

Policing the Cease-and-Desist Letter

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ABSTRACT

Americans are renowned for being litigious. But only less than three percent of all disputes end up in court, and a paltry one percent of all filed lawsuits end with a decision on the merits. The reason for this paradox is that most disputes take place outside of the judicial system, and further, most disputes start and end with a cease-and-desist letter sent by an aggrieved party to an allegedly infringing party. This is particularly the case in the intellectual property area, where seasoned attorneys admit that much of their practice revolves around cease-and-desist letters. Although there is much to favor in the private resolution of disputes, there are economic and legal factors that serve to incentivize some rights holders to send abusive cease-and-desist letters. At the same time, abusive cease-and-desist letters are not effectively regulated where such letters are sent to vulnerable parties, such as individuals and small businesses. It is often these vulnerable targets who will immediately comply with abusive letters due to unique characteristics of this population, which when coupled with the abusive cease-and-desist letter, create a coercive settlement process. This is problematic because coercion is universally regarded as grounds for invalidating agreements. However, small businesses and individuals do not have the resources to bring the necessary lawsuits to invalidate such agreements, which create *de facto* enforced coerced agreements.

State legislators, state attorney's generals and the United States Congress have all recognized the problems of abusive cease-and-desist letters in the intellectual property field, at least with respect to the practices of "patent trolls." In the past year state legislatures and Congress have enacted or initiated new legislation, and several state attorney's generals have undertaken enforcement action. While these efforts are laudable, a focus on patent trolls is short-sighted and narrow, as similar problems are occurring in the copyright and trademark area. This Article argues that proposals to assist small businesses and individuals with abusive cease-and-desist letters should be broad-based and also include non-legislative means. In addition, attempts to assist this vulnerable population should also target the characteristics that make them vulnerable to coercion. To do so, this Article proposes both legislative and non-legislative action: first, a new cause of action for abusive cease-and-desist letters for any type of intellectual property infringement; second, greater involvement by the American Bar Association and state and local bar associations; and finally, greater enforcement efforts by states' attorney generals.

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INTRODUCTION

The American reputation for litigiousness is so well-known that it has entered our cultural fabric: books and articles have been written about it and a variety of popular media have satirized our infamy.¹ There is a paradox, though. Statistics show that approximately only three percent of all legal disputes are brought to the judicial system.² Of this three percent, only a small fraction of disputes are litigated to a final decision.³ How can Americans still be so litigious and at the same time have fairly low per capita rates of lawsuits?⁴ This Article suggests that the answer to this paradox is the growing practice of resolving disputes through the use of abusive cease-and-desist letters.⁵ Based on this growing trend and the potential harms these letters bring, this Article proposes that when abusive cease-and-desist letters are sent to vulnerable populations, such as small businesses or individuals, a certain amount of policing is needed.

While there are no comprehensive statistics of the extent of the use of abusive cease-and-desist letters to resolve legal disputes, there are good indications that the trend has been growing, at least in the intellectual property area.⁶ For example, a recent qualitative empirical study undertaken of experienced intellectual property attorneys found that almost all of the interviewed attorneys handled the majority of their clients' disputes through cease-and-desist letters.⁷ These same lawyers admitted that where such letters are sent to small businesses or individuals, it was often more effective to be "abusive."⁸ In addition, these lawyers also admitted that they tended to enforce "weak" claims through cease-and-desist letters, even where the lawyers believed the

¹ See, e.g., Seinfeld, Season 7, Episode 3 "The Maestro", <http://www.imdb.com/title/tt0697726/>, which satirized the case of *Liebeck v. McDonald's Restaurants, P.T.S., Inc.*, 1995 WL 360309 (N.M. Dist. Aug. 18, 1994), vacated by 1994 WL 16777704 (Trial Order) (N.M. Dist. Nov 28, 1994). In this episode of Seinfeld, one of the main characters, Kramer sues a local coffee shop for serving him coffee that was "too hot," burning his stomach (because he had attempted to sneak the coffee hidden in his waistband into a movie theatre).

² See Marc Galanter, *The Vanishing Trial: An Examination of Trials and Related Matters in Federal and State Courts*, 1 J. OF EMPIRICAL LEGAL. STUD. 459 (2004); William M. Landes, *An Empirical Analysis of Intellectual Property Litigation: Some Preliminary Results*, 41 HOUS. L. REV. 749, 758-62 (2004).

³ See Kenneth L. Port, *Trademark Extortion: The End of Trademark Law*, 65 WASH. & LEE. L. REV. 585, 589 (2008).

⁴ The per capita rate of litigation in the United States is similar to that of peer nations, such as England and Australia. See Deborah L. Rhode, *Frivolous Litigation and Civil Justice Reform: Miscasting the Problem, Recasting the Solution*, 54 DUKE L.J. 447, 456 (2004); Herbert M. Kritzer, *Lawyer Fees and Lawyer Behavior in Litigation: What Does the Empirical Literature Really Say?*, 80 TEX. L. REV. 1943, 1981-82 (2002).

⁵ See, e.g., Eriq Gardener, *How to Write an Effectively Nasty Lawyer Letter*, THE HOLLYWOOD REPORTER (July 18, 2012)(detailing the rise in the use of abusive cease-and-desist letters by celebrities to assist in image control).

⁶ See Marketa Trimble, *Setting Foot on Enemy Ground*, 50 IDEA 777, 784 (2010)("cease-and-desist letters are frequently utilized in disputes concerning intellectual property and represent an important feature of the intellectual property law landscape").

⁷ See William T. Gallagher, *Trademark and Copyright Enforcement in the Shadow of IP Law*, 28 SANTA CLARA COMP. & HIGH TECH. L.J. 453, 481 (2012)(describing the phenomenon as "demand letter lawyering").

⁸ While the study participants do not use the term "abusive," the manner in which they enforce rights against low-resourced parties, such as small businesses and individuals, can be deemed abusive under this Article's definition. See *id.*, at 478; see also *infra* Part I.B.

claims were weak.⁹ Further, recent enforcement actions and legislation developments by a number of states, states' attorney generals and federal legislation against "patent trolls"¹⁰ for sending "abusive" cease-and-desist letters to small businesses also provides evidence for this growing trend.¹¹

Although there are a variety of influences spurring the increased use of abusive cease-and-desist letters, three likely culprits are the costs of litigation and its uncertainty, and the lack of legal consequences. Litigation is expensive, and therefore, it is in the rights holders' best economic interest (even for multinational corporations with large legal budgets) to attempt to resolve disputes in its favor without resorting to litigation.¹² In addition, in certain areas of the law (in particular, in intellectual property law), the outcome of litigation is not easily predicted due to the uncertainties in the applicability of some doctrines and their corresponding defenses.¹³ Further, the patchwork of regulation and laws that could provide some deterrence are ineffective in doing so. Currently, the Model Rules of Professional Conduct,¹⁴ the potential for declaratory judgment actions, consumer protection laws (as enforced by state attorneys' generals), and newly enacted state laws all have the potential to police abusive cease-and-desist letters.¹⁵ However, this Article's review of these potential forms of regulation reveals severe limitations that continues to allow abusive cease-and-desist letter senders to virtually escape any form of legal consequences.¹⁶ Therefore, rights holders who utilize cease-and-desist letters as a method to resolve their legal disputes are incentivized to obtain immediate capitulation, which is generally obtained through abusive letters.¹⁷ This is particularly the case when abusive letters are sent to small businesses and individuals by well-resourced rights holders.¹⁸

⁹ See Gallagher, *supra* note 7, at 481, 498 (concluding that one of the themes of study was the extent to which the participants enforced weak claims).

¹⁰ "Patent trolls" are typically defined as business entities that have obtained patent rights for the sole purpose of obtaining licensing fees through coercion (such as threats of litigation). The specific problems related to patent trolls has been extensively explored in the academic literature and has also been highlighted as an executive-level policy concern to the American economy. See Colleen V. Chien, *Reforming Software Patents*, 50 HOUSTON L. REV. 323, 367 (2012); James Bessen, Jennifer Ford, and Michael J. Meurer, *The Private and Social Costs of Patent Trolls*, Boston University School of Law (Winter 2011-2012) at <http://www.cato.org/docdownload/sites/cato.org/files/serials/files/regulation/2012/5/v34n4-1.pdf> (stating that "[w]e find that NPE lawsuits are associated with half a trillion dollars of lost wealth to defendants from 1990 through 2010.")

¹¹ See, e.g., Press Release, Off. N.Y. Atty Gen., A.G. Schneiderman Announces Groundbreaking Settlement with Abusive "Patent Troll", <http://ag.ny.gov/press-release/ag-schneiderman-announces-groundbreaking-settlement-abusive-%E2%80%9Cpatent-troll%E2%80%9D> (last visited Mar. 8, 2014).

¹² See, e.g., Trimble, *supra* note 6, at 787 (citing Bruce Sewell, Intel's General Counsel, who estimates Intel's costs for dealing with patent infringement claims at three to five million dollars per year).

¹³ See Leah Chan Grinvald, *Shaming Trademark Bullies*, 2011 WIS. L. REV. 625, 657-661 (identifying three factors that lead to the unpredictability of trademark infringement lawsuits).

¹⁴ As enacted by individual states.

¹⁵ See *infra* Part III.

¹⁶ See *infra* Part III. One limitation includes the myopic focus on "patent trolls."

¹⁷ See Gallagher, *supra* note 7, at 478 (quoting one interview with a study participant, "Q: Why go after the little guy? A: Ease. It's easy often. You can often get them to roll over with a few threats and some sweet talk. ... Threats means we'll sue your sorry little company if you don't stop.").

¹⁸ See William E. Ridgway, *Revitalizing the Doctrine of Trademark Misuse*, 21 Berkeley Tech. L.J. 1547, 1569 (2006).

The effectiveness of such letters are due to a confluence of three factors that create a coercive settlement process: an abusive letter, an asymmetrical settlement process, and certain characteristics of small businesses and individuals. Cease-and-desist letters are abusive when they contain a threat (implicit or explicit) of litigation if the target does not comply, as well as one or more of the following items: unnecessary legalese (including unsubstantiated statutory citations), demands for a settlement within a short time frame, demands for immediate payment of some form of fees, or weak legal claims.¹⁹ In addition, where the letter sender is a well-resourced entity and the target of an abusive letter is a small businesses or individual, there is an asymmetry in resources, creating an imbalanced settlement process. In an asymmetrical settlement process, small businesses and individuals are particularly vulnerable to abusive letters because of three characteristics that members of this population share: an inability to information-gather, susceptibility to inducement, and an inability to follow-through with litigation.²⁰ The combination of abuse, asymmetry, and the characteristics of this population create a coercive settlement process.²¹ Coercion is regarded as an anathema in contracting and any agreement arising out of such coercive process would be *de jure* unenforceable.²² However, since this population lacks the resources to litigate such unenforceability, coerced settlement agreements are *de facto* enforced.

Therefore, this Article argues that more effective and coordinated tools are needed to police abusive cease-and-desist letters, and in particular, the approach needs to directly address the characteristics of small businesses and individuals in order to be effective. One such proposal is adopting legislation (at the federal and/or state level), similar to the recently passed state level anti-patent troll legislation, but with a broader focus. This “abusive threats” legislation would provide targeted parties with a cause of action against the sender of an abusive letter. The claim would provide for a “fast-track” resolution by a judge, as well as fee-shifting if the sender’s letter was deemed abusive.²³ With the potential for fees and fast-track resolution, small businesses and individuals would more easily be able to find counsel willing to represent them on a contingency fee basis.²⁴ This would assist in overcoming the inability to information gather, as well as this population’s susceptibility to inducement.²⁵ Since the adoption of legislation may not be immediately forthcoming, and additionally, since it does not attack all the characteristics of this

¹⁹ See, e.g., Letter from Diane Reed, Attorney, Knobbe Martens Olson & Bear LLP, to Christopher J. Day, Law Office of Christopher Day (Sept. 4, 2009). (providing two weeks from date of letter); Letter from National Football League, to Ms. Thom, Fleurty Girl (Jan. 13, 2010) (providing nine days from date of letter).

²⁰ See Owen Fiss, *Against Settlement*, 93 YALE L.J. 1073, 1076 (1984).

²¹ See *infra* Part II.

²² See generally Claire Finkelstein, *Contract Under Coercion: Should You Keep a Contract with a Robber?* (forthcoming, manuscript available at https://www.law.berkeley.edu/files/Contracts_Under_Coercion_CFinkelstein_093010.pdf).

²³ See *infra* Part IV.A.

²⁴ See Grinvald, *supra* note 13, at 656-7 (discussing the problems small businesses and individuals have with accessing legal resources for intellectual property disputes).

²⁵ Recent research has shown that individuals with access to counsel fare considerably better in their civil legal disputes. See Carrie Johnson, Rights Advocates See ‘Access to Justice’ Gap in the U.S., NPR, The Two-Way (Mar. 10, 2014), <http://www.npr.org/blogs/thetwo-way/2014/03/10/288225649/rights-advocates-see-access-to-justice-gap-in-u-s> (reporting on recent research conducted by the Human Rights Clinic at Columbia Law School).

vulnerable population, this Article proposes supplemental, holistic, measures that could assist in the short-term. These proposals include greater involvement by bar associations, including the American Bar Association, through issuing a formal opinion regarding the direct applicability of the Model Rules of Professional Conduct to abusive cease-and-desist letters. In addition, this Article proposes that states' attorneys generals should more aggressively interpret their current consumer protection laws to allow them to take further action against senders of abusive cease-and-desist letters.

The remainder of this Article proceeds as follows. Part I will provide an overview of the cease-and-desist letter process and define this Article's use of the term "abusive cease-and-desist letter." In Part II, the characteristics of small businesses and individuals that lead to their susceptibility to these abusive letters will be discussed, along with an analysis of the incentives that rights holders have to send an abusive letter. In addition, Part II will also analyze the problems associated with abusive cease-and-desist letters, including philosophical concerns of coerced agreements. Part III turns to an examination of the existing mechanisms that could serve to police abusive cease-and-desist letters, including the Model Rules of Professional Conduct and recently enacted state legislation, but ultimately concludes that such mechanisms do not effectively regulate this gray area. In response, Part IV provides a number of proposals, including revised federal and/or state legislation aimed at curbing abusive cease-and-desist letters for all types of intellectual property rights. In Part V, this Article proactively addresses a number of concerns that may be raised in response to these proposals, including the concern that new legislation to combat abusive cease-and-desist letters may encourage additional litigiousness by plaintiffs' attorneys. However, Part V provides suggestions to counter these concerns, and further concludes that the problems in this area are serious enough to outweigh the concerns. This Article then briefly concludes.