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SUE FIRST OR NEGOTIATE? (SHOOT FIRST AND ASK QUESTIONS LATER?)

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When a trademark owner's rights are being infringed, owner's counsel usually writes a "cease and desist" letter to the infringer demanding that the infringing activity stop. The purpose of such a letter is to initiate settlement negotiations and to establish the infringer's wilfulness should infringements continue.

When a trademark infringer receives a cease and desist letter it may file a court action for declaratory relief to establish non-infringement. The forum chosen by the infringer may be a distant one in which the expense of litigation is burdensome or even prohibitive for the trademark owner. Therefore, counsel for the trademark owner should assess the risks of litigation in an inconvenient forum before sending a cease and desist letter.

The federal courts have developed a doctrine called the "first to file" rule whereby the same underlying controversy between the same parties should generally proceed in the court where a lawsuit was first filed. *Pacesetter Systems, Inc. v. Medtronic, Inc.*, 678 F.2d 93, 95 (9th Cir. 1982. "Normally sound judicial administration would indicate that when two identical actions are filed in [federal district] courts of concurrent jurisdiction, the court which first acquired jurisdiction should try the lawsuit and no purpose would be served by proceeding with a second action"). As a result of the first to file rule, a trademark owner may have to litigate in an inconvenient forum if it sends a cease and desist letter before a lawsuit is filed.

The first to file rule is a discretionary doctrine and "is not a rigid or inflexible rule to be mechanically applied." *Pacesetter*, supra. The chief considerations in applying the rule are the "conservation of judicial resources" and the "comprehensive disposition of litigation". *Id.*

The courts have developed various factors to be used in applying the first to file rule including the following:

1. judicial economy;
2. the risk of conflicting decisions in courts of concurrent jurisdiction;
3. bad faith tactics by the party asserting the rule;
4. whether there is jurisdiction in a particular forum over all the important parties;
5. the difference in time between the two actions; and
6. the convenience of parties and witnesses.

Pacesetter, supra; see also *Columbia Pictures Industries, Inc. v. Schneider*, 435 F. Supp. 742, 750-51 (S.D.N.Y. 1977).

Judicial economy would point toward a court in which substantial proceedings have already occurred as the appropriate forum, even if the action in that court was filed second. Another circumstance that may result in deviation from the first to file rule is the existence of a related lawsuit in the court where the second filed action was filed. A more efficient resolution of both controversies may be achieved through consolidation. Furthermore, if an infringer made false representations during settlement negotiations to gain time to file a declaratory relief action first, the rule may not be applied. Finally, where there is no jurisdiction in the first filed action over indispensable parties, the first to file rule may not be applied.

One option for the trademark owner is to file a complaint in a chosen forum without serving it and to send a copy of the filed complaint with the cease and desist letter to the infringer. This course of action requires the trademark owner to incur the minimal expense of preparing and filing the complaint, but usually preserves the owner's right to choose the appropriate forum for any lawsuit. It should be noted that a few courts may require a complaint to be filed and served before the first to file rule can be invoked. However, most courts hold that

merely filing a complaint is sufficient to acquire jurisdiction for purposes of the rule. *Pacesetter*, supra, 678 F.2d at 96 n.3; see also *Hospah Coal Co. v. Santa Fe Industries, Inc.*, 673 F.2d 1161 (10th Cir. 1982).

Of course, the appropriate course of action depends upon the goals and desires of the trademark owner. If the owner wishes to avoid any litigation it may be wise to send a letter short of demanding that the infringer cease infringing activity. Also, premature filing of a complaint could result in a violation of Rule 11 of the Federal Rules of Civil Procedure. Rule 11 requires that a complaint be "warranted by existing law or a good faith argument for the extension, modification, or reversal of existing law" after "reasonable inquiry" into the facts supporting it.

In any case, the risks posed by the first to file rule should always be considered before a cease and desist letter is sent.

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