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Cease-and-Desist Letters: A Trap for the Unwary

In today's world of globe-trotting, e-mail, and Skype, restricting an attorney's ability to practice in one jurisdiction appears to be an anachronism. Liberal practices in granting pro hac vice applications and relationships with local counsel permit many of us to serve clients around the nation. The global reach of Web sites and the national or international ambitions of a client may lead you to wish to spread your practice wings into other states. When a client comes into your office and wants you to dash off a simple cease-and-desist letter to someone who resides across the country from the state in which you practice, your first impulse might not be the correct one.

Sending a cease and desist letter outside your jurisdiction of practice may subject your client to a declaratory judgment action in that jurisdiction. The Declaratory Judgment Act provides that "any court of the United States … may declare the rights and other legal relations of any interested party seeking such declaration."[1] And if you haven't advised your client of the potentially disagreeable development of a lawsuit in an inconvenient forum, you may wind up losing the client, or worse. Certainly, you may not count on representing the client in that action without retaining local counsel. So before you blast off that "quick and easy" cease-and-desist letter, what do you need to know?

Can a cease-and-desist letter sent to a foreign jurisdiction create personal jurisdiction in which the party sending the letter otherwise has insufficient contacts with the forum? The ordinary rule is that such a letter is insufficient to confer jurisdiction in the foreign forum. Rights-holders ordinarily may inform others of their rights without subjecting themselves to jurisdiction in the foreign forum.[2] But, under certain circumstances, a more aggressive legal advocate might trigger personal jurisdiction in an inconvenient forum. For example, if you send a copy of the cease-and-desist letter to a client of an alleged infringer and the client ceases doing business as a result, such an action may create personal jurisdiction and subject your client to litigation in an inconvenient forum.

Several recent cases illustrate the problem that can arise. In *Dudnikov v. Chalk & Vermilion Fine Arts Inc.*, a cease-and-desist letter written to a would-be auctioneer in Colorado, with a copy to Ebay in California, caused Ebay to cancel an auction.[3] The would-be auctioneers sued for declaratory judgment in Colorado. The Tenth Circuit upheld jurisdiction because the letter's sender intended that a third party, Ebay, take action against the Colorado resident.

In another case, *Bancroft & Masters Inc. v. Augusta National Inc.*, a California plaintiff had registered the domain name "masters.com."[4] The defendant, Augusta National, sent a cease-and-desist letter to the plaintiff and copied the domain name registrar to trigger its dispute resolution procedures and appropriate the name for itself. The Ninth Circuit upheld the declaratory judgment suit in California, because Augusta's letter to the registrar had specifically targeted the domain name of the California corporation.

But what if your cease-and-desist letter results in a declaratory judgment action? Like any good attorney—with adrenalin pumping and the client howling—you will charge into a local court and file a second action. Of course, you feel that your client is the "true" plaintiff and the local judge will vindicate you. Not so fast. In the United States, we respect the first-to-file rule. That means that there is a strong presumption that the person who wins the race to the courthouse gets to litigate in the forum of his or her choice, assuming that jurisdiction is proper. Numerous federal courts have imposed sanctions on attorneys who file second actions without a proper basis.[5]

So how do you avoid losing the race to the courthouse and your access to a local forum? You can sue first and send letters second. This is a perfectly ethical strategy and often makes the difference between a smaller litigant having a chance of successfully engaging a larger adversary. Therefore, you should investigate your case carefully.

You can also send a cease-and-desist letter that looks more like an offer to settle or license than an actual demand to cease and desist. The Federal Circuit dismissed a declaratory judgment action on the grounds that a cease-and-desist demand was really an offer to settle. The court ruled that evidence of negotiations should not be admissible to confer personal jurisdiction.[6]

But writing a softball cease-and-desist letter can backfire. A major exception to the first-to-file rule is the case of a recipient's filing of a lawsuit after receiving notice of a planned lawsuit by an adversary. At first blush, one would think that all cease-and-desist letters provide notice of a planned lawsuit, but this may not always be the case. For example, in one case, the sender of a cease-and-desist letter stated that he would be "constrained to pursue appropriate legal steps against"

a purported infringer and that he would be "authorized to consider taking suitable legal and equitable action," but the party who filed the declaratory judgment was allowed to proceed because the letter was "suggestive of negotiations."[7] In another case, a sender wrote that he would have "little choice but to seek additional legal remedies," but there was no notice of a planned lawsuit.[8] A sender of a cease-and-desist letter who plans to rely on the notice exception to the first-to-file rule should be specific: the court, the date of filing, and the nature of the claims should be specified in the letter.

The rules are not hard-and-fast, and courts will make exceptions to the first-to-file rule when they believe that a party or an attorney has engaged in deceptive practice, forum shopping, or other inequitable conduct. In one case, the court disregarded the first-to-file rule when the party threatening a lawsuit had given a deadline for a response and the first party to file did so a day before the deadline expired.[9]

You should think hard before sending out that next cease-and-desist letter and be sure to advise your client of the potential consequences. **TFL**

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Endnotes

[1]28 U.S.C. § 2201.

[2]*Red Wing Shoe Co. v. Hockerson-Halberstadt Inc.*, 148 F.3d 1355 (Fed. Cir. 1998).

[3]514 F.3d 1063 (10th Cir. 2008).

[4]223 F.3d 1082 (9th Cir. 2000).

[5]*See*, for example, *Red Carpet Studios Div. of Source Advantage Ltd. v. Sater*, 465 F.3d 642 (6th Cir. 2006).

[6]*Red Wing Shoe Co.*, *supra* note 2.

[7]*J. Lyons & Co. Ltd. v. Republic of Tea Inc.*, 892 F. Supp. 486 (S.D.N.Y. 1995).

[8]*Abovepeer Inc. v. Recording Indus. Ass'n of America Inc.*, 166 F. Supp. 2d 655, 658 (N.D.N.Y. 2001).

[9]*Int'l Development Corp. v. INTP Inc.*, 2004 WL 2533560 (N.D. Tex. 2004).

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therefore, the matter will return to the trial court. The court may dismiss the case on the grounds that the tribe is an indispensable party that cannot be brought before the court, or the case may go to trial to test whether the actions taken do, in fact, violate any law.

Finally, the country has no active sitting federal judge who is Native American on the bench today, and in American history there have been only two Native American federal judges. It is simply impossible to believe that, in the history of the federal judicial system, only two Native Americans have met the qualifications to be appointed by the President. I encourage President Obama to cast the widest net possible in his search for men and women to fill vacant seats in the federal judiciary.

I invite you to meet me in Santa Fe for the exciting and history-making 34th Annual Indian Law Conference entitled "Coming Home to Indian Country." For the first time in history, the conference will take place in a tribal community, at the Pueblo of Pojoaque's Hilton Buffalo Thunder Resort and Casino, on April 2–3, 2009. I offer my congratulations to the officers of the Indian Law Section and the conference planning committee for what looks to be a superior program. **TFL**

Juanita Sales Lee