

# Strategic Considerations Prior To Sending IP Cease and Desist Letters: Minimizing the Risk of Defending Declaratory Judgment Actions

By Yuval H. Marcus and Lauren B. Sabol

## I. Introduction

The cease and desist (C&D) letter is a common tool used by many commercial lawyers, both in-house and in private practice. Businesses are constantly seeking to acquire or protect their positions in the marketplace, and the C&D letter is the first and best line of attack. This is particularly true when confronted with the infringement of company trademarks, patents, or copyrights. Sometimes a simple, cost-effective C&D letter is enough to win the day. But C&D letters also can have value even if the recipient's conduct continues unabated. Should the specter of litigation ever arise, the C&D letter will be Exhibit A for most damage cases involving evaluation of willfulness or recklessness and will support a strong rebuttal to any potential defense based on lack of knowledge or intent. Despite the utility and ubiquity of C&D letters, though, too many lawyers fire them off without tactical consideration as to what happens next if the recipient does not comply with the letter's demands.

Once sent, a C&D letter cannot be recalled, and its impact can sometimes result in collateral damage. For example, if the letter is posted online by the recipient, it may create a public relations backlash in which the company is portrayed as an unreasonable bully. Perhaps the worst unwanted outcome is where the recipient files a declaratory judgment (DJ) action in an unfavorable forum. Accordingly, companies should give careful consideration to the risks before sending a C&D letter.

## II. Legal Background

There are four primary legal considerations bearing on an analysis of whether sending a C&D letter creates a meaningful risk of having to defend a DJ lawsuit in a foreign jurisdiction: (1) Does the letter create an "actual controversy" sufficient to give rise to DJ jurisdiction?; (2) Under the "first to file" rule, will the DJ lawsuit be considered anticipatory?; (3) Is the company that sent the letter subject to personal jurisdiction in the foreign forum?; and (4) Is venue proper?

## III. Declaratory Judgment Jurisdiction

Every judge's first consideration for any dispute is whether he or she has the legal right to resolve it, and C&D letters often take center stage when the claimed basis for that jurisdiction is the Declaratory Judgment Act.<sup>1</sup> The Act empowers federal courts to "declare the rights and other legal relations of any interested party seeking such declaration" in cases where there is an "actual con-

trovery."<sup>2</sup> Prior to the U.S. Supreme Court's decision in *MedImmune Inc. v. Genentech Inc.*,<sup>3</sup> courts generally found DJ jurisdiction when a C&D letter created a "reasonable apprehension" by the recipient of being sued. Under the "reasonable apprehension" standard, one possible way to avoid triggering DJ jurisdiction was to send a "soft" C&D letter that did not threaten filing a lawsuit if the alleged infringer failed to comply. In *MedImmune*, however, the Court created a more lenient standard: "whether the facts alleged, under all the circumstances, show that there is a substantial controversy, between the parties having adverse legal interests, of sufficient immediacy and reality to warrant the issuance of a declaratory judgment."<sup>4</sup> Although *MedImmune* was a patent case, the relaxed standard also applied to trademark and copyright infringement.

Following *MedImmune*, courts more often than not find that C&D letters create DJ jurisdiction. For example, in *Gelmart Indus. Inc. v. Eveready Battery Co.*,<sup>5</sup> DJ jurisdiction was created by sending two C&D letters that asserted: (1) ownership of a federally registered trademark; (2) that the marks were virtually identical; (3) that the parties sold "closely related goods" that were "directed to the same category of consumers"; and (4) a likelihood of confusion. In addition, the letters requested abandonment of the infringing mark and the pending trademark application as well as agreement to not use or register the mark in the future.<sup>6</sup> An opposition was filed with the United States Patent and Trademark Office (USPTO) after the filing of the DJ action which asserted that the proposed mark was confusingly similar to the opposer's mark and was within the natural zone of expansion and that consumer confusion would result.<sup>7</sup> Thus, even though the C&D letter did not employ the words "infringement" or "dilution," the sender "in sum and substance" asserted that the proposed mark was infringing and dilutive.<sup>8</sup>

Similarly, in *Sasson v. Hachette Filipacchi Presse*,<sup>9</sup> DJ jurisdiction was found based on a C&D letter contending that the ELLE SASSON mark could cause consumer confusion and dilute the ELLE mark. The sender further requested (1) withdrawal or amendment of trademark application for ELLE SASSON; (2) cessation of use of the ELLE SASSON mark; (3) written undertaking to use the mark only without a space between the two words; and (4) destruction of any advertising materials with the ELLE SASSON mark.<sup>10</sup> The sender reserved the right "to

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take appropriate measures including, where necessary, instituting legal proceedings and or opposition proceedings.<sup>11</sup> During settlement negotiations, an opposition was filed with the TTAB.<sup>12</sup> The sender also stated during settlement negotiations that if the use of the mark continued “my client is going to fight you until the end.”<sup>13</sup>

Post-*MedImmune*, district courts have been increasingly confident in discerning a justiciable controversy even when the C&D letters employ a passive-aggressive tact conspicuous in the pains taken to *avoid* threatening litigation. In *Kickstarter, Inc. v. ArtistShare, Inc.*,<sup>14</sup> for example, DJ jurisdiction was found where a non-attorney sent solicitations to a registered agent, stating that “upon review of Kickstarter’s current website, we believe you may be interested in securing licensing rights to Artist Share’s software platform, which includes rights to [a pending patent application], a copy of which is attached.”<sup>15</sup> After the application issued as the ‘887 patent, another letter was sent to Kickstarter’s registered agents stating that the sender would “be contacting you in the immediate future to discuss ArtistShare’s patent and software licensing terms for Kickstarter.”<sup>16</sup> Another similar letter was sent with a request to discuss licensing opportunities. When asked whether the patentee thought Kickstarter was infringing, the writer said he thought his patent was “relevant to [Kickstarter’s] future business plans” and that he would leave the patent infringement claims “up to the attorneys,” and he suggested collaborating “before we get distracted by getting pulled into an analysis about patent infringement.”<sup>17</sup> The parties disputed whether in subsequent meetings the patentee alleged infringement of the ‘887 patent. After settlement negotiations broke down, the patentee said that if an agreement were not reached by October 11, 2011, “the other plan or action would be executed,” and Kickstarter’s situation “would get much worse.”<sup>18</sup>

Similarly, in *Classic Liquor Importers, Ltd. v. Spirits International B.V.*,<sup>19</sup> the court found that the recipient of a C&D letter that had not yet even launched its product (CDI) was “reasonably apprehensive” that it would face an infringement suit following receipt of the letter.<sup>20</sup> The court rejected the argument that jurisdiction did not exist because the C&D letter did not threaten suit. Perhaps most instructive about this case was that the sender of the C&D letter (SPI) sent a *second* C&D letter after being sued stating that it had no present intention to sue but reserving its rights to pursue litigation after CDI’s product launch and an assessment of the use and sales in the marketplace could be made. The court found that what it characterized as a “litigation-induced disclaimer” did not dispel the underlying controversy between two clearly competing marketplace interests, concluding that initial C&D letter was enough to create a case or controversy and that subsequent letters—one of which was sent only after litigation was commenced—could not effectively unring the bell.<sup>21</sup> As the court put it, SPI could not take the position, after causing CDI to seek judicial determina-

tion of its rights, that “it did not really mean what it said” in its initial C&D letter.<sup>22</sup>

That is not to say that the recipient of a C&D letters can simply race to its preferred courthouse and claim “reasonable apprehension” of suit. For instance, merely filing a trademark opposition or cancellation in the USPTO is insufficient to create declaratory judgment jurisdiction where such acts only involve objections to registration and not to the right to use the mark.<sup>23</sup> Indeed, the cases where no DJ jurisdiction is found generally have unusual facts or relate to letters asserting that a party is going to seek relief in the TTAB as opposed to in court.<sup>24</sup>

In sum, given the liberal *MedImmune* standard, with limited exceptions, most C&D letters are likely to create a justiciable controversy. However, as set forth below, there are other considerations that may prevent the C&D letter recipient from successfully subjecting the IP owner to a DJ action.

#### IV. The Race to the Courthouse: Anticipatory Lawsuits

Even if a C&D letter satisfies the “actual controversy” requirement under *MedImmune*, a DJ action may nevertheless be dismissed on the basis that it was filed as an anticipatory lawsuit. Courts generally follow the “first to file” rule, which holds that where two lawsuits are filed in different jurisdictions by the respective parties, the court will dismiss the lawsuit filed second and proceed with the lawsuit filed first. There is a major exception to this rule, however, when the first-filed lawsuit is found to be anticipatory. A DJ lawsuit is deemed anticipatory when it is filed “in response to a direct threat of litigation that gives specific warnings as to deadlines and subsequent legal action.”<sup>25</sup> In *Havas Worldwide New York, Inc. v. Lionsgate Ent’t Inc.*,<sup>26</sup> the court noted that “when a notice letter informs a defendant of the intention to file suit, a filing date, and/or a specific forum for the filing of the suit, the courts have found, in the exercise of discretion, in favor of the second-filed action.”<sup>27</sup> Even though the C&D letter in *Havas* did not specify the specific date when a suit would be brought, the court found that identifying the specific court where the action would be brought and communicating a clear intention to file suit was sufficient to render the first-filed action anticipatory.

Thus, one effective strategy to mitigate the risk of having to defend a DJ action in a foreign jurisdiction is to commit to the possibility of litigation pre-C&D letter and include in the C&D letter a clear intention to file a lawsuit in a specific court on a specific date if the infringement does not stop. This “time and place” rule has been applied in trademark and copyright infringement cases.<sup>28</sup> In patent cases, however, the Federal Circuit has held that in certain circumstances even if the letter sets a specific time for a response, the ensuing lawsuit may not be anticipatory.

ry.<sup>29</sup> This is one reason that in patent cases patent owners tend to file lawsuits rather than send C&D letters.

To benefit from the exception, the company sending the C&D letter will want to file its own action in its chosen forum shortly after the first-filed action. The company then can seek dismissal or transfer of the first-filed action. Alternatively, the company can request a temporary restraining order in the forum of its second-filed action (its “home state”) to enjoin the prosecution of the first-filed action. This tactic was employed in *Michael Miller Fabrics, LLC v. Studio Imports, Ltd.*<sup>30</sup> In that case, a New York-based company sent a C&D letter to a Florida-based company in relation to a copyright dispute. After settlement negotiations broke down, the New York-based company said “if we do not receive all of the information set forth in our C&D letter by tomorrow, May 11, 2012, we are prepared to proceed to litigation.”<sup>31</sup> Two hours later, the Florida-based company filed a declaratory judgment

course, even if the C&D letter recipient wins the race to the courthouse and claims successfully that an actual, justiciable controversy exists, all is not lost. The sender of the C&D letter still must be subject to personal jurisdiction in the foreign jurisdiction, and venue must be proper.

## V. Personal Jurisdiction

While many businesses with national footprints are subject to personal jurisdiction in all 50 states, the same cannot be said for regional companies. This can mitigate somewhat the threat of facing suit in a hostile jurisdiction. But the question C&D letter senders must ask themselves remains: *If I send this C&D letter into Forum X on behalf of a company that otherwise has insufficient contacts with that forum, can the letter be used to create personal jurisdiction over the company?* The ordinary rule is that such a letter is insufficient to confer jurisdiction in the foreign forum. That is, rights holders ordinarily may inform others of their

*“Sending C&D letters alone is insufficient to establish personal jurisdiction in many jurisdictions.”*

action in Florida. Two business days thereafter, the New York-based company filed a complaint in the Southern District of New York.<sup>32</sup> Along with its complaint, the New York-based company requested an order to show cause as to why the Florida-based company should not be enjoined from further prosecuting the Florida action.

After receiving briefing and hearing oral argument, the New York court granted the request to enjoin the Florida-based company “from taking any steps to further prosecute the declaratory judgment action filed . . . in the Southern District of Florida.”<sup>33</sup> The New York court directed the Florida-based company “to file a notice of voluntary dismissal in the Florida Action”<sup>34</sup> based on a finding that the Florida-based company’s filing was anticipatory; the lack of progress in the case in the Florida case; the short time period between the filing of the Florida and New York actions; the New York-based company being the “natural plaintiff”; and a balance of convenience factors.<sup>35</sup> But the reverse can occur when there is no reason to depart from the first-to-file rule. That is, a declaratory judgment plaintiff can enjoin a second-filed action.<sup>36</sup> If the company does not want to file a second action or no exception to the first-to-file rule exists, then it must move to transfer under 28 U.S.C. § 1404.

In short, prior to sending a C&D letter, a party must determine whether it is prepared to litigate. If so, the risk of an anticipatory lawsuit can be mitigated. If not, care must be taken with the C&D letter so as to preclude enabling its recipient to race to the nearest courthouse. Of

rights without subjecting themselves to jurisdiction in the foreign forum. However, under certain circumstances, a less-skilled, more aggressive C&D letter drafter can trigger personal jurisdiction in an inconvenient forum. For example, if Vendor A sells allegedly infringing products to Vendor B in Forum X, and Vendor B is copied on a C&D letter to Vendor A, the C&D letter vendor may be subject to personal jurisdiction to resolve any dispute resulting from Vendor B ending its business relationship with Vendor A. Similarly, in *Bancroft & Masters, Inc. v. Augusta Nat. Inc.*<sup>37</sup> a California plaintiff had registered the domain name “masters.com.” The defendant, Augusta National, sent a C&D letter to the plaintiff alleging trademark infringement and dilution by the registrant, copying the domain name registrar to trigger its dispute resolution procedures. The Ninth Circuit upheld the DJ suit in California because Augusta’s letter to the registrar had specifically targeted the domain name of the California corporation.

As noted, sending a C&D letter alone is insufficient to establish personal jurisdiction in many jurisdictions.<sup>38</sup> However, the Federal Circuit recently held that where a foreign company patent owner sent C&D letters to a company in California, and then representatives of the patent owner, including a managing director and counsel, traveled to California to meet with the allegedly infringing California company to discuss infringement allegations and potential licensing, the foreign company was subject to personal jurisdiction in California.<sup>39</sup>

Accordingly, a company must evaluate on a case-by-case, forum-by-forum basis whether it would be subject to personal jurisdiction on some other basis in any potential declaratory judgment forum. Such considerations may include sales into the forum, an interactive website, or other conduct connected to the C&D letters in the forum state (such as contacting the infringer's customers).

## VI. Venue

Venue is another important factor to consider before sending a C&D letter, particularly in the patent context. The U.S. Supreme Court's recent decision in *TC Heartland LLC v. Kraft Food Group Brands LLC*,<sup>40</sup> has changed the analysis with respect to sending C&D letters to patent infringers. Reversing over 20 years of Federal Circuit precedent that allowed patent infringement suits to be filed anywhere the court could exercise personal jurisdiction over the defendant, it is now no longer the case that venue is proper in a patent infringement case so long as the infringing product is sold in the forum.

Historically, patent owners were reluctant to send C&D letters to infringers in many cases because of fear that the infringer might file a DJ action in the venue of its choice seeking a finding of non-infringement and/or invalidity. Indeed, during the last two decades, the Eastern District of Texas became a popular forum for patent infringement cases, with more cases being filed there than in any other district in the country.

Now, patent disputes must be treated like other IP disputes and can be brought only against a corporate defendant that has committed acts of infringement in one of two forums: (i) where the defendant is incorporated or (ii) where the defendant has a regular and established place of business. Following *TC Heartland*, the possibilities for venue are more limited for those infringers that do not have places of business around the country. Knowing that patent-friendly jurisdictions like the Eastern District of Texas will no longer be a consideration, DJ concerns will be lessened, which may, in turn, lead patent owners to include more specifics in their C&D letters (e.g., identification of specific infringements, allegations of willfulness, etc.), since the patent owner's forum options will be known. Likewise, the infringer will not fear being sued outside of the jurisdictions in which it already has a local presence, which should make DJ filings less of a consideration.

## VII. Conclusion/Practice Tips

Given *MedImmune's* liberal standard, it is more likely than not that a C&D letter will create an actual controversy that is a sufficient basis for the recipient to file an action for declaratory judgment. As such, IP owners should consider the following before sending, and when drafting, C&D letters:

1. Since initiating opposition or cancellation proceedings in the USPTO or threatening to do so is gener-

ally insufficient to establish DJ jurisdiction, evaluate whether sending a demand letter that does not challenge use or threaten to sue for infringement will serve the company's business objectives.

2. To curtail an anticipatory lawsuit, for trademark and copyright matters C&D letters should state clearly that the failure to comply will result in the filing of a lawsuit in a specific court by a specific date.
3. In the C&D letter, invite the recipient to discuss settlement and then enter into an agreement that neither party will file suit during the pendency of settlement negotiations or prior to a certain date.
4. Conduct a litigation search to assess whether the recipient is litigation-averse or more likely to file a DJ action.
5. Determine each jurisdiction in which the IP owner and the letter recipient are subject to personal jurisdiction; if the options are limited to favorable or neutral fora, send an aggressive C&D letter.
6. For patent disputes, take advantage of *TC Heartland's* limitation on where venue will be appropriate and send C&D letters where the DJ actions can only be maintained in jurisdictions where the company is comfortable defending.
7. To avoid the possibility of a DJ action, file a lawsuit in your chosen forum but do not serve the complaint; follow up with a C&D letter enclosing a courtesy copy of the complaint.

## Endnotes

1. 28 U.S.C. § 2201(a).
2. *Id.*
3. *MedImmune Inc. v. Genentech Inc.*, 549 U.S. 118 (2007).
4. *Id.* at 127.
5. *Gelmart Indus. Inc. v. Eveready Battery Co.*, 120 F. Supp. 3d 127 (S.D.N.Y. 2014).
6. *Id.* at 329, 332.
7. *Id.* at 329.
8. *Id.* at 332.
9. *Sasson v. Hachette Filipacchi Presse*, No. 15-cv-194, 2016 WL 1599492 (S.D.N.Y. Apr. 20, 2016).
10. *Id.* at \*1-2.
11. *Id.* at \*2.
12. *Id.*
13. *Id.*
14. *Kickstarter, Inc. v. ArtistShare, Inc.*, No. 11-cv-6909, 2012 WL 1192021 (S.D.N.Y. Apr. 10, 2012).
15. *Id.* at \*1.
16. *Id.*
17. *Id.*
18. *Id.* at \*1-2.
19. *Classic Liquor Importers, Ltd. v. Spirits International B.V.*, 151 F. Supp.3d 451 (S.D.N.Y. 2015).

20. *Id.* at 456.
21. *Id.* at 457.
22. *Id.*
23. See *1-800-Flowers.com, Inc. v. Edible Arrangements, LLC*, 905 F. Supp. 2d 451, 454 (E.D.N.Y. 2012) (“It is well-settled within this Circuit that the existence of a dispute before the TTAB over the registration of a party’s mark, on its own, is insufficient to establish sufficient adversity for the purposes of a declaratory judgment action.”).
24. See, e.g., *Vina Casa Tamaya S.A. v. Oakville Hills Cellar, Inc.* 784 F. Supp. 2d 391 (S.D.N.Y. 2011) (no DJ jurisdiction where C&D letter objected to registration but not use of the mark); *Avon Prods, Inc. v. Moroccanoil, Inc.*, No. 12-cv-4507, 2013 WL 795652 (S.D.N.Y. Mar. 4, 2013) (no DJ jurisdiction where C&D letter referred to Canadian trademark application and did not mention any U.S. infringement); *Radiancy, Inc. v. Viatek Cons. Prods. Grp., Inc.*, 138 F. Supp. 3d 303 (S.D.N.Y. 2014) (no DJ jurisdiction with respect to non-infringement/invalidity of ‘445 patent where initial C&D letter asserted infringement of both the ‘445 and ‘034 patent, but later letters only alleged infringement of the ‘034 patent and the patentee only filed suit with respect to the ‘034 patent).
25. *Havas Worldwide New York, Inc. v. Lionsgate Ent’mt Inc.*, 15-cv-5018, 2015 WL 5710984, at \*2 (S.D.N.Y. Sept. 29, 2015).
26. *Id.*
27. *Id.* (quoting *J. Lyons & Co. v. Republic of Tea, Inc.*, 892 F. Supp. 486, 491 (S.D.N.Y. 1995)).
28. *Id.* (trademark case); *Skiva Int’l, Inc. v. Minx Int’l*, No. 15-cv-4580, 2015 WL 5853854 (S.D.N.Y. Oct. 7, 2015) (copyright case).
29. See *Electronics for Imaging, Inc. v. Coyle*, 394 F.3d 1341, 1347 (Fed. Cir. 2005).
30. *Michael Miller Fabrics, LLC v. Studio Imports, Ltd.*, 2012 WL 2065294 (S.D.N.Y. 2012).
31. *Id.* at \*1.
32. *Id.*
33. *Id.* at \*7.
34. *Id.*
35. *Id.* at \*5-6; see also *William Gluckin & Co. v. Int’l Playtex Corp.*, 407 F.2d 177 (2d Cir. 1969) (enjoining first filed patent case against infringer’s customer in Northern District of Georgia until disposition of Southern District of New York declaratory judgment action of manufacturer against patentee); *Mass v. McClenahan*, No. 93-cv-3290, 1993 WL 267418, at \*2 (S.D.N.Y. July 9, 1993) (“If plaintiff’s were the first-filed action, this Court could clearly stay proceedings in the Nevada action. . . . That discretion should not be diminished because defendants filed a preemptive declaratory judgment action.”).
36. See *Abovepeer, Inc. v. Recording Indus. Assoc. of Am., Inc.*, 166 F. Supp. 2d 655 (N.D.N.Y. 2001) (enjoining second-filed action in Southern District New York).
37. *Bancroft & Masters, Inc. v. Augusta Nat. Inc.*, 223 F.3d 1082, 1084 (9th Cir. 2000).
38. See, e.g., *Beacon Enterp., Inc. v. Menzies*, 715 F.2d 757, 762-63, 766 (2d Cir. 1983) (“It is difficult to characterize Menzies’ letter alleging infringement in an unspecified locale and threatening litigation in an unspecified forum as an activity invoking the ‘benefits and protections’ of New York law.”); *Yahoo! Inc. v. LaLigue Contre Le Racisme et L’antisemitisme*, 433 F.3d 1199, 1208 (9th Cir. 2006) (“A C&D letter is not in and of itself sufficient to establish personal jurisdiction over the sender of the letter. . . . If the price of sending a C&D letter is that the sender thereby subjects itself to jurisdiction in the forum of the alleged rights infringer, the rights holder will be strongly encouraged to file suit in its home forum without attempting first to resolve the dispute informally by means of a letter.”).
39. See *Xilinx, Inc. v. Papst Licensing GmbH & Co.*, 848 F.3d 1346 (Fed. Cir. 2017).
40. *TC Heartland LLC v. Kraft Food Group Brands LLC*, \_\_\_ U.S. \_\_\_, 137 S. Ct. 1514 (2017).

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