

Responding to IP Cease and Desist Letters



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EFFECTIVE STRATEGIES AND TECHNIQUES

It can be unsettling when a business receives a cease and desist letter claiming that the company has violated the intellectual property rights of a third party, such as copyrights, trademarks or patents. Often the letters are vague, in some cases deliberately so, and they may demand large monetary payments. A quick and accurate assessment of the merits of the claims, however, will enable the company to gauge its exposure and develop and implement the appropriate defense strategy. The following article reviews some of the steps that should be taken when a cease and desist letter is received.

COPYRIGHT INFRINGEMENT

After receiving a letter alleging copyright infringement, there are a number of steps that should be taken, including: evaluating whether the work that was allegedly copied is protectable under copyright; comparing the works at issue; investigating how and when the allegedly infringing work was created; and determining the total sales relating to the alleged infringement. While the preliminary analysis may focus on whether there is an infringement, perhaps a more significant consideration is whether the work that is alleged to have been copied was registered prior to the infringement. If the work was registered prior to the alleged infringement, the copyright owner is eligible

to recover statutory damages, and possibly attorneys' fees, if it is the "prevailing party" in an infringement action. 17 U.S.C. §§ 412, 505, 506. Statutory damages may greatly exceed the amount of actual damages and may be awarded in amounts up to \$150,000 per work in the case of willful infringement. The possible recovery of attorneys' fees enhances the risk to the defendant because if it loses, not only will it be liable for a damages award, but it also will have to pay the copyright owner's legal fees. If the work was registered prior to the alleged infringement, the analysis of the potential exposure completely changes. Accordingly, one of the first things that should be done upon receipt of a copyright infringement demand letter is to obtain information about whether the works at issue are registered, and when they were registered in relation to the commencement of the alleged infringement.

TRADEMARK INFRINGEMENT

In the trademark context, the considerations are somewhat different because it is difficult to recover monetary damages for trademark infringement and the primary issue is usually injunctive relief. The typical letter alleging trademark infringement demands that the alleged infringer change the name of its products or services and if it fails to comply, a complaint and a motion for a preliminary injunction will be filed. Since a trademark owner must establish that it will suffer irreparable harm to obtain an injunction, knowing when the trademark owner became aware of the infringement may offer a possible defense. In New York courts, if the defendant can show even a short delay, it has a good chance of defeating a motion for a preliminary injunction on the grounds that if the trademark owner had been suffering irreparable harm it would have filed its motion sooner. See *Citibank, N.A. v. Citytrust*, 756 F.2d 273, 276 (2d Cir. 1985). Since a determination of the likelihood of

defeating a motion for a preliminary injunction will greatly influence the defense strategy, learning the extent of the trademark owner's delay in enforcing its rights is invaluable.

In addition, a likelihood of confusion analysis should be conducted. In New York courts, the eight factors that must be considered were set forth in *Polaroid Corp. v. Polarad Electronics Corp.*, 287 F.2d 492 (2d Cir. 1961), namely: (1) the strength of the plaintiff's mark; (2) the degree of similarity between the two marks; (3) the proximity of the products; (4) the likelihood that the prior owner will bridge the gap; (5) actual confusion; (6) defendant's good faith in adopting its own mark; (7) the quality of defendant's product; and (8) the sophistication of the buyers. Careful consideration should be given to whether the trademark owner's rights are enforceable or vulnerable to challenge, such as for non-use, fraud, improper assignment or lack of quality control. Trademark searches should be performed as well to understand whether there are significant third party uses of similar marks for related goods or services.

Once all of these factors have been taken into consideration, an appropriate strategy and response, which may consist of filing an action for declaratory judgment of non-infringement, may be implemented.

PATENT INFRINGEMENT

Some of the first steps that should be taken after receiving a patent infringement letter are confirming

the patent's status, which includes determining its expiration date, verifying payment of maintenance fees, and checking for past reexaminations, reissues, and/or litigation that may have affected the claims of the patent. Next, determine the merits of the infringement claim by studying the claims, specification, prosecution history and compare the claims to the accused product.

Assuming that the infringement claim has some merit, one highly recommended strategy is to carefully consider whether it is possible to file for reexamination of the patent. A reexamination proceeding can be filed in the United States Patent and Trademark Office to challenge the validity of a patent based on prior art. There are two types of reexamination proceedings: 1) *inter partes*, in which the challenger and the patent owner both participate in the process; and 2) *ex parte*, in which the challenger initiates the proceeding but does not participate and can be filed anonymously. 35 U.S.C. §§ 302, 311. There are a number of benefits to filing for reexamination, including possible cancellation of the patent claims in their entirety, to completely eliminate the infringement issue, and forcing amendments to the claims, to preclude recovery of back damages for all sales prior to the time the patent reemerges from the reexamination proceeding. See 35 U.S.C. §§ 252, 316.

Reexamination has other strategic advantages. For example, reexamination places the patent owner

IP Letters

(continued from page 5)

on the defensive by forcing it to expend time and resources defending the validity of its patent. A pending reexamination is also a basis to request a stay of litigation, thereby minimizing or delaying litigation costs and preventing a patent owner from receiving a quicker recovery. Preparing a reexamination request can also be used to gain leverage in settlement discussions. A "draft" reexamination request can be exchanged with the patent owner before filing. A well drafted reexamination request may convince the patent owner of the merit of an invalidity defense and offers the patent owner a last clear chance to settle before having to defend a reexamination and potentially lose its patent entirely.

Accordingly, a company that receives a patent infringement demand letter should strongly consider whether patent reexamination can be utilized as part of its defense strategy.

PRACTICAL TIPS AND SUGGESTIONS

- After analyzing the merits of copyright, trademark or patent infringement claims, consider filing an action for declaratory judgment of non-infringement.

- To assess whether the letter is an idle threat or a precursor to litigation, research whether the company making the demands has filed similar lawsuits.
- In copyright disputes, a first step is to ask the copyright owner to send copies of all relevant Certificates of Registration, and copies of deposits.
- In trademark matters, attempt to learn when the trademark owner first discovered the alleged infringement, obtain file histories of the registrations at issue, and conduct searches to see whether there is any third party co-existence.
- For patent cases, after determining that the patent is enforceable and there is potential infringement, explore whether there is a basis for filing for reexamination.

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