The following article was originally published in the *Intellectual Property Strategist*, Vol. 16, No. 9, June 2010:

The Art of the IP Infringement Demand Letter

June 2010
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Avoiding Anticipatory DJ Actions in Unfavorable Forums

Often the response to a demand letter alleging trademark, copyright or patent infringement is the filing of a lawsuit by the alleged infringer for declaratory judgment ("DJ") of non-infringement. This article offers practical advice on language that can be included in a demand letter that may avoid giving rise to DJ jurisdiction. The article also discusses Federal Circuit precedent that creates a different standard in patent infringement actions.

The Declaratory Judgment Act

In the context of a dispute involving IP, the Declaratory Judgment Act ("DJA") provides an accused infringer a means for obtaining a legal determination of its rights. The DJA provides that "[i]n a case of actual controversy within its jurisdiction … any court of the United States, upon the filing of an appropriate pleading, may declare the rights and other legal relations of any interested party seeking such declaration." 28 U.S.C. § 2201. Competitors are "no longer restricted to an *in terrorem* choice between the incurrence of a growing potential liability for [IP] infringement and abandonment of their enterprises; they [can] clear the air by suing for a judgment that would settle the conflict of interests." *Arrowhead Indus. Water, Inc. v. Ecolochem, Inc.*, 846 F.2d 731, 735 (Fed. Cir. 1988). Under the DJA, if the accused infringer is under a reasonable apprehension of a lawsuit, it is entitled to seek declaratory relief. The problem for the IP owner is that, in many cases, even a single demand letter asserting infringement of IP rights is sufficient to create a reasonable apprehension, thereby exposing the IP owner to a lawsuit in a potentially disadvantageous forum of the infringer's choosing.

The Post Office Versus the Clerk's Office

The simplistic solution to the IP owner's dilemma is to file suit first, before even contacting the infringer. While this tactic may assure the IP owner's choice of forum (absent a motion to transfer), this may not be the best way to open settlement discussions. The filing of a complaint is essentially a public accusation of wrongdoing and may sour potential settlement discussions. Moreover, it is far less expensive to send demand letters than to commence lawsuits.

What Type of Letter to Send?

Demand letters generally fall into two categories: 1) an invitation to negotiate letter; and 2) a notice of infringement letter. Each type of letter has advantages and drawbacks.

A letter inviting negotiation may simply suggest that the alleged infringer discuss the potential to license the owner's IP. This type of letter does not include any accusations of infringement and is non-confrontational so as to avoid the potential of establishing DJ jurisdiction. However, there are a number of disadvantages to such a letter: 1) it may be so weak that it is likely to be ignored; 2) in a patent infringement situation, it may not provide actual notice sufficient to begin the accrual of damages, *see, e.g., Amsted Indus. Inc. v. Buckeye Steel Castings Co.*, 24 F.3d 178, 187 (Fed. Cir. 1994); and 3) it may be too vague to support a claim for willful infringement for post-letter activities.

The infringement letter alleges infringement of specific IP and typically threatens legal action. The idea behind this type of letter is to project strength and convey the message that the IP owner is serious about stopping the infringement. If not carefully drafted, however, such a letter is almost certain to create a reasonable apprehension of suit so as to support the filing of a DJ action in a court of the infringer's choosing.

You Wanted to Negotiate And Now You've Been Sued

A common strategy in response to a demand letter (particularly an infringement letter) is for an infringer to race to the courthouse in its home forum and file a DJ action. *See, e.g., 21 srl v. Newegg Inc.*, 2010 WL 1178066 (N.D.Ill. Mar 24, 2010). An IP owner may thereafter file a complaint for infringement in its preferred forum. The courts are then left to decide which action should proceed and which should be dismissed. The infringer may argue that the DJ action should proceed because it was first-filed and "[t]he general rule favors the forum of the first-filed action, whether or not it is a declaratory judgment action." *Micron Technology, Inc. v. Mosaid Technologies, Inc.*, 518 F.3d 897, 903-04 (Fed. Cir. 2008). The IP owner may argue that the infringer's DJ action should be dismissed on the grounds that: 1) the suit is based on improper forum shopping and encourages a disorderly race to the courthouse, and/or 2) adhering to the first-to-file rule in such circumstances "would thwart settlement negotiations, encouraging intellectual property holders to file suit rather than communicate with an alleged infringer." *National Broom Co. of California, Inc. v. Brookstone Co., Inc.*, 2009 WL 2365677, *3 (N.D.Cal. July 30, 2009) (internal quotations and citations omitted).

Two factors strongly influence the determination of who will win the battle of competing lawsuits: 1) the type of IP involved; and 2) the contents of the demand letter.

Trademarks and Copyrights

Disputes involving copyright or trademark infringement are decided under the law of the regional circuit court. Many circuits will dismiss a first-filed DJ lawsuit if the court determines that the DJ action was merely an anticipatory suit. *See, e.g., BuddyUSA, Inc. v. Recording Industry Ass'n of America, Inc.*, 21 Fed.Appx. 52 (2d Cir. 2001); *Zide Sport Shop of Ohio v. Ed Tobergte Assoc., Inc.*, 16 Fed.Appx. 433, 437 (6th Cir. 2001) ("A plaintiff, even one who files first, does not have a right to bring a declaratory judgment action in the forum of his choosing."); *Tempco Elec. Heater Corp. v. Omega Eng'g, Inc.*, 819 F.2d 746 (7th Cir. 1987); *Alltrade, Inc. v. Uniweld Prods., Inc.*, 946 F.2d 622 (9th Cir. 1991). In order for the lawsuit to be deemed anticipatory, however, the demand letter must clearly convey that the threat of suit is "imminent." One way to achieve this is to include in the demand letter a statement that the IP owner intends to file suit on a specific date in a specific forum if the infringer fails to respond to the letter or reach an agreement by that date. A DJ action commenced by the alleged infringer prior to the date specified in the letter will likely be deemed to be anticipatory and be dismissed. If the threat of a lawsuit is vague and does not include the date and forum of the imminent lawsuit, or if the IP owner lets the deadline pass without taking action, the court is unlikely to find the DJ action to have been anticipatory and may allow the first-filed DJ action to proceed.

Patents

If the IP involved is a patent, then the result may not be the same because such a case falls under the jurisdiction of the Federal Circuit. The Federal Circuit, contrary to the rule followed in other circuits in non-patent cases, will not necessarily dismiss a first-filed lawsuit that is anticipatory unless other factors are present. *Genentech, Inc. v. Eli Lilly & Co.*, 998 F.2d 931 (Fed. Cir. 1993). The Federal Circuit has instead held that the anticipatory nature of the lawsuit is only one factor to be considered along with the convenience factors that are typically considered in a motion to transfer. Even if the demand letter sets a deadline for commencing suit, the Federal Circuit has held that an accused infringer is not required to wait for that deadline to pass before filing a DJ action. *Electronics for Imaging, Inc. v. Coyle*, 394 F.3d 1341, 1347 (Fed. Cir. 2005).

Practice Tips

To reduce the risk of having to defend a DJ action in an unfavorable forum, a demand letter alleging trademark and/or copyright infringement should include a date by which the infringer must respond, after which the IP owner will commence a lawsuit in a specified court. The deadline should be adhered to; if it is allowed to pass, the infringer may be entitled to maintain a DJ action.

In patent disputes, following Federal Circuit precedent, to minimize the possibility of being forced to litigate in an unfavorable forum, it may be preferable to file a lawsuit rather than sending a demand letter, even if the letter specifies a deadline and specific court. A demand letter could then be sent with a courtesy copy of the complaint.

One potential way to enhance a demand letter is to include an "acceleration clause." The demand letter could, for example, state that the IP owner is refraining from suing in the first instance to provide a window to negotiate, but the IP owner is prepared to file suit without delay, upon notice from the infringer. An acceleration clause could undercut the justification for filing a DJ action because there is an option to accelerate the deadline for commencing suit if the infringer does not wish to negotiate.

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