado
WILLENKEN WILSON LOH & LIEB LLP
707 Wilshire Boulevard, Suite 3850
Los Angeles, CA 90017
(213) 955-9240
williamdelgado@willenken.com
Lead Counsel for Defendants

Nicholas J. Stasevich (P41896)
Benjamin K. Steffans (P69712)
BUTZEL LONG, P.C.
150 West Jefferson, Suite 100
Detroit, MI 48226
(313) 225-7000
stasevich@butzel.com
steffans@butzel.com
Local Counsel for Defendants

**NAVIGATION CATALYST SYSTEMS, INC.'S OBJECTIONS TO MAGISTRATE
JUDGE'S ORDER DENYING DEFENDANT'S MOTION FOR LEAVE TO FILE
COUNTERCLAIM (DOCKET NO. #77)**

TO THIS HONORABLE COURT, ALL PARTIES, AND THEIR ATTORNEYS OF RECORD:

PLEASE TAKE NOTICE THAT, pursuant to Fed. R. Civ. P. 72(a), Defendant Navigation Catalyst Systems, Inc. (“NCS”) hereby moves the Honorable Marianne O. Battani, United States District Judge, for review of the nondispositive pretrial order of the Honorable Virginia M. Morgan, United States Magistrate Judge, entered on June 15, 2010, in which the Magistrate Judge denied NCS’s motion for leave to file a counterclaim for cancellation of Plaintiff’s trademark WEATHER STICKER (the “Order”). NCS requests that this Court reverse the Order.

These Objections are based on the facts and arguments set forth in the accompanying Memorandum of Points and Authorities; to wit, that the Magistrate Judge’s rulings that NCS unduly delayed in filing the motion and that the proposed counterclaim would be futile given NCS’s lack of standing are clearly erroneous and contrary to law.

These Objections are supported by the attached Memorandum of Points and Authorities, the case file, and the arguments of counsel that the Court would entertain at a hearing on these Objections.

RESPECTFULLY SUBMITTED this 29th day of June, 2010.

/s/William A. Delgado

William A. Delgado
WILLENKEN WILSON LOH & LIEB, LLP
707 Wilshire Boulevard, Suite 3850
Los Angeles, CA 90017
(213) 955-9240
williamdelgado@willenken.com
Lead Counsel for Defendants

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TRAVERSE LEGAL, PLC
810 Cottageview Drive, Unit G-20
Traverse City, MI 49686
231-932-0411
enrico.schaefer@traverselegal.com
brianhall@traverselegal.com
Lead Attorneys for Plaintiff

Anthony P. Patti (P43729)
HOOPER HATHAWAY, PC
126 South Main Street
Ann Arbor, MI 48104
734-662-4426
apatti@hooperhathaway.com
Attorneys for Plaintiff

William A. Delgado
WILLENKEN WILSON LOH & LIEB LLP
707 Wilshire Boulevard, Suite 3850
Los Angeles, CA 90017
(213) 955-9240
williamdelgado@willenken.com
Lead Counsel for Defendants

Nicholas J. Stasevich (P41896)
Benjamin K. Steffans (P69712)
BUTZEL LONG, P.C.
150 West Jefferson, Suite 100
Detroit, MI 48226
(313) 225-7000
stasevich@butzel.com
steffans@butzel.com
Local Counsel for Defendants

MEMORANDUM OF POINTS AND AUTHORITIES

Statement of the Issues Presented

In her Order Denying Defendant's Motion for Leave to File Counterclaim (Docket No. #77) ("Order"), the Magistrate Judge ruled that "defendants have unduly delayed in filing th[eir] motion and the proposed counterclaim would be futile given defendants' lack of standing," and thus denied NCS's motion. (Order at 2.) In so ruling, the Magistrate Judge applied the standard that "a party seeking cancellation of a trademark registration based on the fact that [it] is generic must plead that it has used the mark in commerce in a sense and in association with the same or similar goods or services, or it must plead that it intends to do so, *Goheen Corp. v. White Co.*, 29 C.C.P.A. 926, 931 (1942)." (Order at 2-3.)

The issues presented in these Objections are:

- (1) Whether the Magistrate Judge's ruling that "defendants unduly delayed in filing th[eir] motion" is clearly erroneous; and
- (2) Whether the Magistrate Judge's reliance on *Goheen* and her subsequent ruling that NCS "does not have a real interest in the WEATHER STICKER trademark and it does not possess standing to bring that counterclaim in this action" are contrary to law.

Controlling Authority

The controlling authority for these Objections is Fed. R. Civ. P. 72(a), which provides, in relevant part:

When a pretrial matter not dispositive of a party's claim or defense is referred to a magistrate judge to hear and decide, the magistrate judge must promptly conduct the required proceedings and, when appropriate, issue a written order stating the decision. A party may serve and file objections to the order within 14 days after being served with a copy. . . . The district judge in the case must consider timely objections and modify or set aside any part of the order that is clearly erroneous or is contrary to law.

I. Introduction

Plaintiff filed this action against Navigation Catalyst Systems, Inc. (“NCS”) alleging various trademark causes of action pursuant to the Lanham Act and state law. In the complaint, Plaintiff alleges that it is the owner of various trademarks, including the WEATHER STICKER mark, that have been infringed, diluted, or otherwise harmed by NCS. As discovery in this matter progressed, NCS discovered a potential counterclaim for cancellation of the WEATHER STICKER trademark on the basis that it has become generic. Within days of identifying the potential counterclaim, NCS filed a Motion for Leave to File a Counterclaim (the “Motion”), seeking cancellation of Plaintiff’s WEATHER STICKER trademark.

Magistrate Judge Morgan denied NCS’s Motion, holding that “[w]hile there has been no lack of notice, repeated failure to cure deficiencies or undue prejudice, defendants have unduly delayed in filing this motion and the proposed counterclaim would be futile given defendants’ lack of standing.” (Order at 2.) In reaching this decision, the Magistrate Judge relied on the clearly erroneous finding that the WEATHER STICKER mark is not at issue in the Complaint and pleading requirements for standing to bring a cancellation proceeding that are contrary to modern trademark law. For these reasons, the Order should be reversed and NCS should be permitted to file its counterclaim.

II. Statement of Facts

Plaintiff filed this action against NCS (and other, now-dismissed defendants) alleging various federal and state trademark causes of action. In its complaint, Plaintiff alleges that it is the owner of various trademarks that have been infringed, diluted, or otherwise harmed by NCS.

(Compl. at ¶¶ 124-61.) Included among these trademarks is the WEATHER STICKER trademark. (*Id.* at ¶¶ 29, 37.)

On January 13, 2010, a Scheduling Order was entered in this matter, and both parties proceeded to engage in discovery. NCS issued a First Set of Requests for Production and a First Set of Interrogatories on January 21, 2010. Plaintiff provided written responses on February 22, 2010. Plaintiff then produced documents on March 22, 2010, April 12, 2010, and April 26, 2010. (Declaration of William A. Delgado in Support of NCS's Motion for Leave to File a Counterclaim ("Delgado Decl.") at ¶ 2.) The deposition of Christopher Schwerzler, a Director of Plaintiff, took place on April 29, 2010. (*Id.* at ¶ 3.)

Based on the documents provided by Plaintiff, investigation by NCS thereon, and the deposition testimony of Mr. Schwerzler, NCS believed that it had a good-faith counterclaim for cancellation of the WEATHER STICKER mark and met and conferred with Plaintiff's counsel about the Motion on May 4, 2010. (*Id.* at ¶ 4.) NCS filed the Motion on May 10, 2010, Plaintiff filed its response on May 28, 2010, and NCS filed its reply on June 4, 2010. A hearing on the Motion before the Magistrate Judge was held on June 14, 2010, during which NCS's motion was denied. The Magistrate Judge's written order denying the Motion issued on June 15, 2010.

III. Argument

I. THE MAGISTRATE JUDGE'S RULING THAT NCS'S PROPOSED COUNTERCLAIM FOR CANCELLATION OF THE WEATHER STICKER MARK WOULD BE FUTILE BECAUSE NCS LACKS STANDING IS CONTRARY TO LAW.

Federal Rule of Civil Procedure 72(a) provides that the district judge shall “modify or set aside” any part of the magistrate judge’s non-dispositive pretrial order “that is clearly erroneous or is contrary to law.” Fed. R. Civ. P. 72(a). Factual findings by the Magistrate Judge are subject to the “clearly erroneous” standard, while legal conclusions are reviewed under the “contrary to law” standard. *See Williams v. Commissioner of Soc. Sec.*, 2005 WL 1788341, at *1 (E.D. Mich. July 26, 2005). ““When examining legal conclusions under the ‘contrary to law’ standard, the Court may overturn any conclusions of law which contradict or ignore applicable precepts of law, as found in the Constitution, statutes, or case precedent.”” *Rice v. Askins*, 2009 WL 2163508, at *2 (W.D. Tenn. July 13, 2009).

Here, the Magistrate Judge’s legal conclusion that NCS lacks standing to bring a counterclaim for cancellation of the WEATHER STICKER mark and that its proposed counterclaim would therefore be futile is contrary to law.

A. NCS HAS STANDING TO PURSUE CANCELLATION OF THE WEATHER STICKER TRADEMARK.

To establish standing in a cancellation proceeding, a petitioner must demonstrate a “real interest” in the proceeding. *Lipton Indus., Inc. v. Ralston Purina Co.*, 670 F.2d 1024, 1028 (C.C.P.A. 1982); *International Order of Job’s Daughters v. Lindeburg & Co.*, 727 F.2d 1087, 1092 (Fed. Cir. 1984) (“All the Lanham Act requires is that the cancellation petitioner plead and prove facts showing a ‘real interest’ in the proceeding in order to establish standing.”). The purpose of the standing requirement is “to prevent litigation where there is no real controversy between the parties, where a plaintiff, petitioner or opposer, is no more than an intermeddler.” *Lipton Indus.*, 670 F.2d at 1028-29.

Here, NCS is not an “intermeddler” but has a “real interest” in pursuing cancellation of the WEATHER STICKER trademark because Plaintiff has put this mark at issue. In the Complaint, Plaintiff alleges that NCS has infringed or otherwise harmed the “Wunderground Marks.” *See, e.g.*, Compl. ¶¶ 72 (“Defendants wrongfully profited from the unlawful use of the Wunderground Marks.”), 125 (“Defendants’ use in commerce of the Wunderground Marks is likely to cause confusion, initial or otherwise, mistake and/or to deceive.”), 153 (same). Plaintiff has defined the “Wunderground Marks” to include all of Plaintiff’s registered marks. (*Id.* at ¶ 37.) Among these marks is WEATHER STICKER. (*Id.* at ¶ 29 (“Wunderground is the owner of all rights, common law or otherwise, in and to the mark WEATHER STICKER.”).) In its prayer for relief, Plaintiff asks the Court to enter a judgment finding that NCS has “violated Plaintiff’s rights in the Wunderground Marks,” **which includes WEATHER STICKER**, in violation of various federal and state laws. (*Id.* at 37, ¶ 1.) Plaintiff also seeks temporary and permanent injunctive relief enjoining NCS from “registering, using, or trafficking in” any domain that incorporates or is identical or confusingly similar to any of the Wunderground Marks,” which, again, includes WEATHER STICKER. (*Id.* at 37-38, ¶ 4(a)-(b).)

Because Plaintiff has alleged in its Complaint that NCS infringed the WEATHER STICKER mark and seeks to enjoin NCS from registering any domain name that incorporates or is identical or similar to that mark, the validity of the WEATHER STICKER mark has been put at issue and the Magistrate Judge’s finding that “the trademarks at issue . . . do not include the WEATHER STICKER trademark” is clearly erroneous. For this same reason, the Magistrate Judge’s conclusion that “defendant does not have a real interest in the WEATHER STICKER trademark” is contrary to law. NCS has a “real interest” in pursuing cancellation of the

WEATHER STICKER mark because Plaintiff has placed its validity at issue. The reasoning of the Trademark Trial and Appeal Board (“TTAB”) in *Syntex (U.S.A.) Inc. v. E.R. Squibb & Sons Inc.*, 1990 WL 354501, 14 U.S.P.Q.2d 1879 (T.T.A.B. Mar. 22, 1990), finding that the applicant had standing to counterclaim for cancellation, is applicable here.

In *Syntex*, E.R. Squibb & Sons (“applicant”) filed an application to register the mark “TOPRIN” for a topical corticosteroid, Syntex opposed the application on the ground that it owned the registration of the TOPSYN mark, and applicant counterclaimed for cancellation of the TOPSYN mark. *Syntex*, 14 U.S.P.Q.2d at 1879-80. The TTAB dismissed Syntex’s opposition and Syntex brought a motion to dismiss the counterclaim for lack of standing. In holding that Syntex had standing, the TTAB explained:

Applicant has been threatened by opposer with opposer's registration. Applicant, far from being an intermeddler, *has been forced into a litigation as the result of opposer's action*. While opposer has retired from the lists in this proceeding, its weapon, i.e., its registration, is still a valid force which may be asserted against applicant in the context of a court action or even another proceeding before the Board.

In our view, *the fact that opposer has brought an action against applicant and used its registration as a weapon in this proceeding is enough to demonstrate applicant's interest in ensuring that the same registration will not be asserted against it in the future*. *Id.* at 1880 (emphasis added).

Indeed, “in the context of trademark infringement actions, counterclaims for declaratory relief are presumptively appropriate.” *Holley Performance Prods., Inc. v. Quick Fuel Tech., Inc.*, 624 F. Supp. 2d 610, 613 (W.D. Ky. 2008). Thus, “courts routinely permit counterclaims for

declaratory judgment that the marks sought to be enforced are invalid and unenforceable.” *Id.* (citing Sixth Circuit cases); *see also Innovation Ventures, LLC v. N.V.E., Inc.*, 2009 WL 5166195, at *1 (E.D. Mich. Dec. 21, 2009) (“The Court granted Defendant’s motion to add a counterclaim for the cancellation of Plaintiff’s trademark because (1) the Court has the power under 15 U.S.C. § 1119 to ‘determine the right to registration [and] order the cancellation of registrations, in whole or in part’; (2) *Lackner Co. v. Quehl Sign Co.*, 145 F.2d 932, 934 (6th Cir.1944) permits a defendant to attack the validity of a patent; and (3) the present action ‘involves’ a registered mark.”).

Counterclaims utilizing the remedy of cancellation under the Lanham Act serve a “‘useful purpose’” because they “provide defendants with confidence that they will not infringe the mark in the future.” *Holley Performance Prods.*, 624 F.Supp.2d at 613. For this very reason, among others, NCS has a “real interest” in pursuing cancellation of the WEATHER STICKER mark and its proposed counterclaim is appropriate. As NCS has represented throughout this litigation, it is in the business of acquiring generic domain names. If, for example, NCS wanted to acquire a domain name that it believed to be generic, such as <http://www.weatherstickers.com>, it should be able to do so without fear that an infringement action from Plaintiff would be forthcoming.

As demonstrated above, NCS has a “real interest” in pursuing its counterclaim for cancellation of Plaintiff’s WEATHER STICKER mark. The Magistrate Judge’s ruling to the contrary, that NCS’s proposed counterclaim “would be futile given defendants’ lack of standing” is therefore contrary to law. (Order at 2.)

B. THE MAGISTRATE JUDGE APPLIED AN OUTDATED AND INCORRECT
STANDARD IN FINDING THAT NCS LACKED STANDING.

In reaching her decision to deny leave to file a counterclaim, the Magistrate Judge applied the following standard for determining whether NCS has standing: “[A] party seeking cancellation of a trademark registration based on the fact that [it] is generic must plead that it has used the mark in commerce in a sense and in association with the same or similar goods or services, or it must plead that it intends to do so, *Goheen Corp. v. White Co.*, [126 F.2d 481,] 29 C.C.P.A. 926, 931 (1942).” (Order at 2-3.) Based on her findings that “defendant has not been damaged by the registration of a mark” because the WEATHER STICKER mark is not at issue and that “defendant does not appear to have used the mark in any domain names at issue, or in any domain names at all,” the Magistrate Judge ruled that “defendant does not have a real interest in the WEATHER STICKER trademark and it does not possess standing to bring that counterclaim.” (*Id.* at 3.) This ruling is contrary to law for the following reasons:

First, the Court of Custom and Patent (“CCPA”) in *Goheen* did not set forth a general standard for determining standing to seek cancellation of a trademark on the basis that it is generic. In finding that the petitioner had failed to demonstrate damage as required by section 13 of the Trademark Act of 1905, the CCPA merely noted that “[i]f White had alleged in its petition for cancellation, and offered proof establishing that it, at the time of filing the petition, was manufacturing and selling a waterproofing compound similar to that of Vita-Var, and that it intended to use and was in a position to use the word ‘Hydrolite’ in selling its waterproofing compound, a different situation with respect to the right to file a petition for cancellation might

have been presented.” *Goheen*, 126 F.2d at 484 (emphasis added). Thus, the standard attributed to *Goheen* by the Magistrate Judge is simply not found in that case.

Second, even assuming, *arguendo*, that *Goheen* did set forth the standard that the Magistrate Judge applied, the Magistrate Judge’s reliance on *Goheen* was contrary to law. Since the decision in *Goheen*, more than 60 years ago, the courts have significantly broadened the class of persons who have standing to seek cancellation of a trademark to those who have a “real interest” in the proceeding. *See, e.g., Lipton Indus., Inc. v. Ralston Purina Co.*, 670 F.2d 1024, 1028 (C.C.P.A. 1982) (holding that a party has standing to petition for cancellation if it can demonstrate a “real interest” in the proceeding); *infra* at Section III.I.A. Indeed, “[l]iberalization of standing requirements are exemplified in the decisions that permit official agencies of the United States Government to oppose and petition to cancel marks even though such agencies are not engaged in the sale of goods in a commercial sense.” 3 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* § 20:46 (4th ed.); *see, e.g., Department of Transp., FAA v. Scanwell Labs., Inc.*, 1971 WL 16760, 170 U.S.P.Q. 174, 176 (T.T.A.B. 1971) (rejecting contention that “since the FAA does not manufacture antennas but is merely a purchaser of such goods, it has no proper standing herein to contend that it would be damaged by the continued existence of Scanwell's registration” as being “without merit”); *Roxbury Entertainment v. Penthouse Media Group, Inc.*, 2009 WL 2950324, at *3 n.1 (C.D. Cal. Apr. 3, 2009) (citing cases that demonstrate the “clear trend of liberalizing the standing requirements, as exemplified by the extension of standing to government agencies and trade associations”).

Third, any reliance on the requirement for standing to petition for cancellation actually articulated in *Goheen* is contrary to modern law. In *Goheen*, the Court framed the standing issue

as “whether or not White's petition for cancellation should have been dismissed for the reason that it had not shown damage as required by the statute.” *Goheen*, 126 F.2d at 483. But “[i]n recent cases, [the Federal Circuit] has explicitly said that there is *no requirement* that damage be proved in order to establish standing or to prevail in a cancellation proceeding.” *International Order of Job’s Daughters*, 727 F.2d at 1092 (emphasis added); *see also, e.g., Roxbury Entertainment*, 2009 WL 2950324, at *2 (“There is no requirement that actual damage be pleaded and proved in order to establish standing.”) (quoting *Harjo v. Pro Football Inc.*, 30 U.S.P.Q.2d 1828, 1832 (T.T.A.B.1994)). Thus, the Magistrate Judge’s reliance on *Goheen* in finding that NCS has not been damaged by registration of the WEATHER STICKER mark is contrary to law. *See, e.g., Rice v. Askins*, 2009 WL 2163508, at *2 (W.D. Tenn. July 13, 2009) (holding that “Magistrate Judge's reliance on *Barnes* [was] contrary to the law of the state of Tennessee,” where “[t]he *Barnes* decision, which date[d] to 1934, [was] clearly at odds with a body of more contemporary Tennessee case law accepting the doctrine of promissory estoppel”).

As demonstrated above, NCS has standing to seek cancellation of the WEATHER STICKER mark. Therefore, the Magistrate Judge’s ruling that NCS’s proposed counterclaim would be futile because NCS lacks standing is a clear error of law. *See United States v. Russell*, 2002 WL 31174181, at *2 (E.D. Mich. Aug. 22, 2002) (“The Magistrate Judge ruled that this claim would be subject to dismissal as a matter of law, it would be ‘futile,’ and under Fed.R.Civ.P. 15, and thus that the Government was not entitled to amend its complaint to bring a futile claim. The Court concludes that Plaintiff has established a clear error of law in the Magistrate Judge's ruling; that it would not be futile to amend the complaint under Rule 15.”).

II. THE MAGISTRATE JUDGE’S RULING THAT NCS UNDULY DELAYED IN FILING THE MOTION IS CLEARLY ERRONEOUS

In the Order, the Magistrate Judge concluded, without any discussion, that NCS has “unduly delayed in filing this motion.” (Order at 2.) This finding is clearly erroneous.

Prior to the initiation of adverse proceedings against it, NCS was not aware of Plaintiff or its marks. Thus, at the time the answer was filed, NCS had no reason to know of Plaintiff’s use of WEATHER STICKER, the third party use of the phrase “weather sticker,” or NCS’s potential challenge to the mark. But, after Plaintiff produced documents (in late March and April 2010) and Chris Schwerzler was deposed (on April 29, 2010), NCS identified the potential counterclaim. NCS’s counsel met and conferred with Plaintiff’s counsel regarding this motion within *three business days* of the Schwerzler deposition. The motion followed shortly thereafter, less than two months from Plaintiff’s first document production in this matter and within two weeks of its latest production (at that point in time). Moreover, the Court has not yet set any deadlines for amending the pleadings or filing dispositive motions. Nor has a trial date been set. And, discovery is still ongoing and has been extended at the request of Plaintiff until the end of September.

Thus, under the circumstances here, there has been no “undue delay” on NCS’s part in filing its Motion. *See, e.g., Queen v. Park Nat’l Bank*, 2010 WL 1404307, at *2 (S.D. Ohio Apr. 5, 2010) (“Because the Defendant gained new information relevant to the affirmative defense and counterclaim as a result of discovery, the lenient standards of Rule 15(a) support amendment to the Answer.”); *cf. Podlesnick v. Airborne Express, Inc.*, 94 F.R.D. 288, 291 (S.D. Ohio 1982) (finding that plaintiff did not unduly delay in filing motion for proposed amended complaint

where plaintiff stated that “the facts underlying the second cause of action only came to light in a [recent] deposition”). The Magistrate Judge’s finding to the contrary is clearly erroneous.

Moreover, “[d]elay that is neither intended to harass nor causes any ascertainable prejudice is not a permissible reason, in and of itself to disallow an amendment of a pleading.” *Moore v. Paducah*, 790 F.2d 557, 561 (6th Cir. 1986) (citations omitted). Here, there is no indication that any supposed delay by NCS was intended to harass, and the Magistrate Judge ***expressly found*** that “there has been no . . . undue prejudice [to the opposing party].” (Order at 2.) Thus, even assuming, *arguendo*, that NCS unduly delayed in filing its motion for leave to file a counterclaim, such delay would not justify denying its motion. *See, e.g., In re Cardizem CD Antitrust Litig.*, 2000 WL 33180833, at *2 (E.D. Mich. Sept. 21, 2000) (granting plaintiff’s motion for leave to amend class action complaint despite delay in bringing motion, where “Defendants ha[d] not shown that any real prejudice [would] result if the amendment [was] allowed; i.e., there [was] no showing that their ability to defend [was] prejudiced because of Plaintiffs’ delay”).

Of course, it would be impossible for Plaintiff to show that prejudice. As NCS explained in its original papers and at the hearing before the Magistrate Judge, because Plaintiff must show that its marks are valid, NCS will be presenting evidence on “genericness” irrespective of whether the counterclaim is in this suit or not. So, the contours of this case (in terms of evidence, witnesses, etc.) will not be affected. The only difference is this: if NCS prevails in showing that WEATHER STICKER is generic, it would be entitled to cancellation of that mark, which would be the right result at the end of the day. Having litigated the issue already, it makes no sense to have a second lawsuit or proceeding on the very same issue of genericness.

IV. Conclusion

For the foregoing reasons, NCS respectfully requests that the Court reverse the Magistrate Judge's Order Denying Defendant's Motion for Leave To File Counterclaim and grant leave to permit NCS to file a counterclaim for cancellation of the WEATHER STICKER mark.

RESPECTFULLY SUBMITTED this 29th day of June, 2010.

/s/William A. Delgado

William A. Delgado
WILLENKEN WILSON LOH & LIEB, LLP
707 Wilshire Boulevard, Suite 3850
Los Angeles, CA 90017
(213) 955-9240
williamdelgado@willenken.com
Lead Counsel for Defendants

CERTIFICATE OF SERVICE

I hereby certify that on June 29, 2010, I electronically filed the foregoing paper with the Court using the ECF system which will send notification of such filing to the following:

Enrico Schaefer (P43506)
Brian A. Hall (P70865)
TRAVERSE LEGAL, PLC
810 Cottageview Drive, Unit G-20
Traverse City, MI 49686
231-932-0411
enrico.schaefer@traverselegal.com
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BUTZEL LONG, P.C.
150 West Jefferson, Suite 100
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Attorneys for Plaintiff

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WILLENKEN WILSON LOH & LIEB LLP
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(213) 955-9240
williamdelgado@willenken.com
Lead Counsel for Defendants

/s/William A. Delgado _____

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WILLENKEN WILSON LOH & LIEB, LLP
707 Wilshire Boulevard, Suite 3850
Los Angeles, CA 90017
(213) 955-9240
williamdelgado@willenken.com
Lead Counsel for Defendants