

# The Trademark Reporter®

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**THE DECLARATORY JUDGMENT RESPONSE  
TO A CEASE AND DESIST LETTER:  
“FIRST-TO-FILE” OR “PROCEDURAL FENCING”?**

*By D. Peter Harvey\* and Seth I. Appel\*\**

**I. INTRODUCTION**

A trademark owner has no choice but to police its mark. If it neglects to deal with an infringer, laches may preclude it from later enforcing its rights.<sup>1</sup> Moreover, a trademark owner's failure to prevent widespread unauthorized use of its mark will cause the mark to lose significance as an identifier of source, diminishing its strength and ultimately rendering it unenforceable.<sup>2</sup>

A common practice among trademark owners is to write “cease and desist” letters to potential infringers. Typically, such letters notify the junior user of the senior user's mark and its claims of infringement and/or dilution. These letters often call for a response within a specified time period. Frequently, but not invariably, cease and desist letters conclude with a warning that if the matter cannot be resolved amicably, enforcement litigation will follow, and to that end, all rights of the senior user are reserved.

An asserted but not yet filed claim of trademark infringement clouds the legal position of the business against which it is directed. The assertion hangs over the business like the Sword of Damocles, adding to uncertainty, complicating decision-making and chilling investment. To obviate such a situation, Congress created the Declaratory Judgment Act (DJA), 228 U.S.C. §§ 2201-2202. The DJA allows a party threatened with suit to itself seek a judgment declaring the respective rights of the parties.

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1. See *E-Systems, Inc. v. Monitek, Inc.*, 720 F.2d 604, 607 (9th Cir. 1983); *H.G. Shopping Centers L.P. v. Birney*, No. H-99-0622, 2000 U.S. Dist. LEXIS 21062, at \*22 (S.D. Tex. Nov. 29, 2000).

2. See *Sweetheart Plastics, Inc. v. Detroit Forming, Inc.*, 743 F.2d 1039, 1047-48 (4th Cir. 1984); *Fort James Corp. v. Kimberly-Clark Tissue Co.*, No. 98 C 7834, 1999 U.S. Dist. LEXIS 16321, at \*11-12 (N.D. Ill. Oct. 7, 1999).

In addition to precipitating a resolution of a dispute, the party filing a declaratory action gains the advantage of selecting the forum. After all, the “first-to-file” rule generally dictates that a first-filed action proceeds while a later-filed action raising the same issues must be transferred, stayed, or dismissed. “Under the first-to-file rule, when related cases are pending before two federal courts, the court in which the case was last filed may refuse to hear it if the issues raised by the cases substantially overlap.”<sup>3</sup> The availability of the declaratory judgment remedy thus adds an element of risk for a trademark owner when sending a cease and desist letter.

A United States District Court has subject matter jurisdiction under the DJA if such a letter puts its recipient in “real and reasonable apprehension of litigation,” and if the recipient has “engaged in a course of conduct which brought it into adversarial conflict” with the trademark owner. Even if subject matter jurisdiction exists, however, acceptance of the DJA case is not automatic, but lies within the court’s discretion. Despite the first-to-file rule, courts often decline to entertain jurisdiction where the declaratory plaintiff has engaged in “procedural fencing,” such as forum shopping or anticipatory filing, or in conduct suggestive of bad faith. There is an inherent tension between the policies underlying the “anticipatory suit” exception to the first-to-file rule and the “reasonable apprehension” requirement of the DJA.

The courts have yet to develop a uniform approach to this situation. Is it possible to write a cease and desist letter that does not provide its recipient with the DJA remedy? Conversely, will a declaratory judgment action in response to a cease and desist letter necessarily always be “anticipatory” and therefore subject to dismissal? This article will examine trademark case law in an effort to identify themes and to distill common principles to guide trademark owners, litigants and the courts with respect to the following issues in this unsettled area:

1. How can a trademark owner proactively police its mark and reasonably seek to initiate a settlement dialogue, without running an unacceptable risk of being haled into court in an unfavorable jurisdiction to respond to a DJA action?
2. What conduct and what facts do courts regard as sufficient evidence of bad faith and procedural fencing to decline DJA jurisdiction?
3. How can the courts best respect and fulfill the policy aims of the DJA and the broadly recognized first-to-file rule, while encouraging settlements and neutralizing or at

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3. *Cadle Co. v. Whataburger of Alice*, 174 F.3d 599, 603 (5th Cir. 1999).

least mitigating the risk of forum shopping and “races to the courthouse” in trademark cases?

Part II looks at the history and application of the DJA in trademark disputes. It summarizes notable cases that have found subject matter jurisdiction under the DJA, those that have rejected it, and those in which courts have exercised their discretion and refused to hear cases even where subject matter jurisdiction is present. Part III attempts to answer the first two questions above and to distill general rules from the case law to help guide trademark practitioners, both when drafting cease and desist letters, and when counseling recipients of such letters. Finally, Part IV responds to the third question above with recommendations for reconciling the competing policies underlying the DJA and the first-to-file rule, and for promoting more efficient resolution of trademark disputes.

## II. THE DECLARATORY JUDGMENT ACT AND TRADEMARK CASE LAW

### A. *DJA History and Basics*

Congress enacted the DJA in 1934.<sup>4</sup> “It was the congressional intent to avoid accrual of damages to one not certain of his rights and to afford him an early adjudication without waiting until his adversary should see fit to begin suit, after damage has accrued.”<sup>5</sup> The Senate Report recognized the importance of declaratory relief:

There seems little question that in many situations in the conduct of business serious disputes occur between parties, where, if there were a possibility of obtaining a judicial declaration of rights in a formal action, much economic waste could be avoided and social peace promoted. Persons now often have to act at their peril, a danger which could be frequently avoided by the ability to sue for a declaratory judgment as to their rights or duties.<sup>6</sup>

The current DJA, adopted in 1948, is codified at 28 U.S.C. §§ 2201-02. It provides, in part:

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4. The original DJA was codified at 28 U.S.C. § 400. It provided, in part: “In cases of actual controversy the courts of the United States shall have power upon petition, declaration, complaint, or other appropriate pleadings to declare rights and other legal relations of any interested party petitioning for such declaration, whether or not further relief is or could be prayed, and such declaration shall have the force and effect of a final judgment or decree and be reviewable as such.” 28 U.S.C. § 400(1).

5. *E. Edelman & Co. v. Triple-A Specialty Co.*, 88 F.2d 852, 854 (7th Cir. 1937).

6. S. Rep. No. 1005, 73d Cong., 2d Sess., 2-3 (1934).

In 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, whether or not further relief is or could be sought. Any such declaration shall have the force and effect of a final judgment or decree and shall be reviewable as such.<sup>7</sup>

The current DJA is similar to its predecessor. Most notably, both provide for declaratory relief only where an “actual controversy” exists.

This “actual controversy” requirement is mandated by Article III of the U.S. Constitution, which limits the authority of courts to “cases” and “controversies.” Congress did not expand the power of federal courts when it enacted the DJA; nor could it have done so without a Constitutional amendment. It simply created a new procedure for resolving disputes. Thus, “an action for declaratory relief under the Act may ordinarily be brought only if subject matter jurisdiction would exist in a coercive action between the parties.”<sup>8</sup> The United States Supreme Court confirmed the constitutionality of the DJA in *Aetna Life Ins. Co. v. Haworth*.<sup>9</sup> Chief Justice Hughes explained:

In providing remedies and defining procedure in relation to cases and controversies in the constitutional sense the Congress is acting within its delegated power over the jurisdiction of the federal courts which the Congress is authorized to establish. Exercising this control of practice and procedure the Congress is not confined to traditional forms or traditional remedies. . . . In dealing with methods within its sphere of remedial action the Congress may create and improve as well as abolish or restrict.<sup>10</sup>

The Court then discussed what makes a controversy justiciable for purposes of the DJA and otherwise:

A “controversy” in this sense must be one that is appropriate for judicial determination. A justiciable controversy is thus distinguished from a difference or dispute of a hypothetical or abstract character; from one that is academic or moot. The controversy must be definite and concrete, touching the legal relations of parties having adverse legal interests. It must be a real and substantial controversy admitting of specific relief

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7. 28 U.S.C. § 2201(a).

8. *Progressive Apparel Group v. Anheuser-Busch, Inc.*, No. 95 CIV. 2794 (DLC) 1996 U.S. Dist. LEXIS 1292, at \*4 (S.D.N.Y. Feb. 8, 1996).

9. 300 U.S. 227 (1937).

10. *Id.* at 240.

through a decree of a conclusive character, as distinguished from an opinion advising what the law would be upon a hypothetical state of facts.<sup>11</sup>

Whether an “actual controversy” exists “is a matter of degree and must be determined on a case-by-case basis.”<sup>12</sup> In the trademark context, courts generally apply a two-part test to determine whether an “actual controversy” exists: the declaratory plaintiff must have a “real and reasonable apprehension of litigation,”<sup>13</sup> and it must have “engaged in a course of conduct which brought it into adversarial conflict with the declaratory defendant.”<sup>14</sup>

Declaratory relief is particularly useful in the trademark context. “[A] party who wants, for example, to embark on a marketing campaign, but has been threatened with suit over trademark infringement, can go to court under the Declaratory Judgment Act and seek a judgment that it is not infringing that trademark, thereby allowing it to proceed without the fear of incurring further loss.”<sup>15</sup> Nonetheless, as a result of the “actual controversy” requirement, a party wishing to adopt a mark may be forced to expend time and money on promotion before it is able to have a court clarify its rights. As one court observed, “[w]hile the availability of declaratory relief in intellectual property actions often enables a potential infringer to avoid economically wasteful

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11. *Id.* at 240-41 (citations omitted).

12. *Kidder, Peabody & Co. v. Maxus Energy Corp.*, 925 F.2d 556, 562 (2d Cir. 1991).

13. Courts in the Ninth Circuit often ask whether a declaratory plaintiff has a real and reasonable apprehension of *liability* as opposed to a real and reasonable apprehension of litigation. See *Chesebrough-Pond's, Inc. v. Faberge, Inc.*, 666 F.2d 393 (9th Cir. 1982) (discussed at II.B. below). These tests generally yield the same result. See, e.g., *Xerox Corp. v. Apple Computer, Inc.*, 734 F. Supp. 1542, 1546 n.6 (N.D. Cal. 1990) (“This court’s decision in the present action would be the same under either formulation.”) The Southern District of New York recently observed: “There may be situations in which a reasonable apprehension of liability exists even though the defendant has not indirectly threatened plaintiff with an infringement suit. . . . Thus, the Second and Ninth Circuit standards are not identical.” *Progressive*, 1996 U.S. Dist. LEXIS 1292, at \*8. Nonetheless, the *Progressive* court noted that it would have ruled the same way applying either standard. The Southern District of New York has elsewhere found the tests to be the same. See, e.g., *Manufacturers Hanover Corp. v. Maine Sav. Bank*, 84 CIV. 2046 (JFK), 1985 U.S. Dist. LEXIS 23580 (S.D.N.Y. Jan. 9, 1985) (discussed below).

14. *Windsurfing Int'l, Inc. v. AMF, Inc.*, 828 F.2d 755, 757-758 (Fed. Cir. 1987). *Windsurfing* and several other courts have dismissed declaratory judgment actions as a result of a plaintiff’s failure to satisfy the second prong of this test. See, e.g., *Virgin Enters., Ltd. v. Virgin Cuts, Inc.*, 53 U.S.P.Q.2d 1026, 1999 U.S. Dist. LEXIS 20321 (E.D. Va. Nov. 24, 1999); *Baltimore Luggage Co. v. Samsonite Corp.*, 727 F. Supp. 202 (D. Md. 1989). The second prong is outside the scope of this article.

15. *AmSouth Bank v. Dale*, 386 F.3d 763, 785 (6th Cir. 2004).

activity, this remedy does not allow him to avoid all potentially wasteful activity.”<sup>16</sup>

### ***B. Cases Finding Subject Matter Jurisdiction Under the DJA***

From time to time, a court belittles the “reasonable apprehension” standard to the point that it practically becomes a nullity. For example, in *Pizitz, Inc. v. Pizitz Mercantile Co.*,<sup>17</sup> the court found subject matter jurisdiction under the DJA simply because the plaintiff wished to expand its business and wanted confirmation that doing so would not interfere with the defendant’s trademark rights. The court explained that “[t]o determine whether or not there is an ‘actual controversy’ courts should make a pragmatic judgment, aware of the business realities that are involved.”<sup>18</sup> In the great majority of cases, however, courts find that a “reasonable apprehension” exists only where a declaratory defendant indicates through some sort of affirmative act that a declaratory plaintiff’s continued use of a mark may lead to an infringement action. Thus, where a trademark owner sends a cease and desist letter alleging infringement and that it will bring suit if the recipient does not immediately stop using the allegedly infringing mark, the recipient is free to seek a declaratory judgment of non-infringement. Aware of this possibility, trademark owners often use circumspect language in cease and desist letters, which forces courts to determine whether or not a “reasonable apprehension” exists.

The court loosely applied the “reasonable apprehension” test in *PHC, Inc. v. Pioneer Healthcare, Inc.*<sup>19</sup> PHC operated alcohol and substance abuse centers nationwide and owned the federally registered mark PIONEER HEALTHCARE. Pioneer Healthcare (“Pioneer”), which offered medical care services in western Massachusetts, sent PHC a letter stating that PHC’s use of the trade name “Pioneer Healthcare” violated Massachusetts law. The letter demanded that PHC stop using this trade name and that it cancel its U.S. registration. Pioneer then sent PHC a second letter threatening litigation. When PHC refused to comply with Pioneer’s demands, Pioneer filed a petition to cancel PHC’s registration with the United States Patent and Trademark Office (USPTO). Shortly thereafter, PHC filed a DJA action in the United States District

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16. *Sobini Films v. Tri-Star Pictures, Inc.*, No. CV 01-06615 ABC (RNBx), 2001 U.S. Dist. LEXIS 23509, at \*16 (C.D. Cal. Nov. 21, 2001).

17. 467 F. Supp. 1089 (N.D. Ala. 1979).

18. *Id.* at 1097 (quoting *Sherwood Med. Indus., Inc. v. Deknatel, Inc.*, 512 F.2d 724, 728 (8th Cir. 1975)).

19. 75 F.3d 75 (1st Cir. 1996).

Court for the District of Massachusetts seeking a declaratory judgment, *inter alia*, that its use of the mark PIONEER HEALTHCARE did not violate any of Pioneer's rights under Section 43(a) of the Lanham Act. The district court granted Pioneer's motion to dismiss on the ground that the court lacked subject matter jurisdiction under the DJA, but the First Circuit Court of Appeals reversed.

The First Circuit recognized that a federal court ordinarily does not have jurisdiction to issue a declaration that a declaratory plaintiff is not liable on a *state* claim.<sup>20</sup> It agreed with PHC, however, that Pioneer's letters created a "reasonable prospect" of a federal claim even though the letters had explicitly referred only to Massachusetts law.<sup>21</sup> The court explained:

If one looked solely at the letters sent by the Pioneer companies, one might be genuinely puzzled whether those letters threatened only a suit under Massachusetts law for the misuse of a corporate name or whether they implied as well an intent to resort to the Lanham Act. The only statute mentioned in the letters was "Massachusetts General Laws" and the mention was in the context of referring to PHC's use of a corporate "name." The letters did request cancellation of PHC's federal trademark, but they made no specific reference to a suit for infringement or under section 43(a).

On the other hand, the conduct of PHC, as described by the Pioneer companies' letters, could easily amount to a violation of section 43(a); the second letter alleged that PHC's alleged use was "misleading, confusing, and will result in irreparable harm"—language typical of a claim under section 43(a).<sup>22</sup>

The court noted that one of Pioneer's letters threatened to seek recovery of damages, as well as an injunction, and the Massachusetts statute protecting corporate names provides only for administrative and injunctive relief, while "[d]amages are a standard remedy under section 43(a)."<sup>23</sup> The court concluded:

In all events, the question under the case law on declaratory judgments is not whether the Pioneer companies made a specific threat to bring a section 43(a) claim or even had such a claim in mind. The federal declaratory judgment statute aims at resolving potential disputes, often commercial in character, that can reasonably be feared by a potential target in light of the other side's conduct. No competent lawyer

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20. *Id.* at 78.

21. *Id.* at 78-79.

22. *Id.* at 79.

23. *Id.*

advising PHC could fail to tell it that, based on the threatening letters and the surrounding circumstances, a section 43(a) suit was a likely outcome.<sup>24</sup>

The First Circuit was not concerned with PHC's motives: "Quite likely PHC had tactical advantages in mind in bringing the declaratory judgment action. But, absent a showing of bad faith so substantial as to foreclose equitable relief, its subjective aims do not matter."<sup>25</sup>

In *Manufacturers Hanover Corp. v. Maine Sav. Bank*,<sup>26</sup> the court also loosely interpreted the "reasonable apprehension" requirement. Maine Savings Bank (MSB) claimed to own the rights to THE ONE, ONE MONEY and other "ONE-containing" marks. MSB learned that Manufacturers Hanover planned to use the mark FINANCE ONE on brochures and other advertising. It wrote Manufacturers Hanover that MSB feared the latter's use of the mark might create a likelihood of confusion with MSB's marks. In the letter, MSB stated that (in the court's own words) "it wanted to talk about [Manufacturers Hanover's] use of the mark and resolve the matter informally."<sup>27</sup> MSB also wrote that (again, in the court's own words) "because of the value o[f] its marks it followed an 'aggressive' policy designed to prevent similar use by other financial institutions and this occasionally required the initiation of formal legal proceedings."<sup>28</sup> Manufacturers Hanover responded with a letter maintaining that confusion was not likely and that MSB could not monopolize the word ONE. Soon thereafter, Manufacturers Hanover filed an application to register the FINANCE ONE mark, and MSB filed an opposition. Manufacturers Hanover then brought suit in the United States District Court for the Southern District of New York seeking a declaratory judgment that it did not infringe MSB's trademark rights. The court denied MSB's motion to dismiss the action based upon a lack of subject matter jurisdiction.

The court, guided by *Chesebrough-Pond's, Inc. v. Faberge, Inc.*<sup>29</sup> (discussed below) and patent cases such as *Nippon Electric v. Sheldon*,<sup>30</sup> noted that "the actual controversy requirement should be liberally construed."<sup>31</sup> It found that Manufacturers Hanover reasonably feared an infringement action:

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24. *Id.* (citation omitted).

25. *Id.*

26. 84 CIV. 2046 (JFK), 1985 U.S. Dist. LEXIS 23580 (S.D.N.Y. Jan. 9, 1985).

27. *Id.* at \*4.

28. *Id.* at \*4-5.

29. 666 F.2d 393 (9th Cir. 1982).

30. 489 F. Supp. 119 (S.D.N.Y. 1980).

31. *Manufacturers Hanover*, 1985 U.S. Dist. LEXIS 23580, at \*4.

In view of the content of MSB's July 1982 letter, MHC's seemingly real fear of litigation appears reasonable. MSB's reference to the "aggressive" policy pursued in protecting its mark and MSB's willingness to initiate formal legal proceedings as part of this policy can surely be construed as a threat to institute an infringement action.<sup>32</sup>

The court added that MSB's opposition to Manufacturers Hanover's registration application, "while not conclusive evidence of an intent to sue, is certainly probative evidence of such an intent."<sup>33</sup>

In *Healthnet, Inc. v. Health Net, Inc.*,<sup>34</sup> the court likewise determined that it had subject matter jurisdiction under the DJA. Health Net, Inc. (HNT) owned a federal registration for the mark HEALTHNET. In August 1999, HNT sent a letter to HealthNet, Inc. ("HealthNet") stating that HealthNet's use of "Healthnet" was likely to cause confusion with HNT's federally registered mark. HealthNet responded with a letter contending that the companies' services were distinct and that it had acquired its own rights to the "Healthnet" trade name and mark. In December 2000, HNT sent HealthNet another cease and desist letter. HealthNet responded that it had already addressed HNT's claim in HealthNet's previous letter and that (in the court's own words) "it considered the issues resolved and the matter closed."<sup>35</sup> In May 2001, HNT sent HealthNet a third letter stating the following:

Your client's continued use of "HEALTH NET AEROMEDICAL SERVICES" and any other marks or names that incorporate our client's HEALTH NET mark, or any confusingly similar variation thereof, is at your client's own peril. Indeed, if Health Net brings a lawsuit against your client to enforce its rights in the HEALTH NET mark, the courts will consider your client to be a deliberate and willful infringer. . . . Your client has no reasonable basis why it should not agree to comply with Health Net's requests to cease and permanently refrain from future use of "HEALTH NET AEROMEDICAL SERVICES" and its variations.<sup>36</sup>

In response, HealthNet filed a complaint in the United States District Court for the Southern District of West Virginia seeking a declaration, *inter alia*, that its use of the term "HealthNet" did not constitute infringement or unfair competition vis-à-vis HNT's

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32. *Id.* at \*6.

33. *Id.*

34. No. 2:01-0835, 2003 U.S. Dist. LEXIS 139 (S.D. W. Va. Jan. 7, 2003).

35. *Id.* at \*6.

36. *Id.* at \*5.

mark. HNT counterclaimed for infringement, dilution, and unfair competition. The court denied both parties' motions for summary judgment.

The court found that HealthNet had a real and reasonable apprehension of litigation when it filed suit. It was unmoved by HNT's contention that "it did not 'directly' threaten suit," but "merely advised [HealthNet] that its continued use of 'Healthnet' was at HealthNet's peril."<sup>37</sup> The court explained:

HealthNet, however, points to the fact that HNT sent it three separate cease-and-desist letters maintaining the exact same position—that HealthNet infringed upon HNT's rights. These letters stated a prima facie case for trademark infringement in that they alleged HNT's ownership of a registered mark and HealthNet's use in commerce of a mark so similar to HNT's that it was likely to cause confusion. As the "likelihood of confusion" standard is relevant to infringement proceedings, it was reasonable for HealthNet to infer from HNT's letters a threat of litigation.<sup>38</sup>

The court added that HNT's decision to file counterclaims (rather than disclaiming its intent to pursue an infringement action) "only strengthens" HealthNet's claim that it had a real and reasonable apprehension of litigation.<sup>39</sup>

*Chesebrough-Pond's, Inc. v. Faberge, Inc.*<sup>40</sup> continues to be frequently cited in courts throughout the country. Chesebrough filed an application to register the mark MATCH for men's toiletries and cosmetics and then began developing its product line and advertising. Faberge, however, believed that it had previously acquired the registered trademark MACHO from another company. Faberge sent Chesebrough a letter stating that the marks were "confusingly similar," and that it would file an opposition to Chesebrough's application if Chesebrough did not withdraw it. True to its word, Faberge filed an opposition. In response, Chesebrough filed an answer and a petition to cancel the MACHO registration. Chesebrough then brought suit in the United States District Court for the Central District of California seeking a declaratory judgment that its use of MATCH would not infringe Faberge's MACHO mark. Faberge filed counterclaims for trademark infringement and unfair competition. The district court granted summary judgment in favor of Chesebrough, and the Ninth Circuit Court of Appeals affirmed.

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37. *Id.* at \*11.

38. *Id.* (citation omitted).

39. *Id.* at \*13.

40. 666 F.2d 393 (9th Cir. 1982).

The Ninth Circuit rejected Faberge's argument that the district court lacked subject matter jurisdiction because it found that Faberge's letter created a "real and reasonable apprehension" that Chesebrough would be subject to liability.<sup>41</sup> The court embraced "a flexible approach that is oriented to the reasonable perceptions of the plaintiff."<sup>42</sup> It explained:

The letter sent by Faberge to Chesebrough declaring its intent to file opposition proceedings, stated a prima facie case for trademark infringement, as outlined in 15 U.S.C. § 1114(1). It alleged Faberge's ownership of a registered mark and Chesebrough's use in commerce of a mark so similar to Faberge's that it was likely to cause confusion. The "likelihood of confusion" standard is relevant to both registration and infringement proceedings. It was reasonable to infer from Faberge's letter a threat of an infringement action. Faberge did not act to dispel such an inference. It did not disclaim an intent to pursue an infringement action, but, in fact, responded to Chesebrough's complaint with a counterclaim seeking damages for infringement. The actual filing of a counterclaim for infringement bolsters Chesebrough's claim that a real threat existed.<sup>43</sup>

The court considered Chesebrough's perception in light of the parties' business relationship and the realities of the marketplace.

The market for men's cosmetics is expanding and highly competitive. The practical effect of the attenuated opposition proceeding before the Patent and Trademark Office was to allow expanded marketing of the "Macho" line, while chilling Chesebrough's efforts to market "Match" products. The threat that the action would move from the Patent and Trademark Office to the district court apparently was real enough to dissuade Chesebrough from further use of its mark, although it had made substantial investments in development and preliminary advertising of the line. Furthermore, a decision of the Patent and Trademark Office allowing the registration of Chesebrough's trademark would not preclude a subsequent infringement action or be determinative of the issues involved. Failure of this court to resolve the dispute would force Chesebrough to choose between continuing to forego competition in this quickly expanding market, and entering

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41. *Id.* at 396.

42. *Id.*

43. *Id.* at 396-97 (citations omitted).

the market, risking substantial future damages and harm to relationships with its customers and retailers.<sup>44</sup>

Thus, the court concluded that “although there was no actual threat by Faberge that it would sue Chesebrough for trademark infringement, Chesebrough had a real and reasonable apprehension that such action would be taken.”<sup>45</sup>

### *C. Cases Finding No Subject Matter Jurisdiction Under the DJA*

Despite the language in *Chesebrough* concerning Faberge’s opposition, it is clear that an opposition alone is not sufficient to invoke the DJA. As one court has put it, “[i]f there is a polestar to this inquiry, it is that a party cannot claim to have acquired a reasonable apprehension of litigation merely because the defendant commenced an opposition proceeding in the Patent and Trademark Office.”<sup>46</sup> In *Circuit City v. Speedy Car-X*, the court found that a declaratory defendant’s opposition (and letter threatening opposition) “at most, gave the plaintiffs a real and reasonable apprehension of drawn-out warfare in the trenches of the PTO . . . [which], of course, is an insufficient basis for a declaratory judgment.”<sup>47</sup> Cases reaching a similar conclusion include: *Red Lobster Inns, Inc. v. New England Oyster House, Inc.*,<sup>48</sup> in which “the opposition proceedings before the United States Patent Office did not constitute a claim of infringement and therefore did not present an actual controversy as required by the Declaratory Judgment Act. . . .”; *Kosmeo Cosmetics v. Lancome Parfums et Beaute & Cie*,<sup>49</sup> in which the court found that “[a]n opposition proceeding cannot serve as the basis for reasonable apprehension of an infringement suit”; and *Acme Feed Mills, Inc. v. Quaker Oats Co.*,<sup>50</sup> in which the court determined that “[a] notice of opposition to an application to register trademarks does not constitute a charge of trademark infringement since it relates only to the right to register the trademark.”

Even an opposition in conjunction with a carefully worded letter may not be enough to create a “reasonable apprehension” and invoke subject matter jurisdiction under the DJA. In such a

44. *Id.* at 397 (citations omitted).

45. *Id.*

46. *Circuit City Stores v. Speedy Car-X*, No. 3:94-CV-712, 1995 U.S. Dist. LEXIS 6515, at \*10 (E.D. Va. Mar. 27, 1995).

47. *Id.* at \*15.

48. 524 F.2d 968, 969 (5th Cir. 1975).

49. No. 4:96-CV-70, 1996 U.S. Dist. LEXIS 21770, at \*6 (E.D. Tex. 1996).

50. 313 F. Supp. 1156, 1158 (M.D.N.C. 1970).

situation, the court dismissed a declaratory judgment action concerning non-infringement of the mark ACADIA in *Progressive Apparel Group v. Anheuser-Busch, Inc.*<sup>51</sup> Progressive filed an ITU application to register the mark ACADIA and began marketing clothing under this mark a few months later. Anheuser-Busch's predecessor in interest had sold T-shirts and sweatshirts bearing the marks ACADIA and ACADIA BREWING COMPANY prior to the filing date of Progressive's application. Anheuser-Busch (seeking to register these marks) sent a letter to Progressive requesting that it abandon its application. The letter stated that "given the identity of the parties' marks, the overlapping and related nature of the goods and the absence of any restrictions on the channels of trade, purchase conditions or class of purchasers in [Progressive's] application, confusion is inevitable."<sup>52</sup> The parties engaged in settlement discussions for several months without reaching an agreement. Anheuser-Busch eventually filed an opposition to Progressive's application. Progressive then filed a declaratory judgment action in the United States District Court for the Southern District of New York. The court granted Anheuser-Busch's motion to dismiss for lack of subject matter jurisdiction.

The court explained that "a justiciable controversy exists if the defendant has charged the plaintiff with infringement, or has threatened the plaintiff with an infringement suit either directly or indirectly."<sup>53</sup> There was no dispute that Anheuser-Busch had not directly threatened an infringement suit. The court found that it also had not made such a threat indirectly.<sup>54</sup> Anheuser-Busch's letter stating that confusion between the marks was inevitable was insufficient to invoke the DJA, the court determined. After all, reasoned the court, the "likelihood of confusion" standard is not only relevant to infringement suits, it is also a ground upon which the USPTO may refuse registration.

Thus, defendant's assertion that confusion between the two marks was inevitable does not, without more, constitute an indirect threat of an infringement suit. This conclusion is reinforced by the fact that the statement was made in a letter explicitly addressed to the defendant's request that plaintiff abandon its application to register its mark.<sup>55</sup>

The fact that Anheuser-Busch sought in negotiations to limit Progressive's use of the mark (and not just to prevent its

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51. No. 95 CIV. 2794 (DLC), 1996 U.S. Dist. LEXIS 1292 (S.D.N.Y. February 8, 1996).

52. *Id.* at \*3.

53. *Id.* at \*6 (quoting *Muller v. Olin Mathieson Chem. Corp.*, 404 F.2d 501, 504 (2d Cir. 1968)).

54. *Id.*

55. *Id.* at \*6-7.

registration) did not constitute an indirect threat of an infringement suit, either. “Seeking to obtain a concession in negotiations is a far cry from threatening to bring a coercive lawsuit to obtain the desired result.”<sup>56</sup> Thus, the court concluded that “[t]he present dispute concerns only the registration of a trademark,” and “[t]he appropriate resolution of the only concrete dispute between the parties is a matter for Trademark Trial and Appeal Board.”<sup>57</sup>

In *Dunn Computer Corp. v. Loudcloud, Inc.*,<sup>58</sup> the court held that a single cease and desist letter, which did not include an explicit threat to sue, was not sufficient to invoke the DJA. Loudcloud launched its business in September 1999 to provide e-businesses with high-performance website infrastructuring services. It subsequently filed trademark registration applications for numerous marks that included the word “cloud,” including LOUDCLOUD, SECURITY CLOUD, and CONTENT CLOUD. In March 2000, Dunn decided to change its name to Steelcloud, Inc., and it filed an ITU application to register the mark STEELCLOUD. It started doing business under that trade name in October 2000. Shortly thereafter, Loudcloud’s attorney sent to Dunn a letter stating the following:

It has come to our attention that your company recently began using the trademark STEELCLOUD for services similar to those of Loudcloud, which you market to the same class of customers as Loudcloud. . . . Your company competes directly with Loudcloud in providing packaged back-end services for businesses engaged in e-commerce, including the provision of hardware, software, systems analysis and expert consultation services. . . .

The STEELCLOUD mark is confusingly similar to LOUDCLOUD. In addition to the identical “CLOUD” portion, “LOUD” and “STEEL” both connote power and strength. . . . Consequently, your company’s adoption of STEELCLOUD is likely to cause confusion in the marketplace and therefore constitutes a violation of our client’s rights in its trademark LOUDCLOUD.

In short, your adoption of STEELCLOUD is likely to confuse the public and dilute the strength of the LOUDCLOUD mark; it is thus a violation of Loudcloud’s rights under federal and state trademark and unfair competition laws. We therefore demand that your company immediately:

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56. *Id.* at \*9-10.

57. *Id.* at \*10.

58. 133 F. Supp. 2d 823 (E.D. Va. 2001).

1. Cease and desist all use of the trade name, company name and trademark STEELCLOUD . . . ;
2. Cease and desist all use of the Internet domain name “steelcloud.com” . . . and assign any such domain names to Loudcloud;
3. Publish . . . a corrective notice, and issue a press release, stating that neither your company, nor its products or services, are in any way affiliated with, sponsored or endorsed by Loudcloud, Inc., and that you have ceased all use of the STEELCLOUD mark.

Our client considers protection of its intellectual property to be a critical part of its business. It has already successfully persuaded the owners of the marks THUNDERCLOUD and LAUNCHCLOUD to change their names. We hope you will amicably agree to do the same.

We look forward to your response on or before October 27, 2000, indicating your compliance with the demands of this letter.<sup>59</sup>

Without responding to this letter, Dunn brought suit in the United States District Court for the Eastern District of Virginia seeking declaratory judgment that its use of the term “Steelcloud” did not infringe or dilute any of Loudcloud’s marks. The court granted Loudcloud’s motion to dismiss.

According to the court, “while direct evidence of threatening contacts initiated by the defendant or a background of litigation between the parties is strong evidence of a reasonable apprehension of litigation, an objectively reasonable apprehension of imminent litigation must be determined from the totality of the circumstances.”<sup>60</sup> The court concluded that Loudcloud’s conduct in this case did not establish an objectively reasonable apprehension of imminent litigation. It explained:

Simply put, one cease and desist letter does not a case or controversy make where, as here, that letter invites negotiation, but does not explicitly threaten litigation, and was defendant’s sole act directed at plaintiff. These meager facts fall short of the constitutional case or controversy threshold. More is required.<sup>61</sup>

The court cited *Chesebrough*, *Manufacturers Hanover*, and *Progressive* as examples of cases where “something more” was involved.

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59. *Id.* at 825-26.

60. *Id.* at 826.

61. *Id.* at 827.

The court was unmoved by Loudcloud's efforts with regard to third parties:

The defense of its trademark consists of similar cease-and-desist letters sent to four other putative infringers of defendant's trademark. Settlements prior to litigation resulted in three of the four cases. In the fourth instance, negotiations took place but resulted in an impasse, which was then followed by litigation initiated by defendant. None of this activity—the negotiations, the three settlements, or the one instance of litigation—involved actions directed at plaintiff. And, typically, conduct by the defendant not directed at the plaintiff will not form the basis of a case or controversy. This is especially so in the case at bar, where, at best, the facts reflect that defendant resorts to litigation to protect its trademarks only after it determines that the dispute cannot be resolved without litigation.<sup>62</sup>

The court also applied the reasonable apprehension test narrowly in *Trippe Manufacturing Co. v. American Power Conservation Corp.*<sup>63</sup> American Power Conservation (APC) owned the registered marks BACK-UPS and SMART-UPS. After seeing a Trippe advertisement, APC sent Trippe a letter contending that its use of the term "Backups" infringed APC's BACK-UPS mark and requesting that it cease such infringement. Trippe replied with a letter stating that "there is no such danger of misunderstanding on the part of consumers, and no violation of a valid trademark." APC did not respond to this letter. Seven months later, Trippe filed a petition to cancel APC's BACK-UPS registration. APC's answer contained no further accusations of infringement.

Eight months after filing the petition for cancellation, Trippe filed a complaint in the United States District Court for the Northern District of Illinois, seeking, *inter alia*, a declaratory judgment of non-infringement of APC's BACK-UPS mark. APC then filed a complaint against Trippe in the United States District Court for the District of Rhode Island for infringement of APC's SMART-UPS mark. Shortly thereafter, Trippe filed its First Amended Complaint in the Illinois action, seeking, *inter alia*, a declaratory judgment of non-infringement of APC's BACK-UPS (Count I) and SMART-UPS (Count II) marks. The court dismissed both counts. It dismissed Count I for lack of a case or controversy;

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62. *Id.* at 828-29 (footnote omitted).

63. 46 F.3d 624 (7th Cir. 1995).

and it dismissed Count II in order to “discourage duplicative litigation.”<sup>64</sup> The Seventh Circuit Court of Appeals affirmed.

Regarding subject matter jurisdiction under the DJA, the Seventh Circuit explained that “[t]he focus of the inquiry must rest on the defendant’s statements and conduct since an ‘apprehension alone, if not inspired by defendant’s actions, does not give rise to an actual controversy.’”<sup>65</sup> The court added that the determination should be applied to the facts existing at the time the complaint is filed.<sup>66</sup> The court reasoned:

In determining whether or not a case or controversy existed at the time Trippe filed its initial complaint . . . we consider as relevant APC’s . . . letter which stated that Trippe’s use of the term “backups” was a direct infringement of APC’s trademark and APC’s answer in the trademark cancellation proceedings. Trippe cannot point to any threatened legal action by APC, and the totality of the circumstances does not reasonably suggest that suit against Trippe was imminent as of the filing of Trippe’s complaint. . . .

Trippe answered APC’s letter by categorically denying any infringement. APC did not respond to Trippe’s denial and did not further accuse Trippe of infringement. Trippe’s response to APC’s letter does not evidence a reasonable apprehension on Trippe’s part that it would face suit or the threat of suit if it continued in the questioned activity.<sup>67</sup>

Thus, APC’s letter was not sufficient to invoke the DJA.<sup>68</sup>

#### ***D. Cases Involving Discretion Under the DJA***

The cases discussed above all address whether or not a federal court has subject matter jurisdiction to grant declaratory relief. But even where a real and reasonable apprehension exists, such that a court has jurisdiction, the court does not have to hear a declaratory judgment action. The DJA provides that in a case of actual controversy, a court “*may* declare the rights and other legal relations of any interested party seeking such declaration.”<sup>69</sup> “The

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64. *Trippe* is also notable for its application of the *Tempco* rule, discussed below. *Id.* at 629 (“[T]he mere fact that Trippe first filed the action in Illinois does not give it an absolute right to choose the forum in which the question of venue should be decided.”).

65. *Id.* at 627 (quoting *International Harvester Co. v. Deere & Co.*, 623 F.2d 1207, 1211 (7th Cir. 1980)).

66. *Id.*

67. *Id.* at 627.

68. Even had a controversy existed at the time Trippe filed suit, “APC’s later concession of fair usage of the word ‘backups’ by Trippe is a ‘prudential reason’ for which the district court may properly deny declaratory relief.” *Trippe*, 46 F.3d at 627.

69. 28 U.S.C. § 2201(a) (emphasis added).

Declaratory Judgment Act is an enabling Act, which confers a discretion on the courts rather than an absolute right upon the litigant.<sup>70</sup> Furthermore, a court's decision to hear a declaratory judgment action may constitute an *abuse* of discretion.

Thus, in *Dunn v. Loudcloud*,<sup>71</sup> discussed above, the court noted that even if a sufficient case or controversy had existed for the court to exercise jurisdiction, it would have declined to do so. The court explained:

First, this action is premature; it “raise[s] the sword of litigation . . . when other avenues for resolution of the dispute” are available. The Act's purposes are better served by encouraging parties to attempt resolution of disputes prior to initiating litigation, and, therefore, in the circumstances at bar, the exercise of jurisdiction runs counter to the policy of (i) encouraging settlement of disputes prior to litigation and (ii) preventing parties from using declaratory judgment actions as a tool to strengthen a negotiation position or to preempt claimant's choice of forum. Simply put, district courts should not exercise their discretionary declaratory judgment jurisdiction in ways that encourage races to the courthouse and discourage settlement.<sup>72</sup>

The court concluded that “[r]ather than hastily filing suit, plaintiff, like the other recipients of defendant's letters, should have responded to the letter's request for negotiation by contacting defendant and attempting to resolve the matter.”<sup>73</sup>

The Circuit Courts of Appeal have adopted multi-factor tests to determine whether trial courts should exercise discretion pursuant to the DJA generally.<sup>74</sup> The Sixth Circuit, for example, applies the following five-factor test:

- (1) whether the judgment would settle the controversy;
- (2) whether the declaratory judgment action would serve a useful purpose in clarifying the legal relations at issue;
- (3) whether the declaratory remedy is being used merely for the purpose of “procedural fencing” or “to provide an arena for a race for *res judicata*”;

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70. *AmSouth v. Dale*, 386 F.3d 763, 784 (6th Cir. 2004) (citations and internal quotation marks omitted).

71. 133 F. Supp. 2d 823.

72. *Id.* at 829-30 (citations and footnotes omitted).

73. *Id.* at 830.

74. *See, e.g., Continental Casualty Co. v. Fuscardo*, 35 F.3d 963 (4th Cir. 1994); *St. Paul Ins. Co. v. Trejo*, 39 F.3d 585 (5th Cir. 1994).

- (4) whether the use of a declaratory action would increase the friction between our federal and state courts and improperly encroach on state jurisdiction; and
- (5) whether there is an alternative remedy that is better or more effective.<sup>75</sup>

Courts considering whether to hear a DJA action concerning non-infringement often focus on the third factor: whether or not the declaratory plaintiff has engaged in procedural fencing.<sup>76</sup> Procedural fencing includes forum shopping and anticipatory filing, and it often involves bad faith.

*Zide Sport Shop of Ohio, Inc. v. Ed Tobergte Assocs.*<sup>77</sup> is illustrative. In November 1998, Zide received a letter from Ed Tobergte Associates' (ETA) counsel accusing Zide of trademark infringement and of breaching agreements made with Gear 2000 concerning rights to the Air Release shoulder pad. Over the next few months, the parties engaged in settlement discussions. On February 25, 1999, Gear 2000 sent a letter to Zide stating that "it would file suit if [it] did not receive a serious settlement offer within seven days." Zide then obtained new counsel who requested an extension so that he could review the matter and respond to Gear 2000's letter. Gear 2000 granted the extension. On March 25, one day before the extension expired, Zide filed an action against ETA and others in the United States District Court for the

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75. See *AmSouth*, 386 F.3d at 785; *Grand Trunk Western R. R. Co. v. Consolidated Rail Corp.*, 746 F.2d 323, 326 (6th Cir. 1984). The Seventh and Tenth Circuits have also embraced this five-factor test. *Nucor Corp. v. Aceros Y Maquilas de Occidente, S.A. de C.V.*, 28 F.3d 572, 597 (7th Cir. 1994); *State Farm Fire & Casualty Co. v. Mhoon*, 31 F.3d 979, 983 (10th Cir. 1994).

76. The fourth factor in the Fourth Circuit's four-part test is "whether the federal action is being used merely as a device for 'procedural fencing,' i.e., to provide another forum in a race for *res judicata*." *Continental Casualty*, 35 F.3d at 966. Likewise, the fourth factor in the Fifth Circuit's six-part test is "whether possible inequities in allowing the declaratory plaintiff to gain precedence in time or to change forums exist." *St. Paul Ins. Co.*, 39 F.3d at 591.

77. 16 Fed. Appx. 433 (6th Cir. 2001) (not recommended for full-text citation). The Tenth Circuit also applied the five-factor test in the trademark context in an unpublished decision. *Buzas Baseball, Inc. v. Board of Regents*, 1999 Colo. J. C.A.R. 5183 (10th Cir. 1999). The declaratory plaintiff in that case operated a minor league baseball team, the Salt Lake Buzz; this team used a bee as its logo. The Georgia Institute of Technology uses a yellow jacket named "Buzz" as its mascot and owned the registered trademark BUZZ. After Georgia Tech complained about Buzas's use of its name and logo, the parties entered into negotiations; at one point, they agreed that Buzas would discontinue using Buzz as its name and logo at the end of the 1998 season. Before the season started, Georgia Tech sent Buzas a written settlement proposal. Buzas never informed Georgia Tech that the proposal was unacceptable. Instead, eleven days later, Buzas filed this action in the District of Utah seeking a declaratory judgment of non-infringement. Three weeks later, Georgia Tech filed suit for infringement in Georgia. The district court dismissed Buzas's action, and the Tenth Circuit affirmed. Both courts focused on the third factor and concluded that Buzas filed its action in anticipation of the Georgia lawsuit.

Southern District of Ohio seeking declaratory relief. Zide did not serve the defendants, however. Instead, Zide sent the defendants a letter, dated March 26, listing reasons why it had no liability. The letter did not mention the federal action filed the previous day.

On May 11, ETA filed suit against Zide and others in the United States District Court for the District of Kansas, alleging, *inter alia*, trademark infringement. ETA served Zide the same day. On July 1, Zide filed an amended complaint in the Southern District of Ohio, and the following day, it served on the defendants the original and the amended complaints. The district court dismissed Zide's action and the Sixth Circuit Court of Appeals affirmed.

The Sixth Circuit recognized the first-to-file rule but made clear that it did not always apply. "District courts have the discretion to dispense with the first-to-file rule where equity so demands."<sup>78</sup> The court found that Zide had exhibited bad faith and procedural fencing by secretly filing its complaint while continuing settlement discussions. It quoted the district court:

If Plaintiffs' conduct was not mere deceptive gamesmanship, then they would have informed Defendants that they did not intend to make another settlement offer and would prefer to seek a judicial resolution. If it was not gamesmanship, Plaintiffs would not have filed suit in this Court during the extension period they requested for their new counsel. If it was not gamesmanship, they would have informed Defendants in the March 26, 1999 letter that they had filed suit.<sup>79</sup>

Thus, the Sixth Circuit concluded that the district court had subject matter jurisdiction under the DJA, but it appropriately had refused to exercise its discretion to hear the case.

Similarly, the court had no trouble departing from the first-to-file rule in *Plymouth Press v. Klutz, Inc.*<sup>80</sup> Klutz was the publisher of a particular type of book kit. Klutz's books generally contained instructions (*e.g.*, how to juggle) with a mesh bag tied to the upper left hand corner of the book containing the subject matter items (*e.g.*, juggling cubes) for the reader to use while reading the book. After Klutz discovered that Plymouth was selling a coloring book with a box of crayons attached in a bag tied to the upper left hand corner of the book, Klutz sent a cease and desist letter to Plymouth. Thirteen days later, on August 20, 1996, Plymouth filed suit seeking declaratory relief of non-infringement in the United States District Court for the Eastern District of Michigan. Plymouth then sent Klutz a letter stating that Plymouth was in

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78. *Id.* at 437.

79. *Id.* at 438.

80. No. 96-CV-73925-DT, 1997 U.S. Dist. LEXIS 12185 (E.D. Mich. June 24, 1997).

the process of obtaining the file histories for the trademarks in question. Plymouth mentioned its belief that “we can work out a resolution of this incipient dispute.” During the following months, the parties exchanged several letters and telephone calls. Klutz eventually concluded that there was no chance of settlement and brought suit for trademark infringement in the United States District Court for the Northern District of California on December 6. Five days later, Plymouth served Klutz with its Second Amended Complaint in the Michigan action. This was the first time Plymouth had informed Klutz of the suit. The court granted Klutz’s motion to dismiss.

The court explained that exceptions to the first-to-file rule are “not rare,” and are made “when justice or expediency requires.”<sup>81</sup> “The critical issue appears to be whether the plaintiff in the earlier-filed declaratory action misled the defendant into believing that their dispute could be resolved amicably so that the plaintiff could win the race to the courthouse and therefore choose the forum for the dispute.”<sup>82</sup> The court determined that Plymouth had engaged in “procedural fencing” by failing to notify Klutz that it had filed the action and by misleading Klutz into believing that their dispute could be resolved amicably.<sup>83</sup> “Involved in the instant case was a race to the courthouse, Plaintiff failing to notify Defendant that the race had begun in August 1996.”<sup>84</sup>

By contrast, the court in *Plough, Inc. v. Allergan, Inc.*<sup>85</sup> applied the five-factor test and found that a first-filed declaratory judgment action was proper. Plough sold sun block under the mark SHADE. Allergan sold sun block under the mark PHOTOPLEX. Allergan wrote a letter to Plough claiming that Plough’s promotion and marketing of SHADE was false and misleading and in violation of Section 43 of the Lanham Act. Allergan stated that “if Plough did not cease promoting SHADE, Allergan would give serious consideration to the legal remedies available.” Approximately nine days later, Plough brought suit in the United States District Court for the Western District of Tennessee seeking a declaratory judgment that it had not violated Section 43. Fifteen days later, Allergan filed suit in the United States District Court for the Central District of California. Allergan then moved to either dismiss Plough’s action or transfer it to the Central District of California. The Tennessee court denied Allergan’s motion.

The Tennessee court analyzed the third factor as follows:

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81. *Id.* at \*5.

82. *Id.* at \*6.

83. *Id.* at \*6-7.

84. *Id.* at \*7.

85. 741 F. Supp. 144 (W.D. Tenn. 1990).

This Court is not persuaded that Plough has used the declaratory action as a means of “procedural fencing” or as “an arena for a race for *res judicata*.” The complaint alleges that Plough was threatened with litigation by Allergan if it did not cease promotion of SHADE. Plough merely filed suit in order to have a determination from a federal court as to whether its actions were lawful. There is no allegation that Plough coaxed Allergan into delaying to file suit so that Plough could file first and choose its forum. In this day and age, a party who threatens to file suit in order to obtain a concession, but delays, acts at the risk that the threatened party will be the first to file. Absent special circumstances, when there are two competing lawsuits, the first filed has priority.<sup>86</sup>

The court concluded that “because Plough’s action was the first filed and not improperly, Allergan is not entitled to expect that its preference for venue of trial will be honored.”<sup>87</sup>

Turning to other Circuits, the court granted Ford’s motion to dismiss Obsolete’s declaratory judgment action as a result of Obsolete’s procedural fencing in *Obsolete Ford Parts v. Ford Motor Co.*<sup>88</sup> Ford sent Obsolete a letter threatening suit if Obsolete did not cease use of certain marks by September 22, 2003. Obsolete responded by denying any misconduct and requesting additional time to research the issue; it also provided certain documentation to Ford that it believed supported its continued use of the marks. Obsolete repeatedly reiterated its request for additional time to investigate Ford’s charges. At some point in October, the parties discussed a second letter that Ford planned to send documenting its position and confirming its intention to sue if Obsolete failed to comply with its demands. Obsolete filed this DJA action in the United States District Court for the Western District of Oklahoma on October 31. Ford, who was unaware of the Oklahoma action until November 13, filed suit in Michigan on November 10. The Oklahoma court dismissed Obsolete’s action.

The Oklahoma court pointed out that as late as October 27, 2003, two days before deciding to sue, Obsolete requested additional time to review its files. “This request is in sharp contrast to Plaintiff’s claims that the unresolved dispute was damaging its business.”<sup>89</sup> The court explained:

[Obsolete] was not caught in a web of extended and unending uncertainty necessitating a judicial determination of its

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86. *Id.* at 147 (citing *William Gluckin & Co. v. International Playtex Corp.*, 407 F.2d 177 (2d Cir. 1969)).

87. *Id.*

88. 306 F. Supp. 2d 1154 (W.D. Okla. 2004).

89. *Id.* at 1157.

rights. The parties negotiated less than two months before the dispute was brought to the courts. Although Plaintiff requested a “conclusion letter” from Defendant in late September (exonerating Plaintiff) and was awaiting a second, more substantive demand letter in late October, Plaintiff also was attempting to stall Defendant’s suit by requesting additional time to locate more persuasive support for its views. Under the circumstances, the Court cannot help but interpret Plaintiff’s actions as the kind of procedural fencing that courts condemn. Because Plaintiff’s use of the declaratory judgment action unfairly deprives the natural plaintiff of its choice of forum, Defendant’s motion is granted.<sup>90</sup>

The court also departed from the first-to-file rule in *Bausch & Lomb, Inc. v. Alcide Corp.*<sup>91</sup> In November 1986, Alcide obtained a federal registration for the mark RENNEW for use on a disinfectant solution. The following month, Bausch & Lomb began marketing an enzymatic contact lens cleaning solution under the trade name “ReNu.” Alcide contacted Bausch & Lomb to express its concern. Bausch & Lomb pointed out that the USPTO classifies enzymatic cleaning solutions differently from disinfecting solutions, and that the parties cater to different markets. In June 1987, Bausch & Lomb introduced two new contact lens products under the trade name ReNu, including a disinfecting solution. “In July and August of 1987, the parties engaged in a series of telephone calls, letter correspondence and at least one meeting regarding Bausch & Lomb’s use of the name ‘ReNu’ on its disinfectant solution and Alcide’s claim of infringement on its ‘RenNew’ disinfectant solution.”<sup>92</sup>

On August 28, 1987, Alcide sent a letter to Bausch & Lomb stating the following:

As we understand it, your ReNu disinfectant will be coming out shortly, and we must resolve our differences promptly. I sincerely hope that you will reconsider your position before the close of business on Thursday, September 3, 1987; otherwise Alcide Corporation will have no choice but to file a complaint seeking a preliminary injunction and other relief to protect its rights and its registered trademark RenNew Disinfectant.

Six days later, Bausch & Lomb filed suit for declaratory relief in the United States District Court for the Western District of New York. Alcide promptly filed its action for trademark infringement in the United States District Court for the District of Connecticut.

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90. *Id.* at 1158.

91. 684 F. Supp. 1155 (W.D.N.Y. 1987).

92. *Id.* at 1157-58.

The New York court denied Bausch & Lomb's motion for a preliminary injunction enjoining Alcide from prosecuting the Connecticut action any further. It granted Alcide motion to transfer the New York case to the District of Connecticut. It explained that "the first suit should have priority, 'absent the showing of a balance of convenience in favor of the second action,' . . . or unless there are special circumstances which justify giving priority to the second."<sup>93</sup>

The court found that equity favored Alcide's suit in Connecticut:

While there may not have been on-going negotiations, it is clear that the August 28, 1987 letter was a bona fide attempt to resolve the dispute outside of court. . . . On August 28, 1987 Alcide, the party alleging injury, advanced an offer to resolve the dispute without resorting to litigation. Thus it was inappropriate for Bausch & Lomb to "raise the sword of litigation" and seek a legal declaration of its rights, when other avenues for resolution of the dispute were open to it.<sup>94</sup>

The court concluded: "As Mr. Justice Brennan has observed, 'the federal declaratory judgment action is not a prize to the winner of a race to the courthouses.'"<sup>95</sup>

By contrast, another court within the Second Circuit found that the first-to-file rule governed in *800-Flowers, Inc. v. Intercontinental Florist*.<sup>96</sup> 800-Flowers, a company in the business of telemarketing flowers nationwide, owned the registrations for the following marks: DIAL-1-800-FLOWERS; 800-FLOWERS; CALL 1-800-FLOWERS; and THE ONE 800 NUMBER FOR FLOWERS. Intercontinental Florist (ICF) was also in the business of telemarketing flowers through the use of a toll-free number, 1-800-350-9377. ICF advertised itself nationally in newspapers and on television, referring to its business as "1-800-350-9377."

800-Flowers told ICF's customers that ICF employees were "crooks and thieves" and falsely asserted that the parties were in litigation over use of the telephone number. In response, ICF filed suit in Florida seeking a declaration of ICF's right to use the number 1-800-350-9377.<sup>97</sup> Twenty days later, 800-Flowers filed suit in the United States District Court for the Southern District of New York alleging trademark infringement and unfair

93. *Id.* (quoting *William Gluckin and Co. v. International Playtex Corp.*, 407 F.2d 177, 178 (2d Cir. 1969)).

94. *Id.* at 1160.

95. *Id.* (quoting *Perez v. Ledesma*, 401 U.S. 82, 119 n.12 (1972) (Brennan, dissenting)).

96. 860 F. Supp. 128 (S.D.N.Y. 1994).

97. This is a rare case in which the reasonable apprehension of litigation was not caused by a cease and desist letter.

competition. The New York court granted ICF's motion to dismiss on the ground that the first-to-file rule prevented it from hearing the case.

The New York court pointed out that the first-to-file rule "should not be disregarded lightly;" rather, like *Bausch & Lomb*, it explained that "the suit which is first filed should have priority, 'absent a showing of a balance of convenience or special circumstances giving priority to the second suit.'"<sup>98</sup> It added that "[g]enerally, a 'special circumstances' exception to the first filed rule exists where 'forum shopping alone motivated the choice of the situs for the first suit.'"<sup>99</sup> The court viewed the special circumstances inquiry as a threshold matter. It found that ICF had "a legitimate and meritorious rationale for seeking a declaratory judgment," namely, benefiting its developing business.<sup>100</sup> Therefore, ICF's behavior was not motivated "simply by a 'race to the courthouse' to attain first-filed status," and the special circumstances exception did not apply.<sup>101</sup> The court then performed an "interests analysis," by weighing the factors relevant to a motion to transfer, and concluded that "the balancing of conveniences does not overcome the presumption of allowing the action to continue in the forum where it was first filed."<sup>102</sup>

The United States District Court for the Southern District of Florida weighed in on the issue in *Supreme Int'l Corp. v. Anheuser-Busch*.<sup>103</sup> Supreme owned trademark rights to a certain penguin design in connection with T-shirts. When Anheuser-Busch began selling T-shirts featuring penguins that had previously appeared in its television commercials for Bud Ice, Supreme took notice. A Supreme vice president wrote to Anheuser-Busch in October 1996, mentioning the possibility of selling Supreme's rights to its penguin. During a subsequent meeting, the Supreme vice president for the first time objected to Anheuser-Busch's use of its penguin design. In late November or early December, a Supreme lawyer contacted Anheuser-Busch's attorney to again complain about the penguin design. The attorneys discussed settlement. On December 11, 1996, another one of Supreme's attorneys sent Anheuser-Busch a letter demanding not only that it stop putting penguin designs on clothing, but that it discontinue all advertising and promotional materials involving its "Beware the Penguins" slogan. The letter stated that if Anheuser-Busch did not respond in

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98. *Id.* at 132 (citations omitted).

99. *Id.* (citations omitted).

100. *Id.*

101. *Id.*

102. *Id.* at 134.

103. 972 F. Supp. 604 (S.D. Fla. 1997).

writing within five business days, Supreme would “pursue additional legal action,” including suing. Rather than respond, Anheuser-Busch filed a declaratory judgment action five days later in the United States District Court for the Eastern District of Missouri. Five days thereafter, Supreme filed suit in Florida for trademark infringement. The Florida court granted Anheuser-Busch’s motion to stay proceedings pending the outcome of the Missouri action.

The Florida court found that while the issue was a “close call,” Supreme failed to demonstrate compelling circumstances that would justify ignoring the first-to-file rule in this case.<sup>104</sup>

First, contrary to Supreme’s argument, A-B did not run to the courthouse as soon as it was aware of a problem. While Supreme’s December 11 letter certainly makes it apparent that an infringement lawsuit is imminent, the letter was by no means the first time that Supreme had objected to A-B’s use of the penguin design, and therefore raised the specter of a lawsuit. Supreme representatives had twice previously complained, orally and in writing, without A-B filing any action.

Second . . . the December 11 letter was the culmination of a series of mixed signals that Supreme sent on the issue. Supreme initially indicated an interest in working with A-B on the Bud Ice campaign. Then it complained, but simultaneously expressed a willingness to settle the matter. Finally, Supreme threatened a lawsuit in the December 11 letter. Given these contradictory signs, it was not surprising that A-B was confused. A-B had a lot at stake in the high-profile, high-dollar Bud Ice campaign. It is logical that it would seek to resolve the situation as quickly as possible by seeking a declaration as to its trademark rights. There is no requirement that a business threatened with an infringement lawsuit sit back and wait to see if the other party is serious about suing.<sup>105</sup>

As a result of *Tempco Electric Heater Corporation v. Omega Engineering*,<sup>106</sup> courts within the Seventh Circuit are the most inclined to depart from the first-to-file rule. *Tempco* was a dispute between two manufacturers of temperature control and measurement devices for electric heaters. Both parties had used marks that included the Greek letter omega. The Seventh Circuit explained the factual background as follows:

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104. *Id.* at 606.

105. *Id.* at 607.

106. 819 F.2d 746 (7th Cir. 1987).

Believing Tempco's use of the omega symbol on temperature measurement and control devices to be an infringement of Omega's trademark, Omega's counsel, W. James Cousins, sent a letter to Tempco on April 8, 1985, demanding that Tempco cease the allegedly infringing use. In the letter, Cousins demanded a response within 10 days and threatened litigation if Tempco did not so respond. Eight days later, having received no response, Cousins sent another letter reiterating the demand, with the deadline appropriately shortened to 48 hours. The following day, Tempco's president . . . telephoned Cousins and told him of Tempco's longstanding use of the mark. . . . On the same day, Tempco's counsel . . . communicated Tempco's disinclination to comply with the demand to Cousins. That position was reiterated to Omega on April 22, 1985. On that same day, Cousins sent another letter to Tempco, stating that Tempco's position left Omega no alternative but to file an action to protect its interests. Tempco received the letter on May 2, 1985. That same day, it filed this declaratory judgment action [in the Northern District of Illinois]. On May 6, 1985, Omega filed its infringement action in the District of Connecticut.<sup>107</sup>

The Illinois court granted Omega's motion to dismiss Tempco's DJA action and the Seventh Circuit affirmed. "Where, as here, the declaratory judgment action is filed in anticipation of an infringement action, the infringement action should proceed, even if filed four days later."<sup>108</sup>

The court rejected Tempco's contention that the district court deprived it of its "right" to bring a declaratory judgment action in the forum of its choosing.<sup>109</sup> It noted that the Seventh Circuit "has never adhered to a rigid 'first to file' rule," and it refused to do so here. "The wholesome purpose of declaratory acts would be aborted by its use as an instrument of procedural fencing either to secure delay or to choose a forum."<sup>110</sup> The court concluded: "Although a 'first to file' rule would have the virtue of certainty and ease of application, thus eliminating . . . waste . . . the cost—a rule which will encourage an unseemly race to the courthouse and, quite likely, numerous unnecessary suits—is simply too high."<sup>111</sup>

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107. *Id.* at 746-47.

108. *Id.* at 749.

109. *Id.*

110. *Id.* (citation omitted).

111. *Id.*

Thus, in light of *Tempco*, “the Seventh Circuit applies a general rule in favor of the coercive action even if . . . the coercive action was filed later.”<sup>112</sup>

The United States District Court for the Northern District of Illinois applied the *Tempco* rule in *Eli’s Chicago Finest v. Cheesecake Factory*.<sup>113</sup> The Cheesecake Factory owns registered trademarks for several cheesecake designations, including CHOCOLATE RASPBERRY TRUFFLE and TRIPLE CHOCOLATE BROWNIE TRUFFLE. It sent a cease and desist letter to Eli’s, protesting Eli’s sale of items called “White Chocolate Raspberry Truffle Cheesecake” and “Triple Chocolate Truffle.” The letter requested that Eli’s stop using these terms and that Eli’s notify the Cheesecake Factory of its intent to comply within ten days. “The letter further indicated that should Plaintiff fail to communicate an intent to comply within ten days, Defendant was prepared to take legal action.”<sup>114</sup> Six days later, having not responded to the letter, Eli’s filed suit in the Northern District of Illinois seeking a declaration that its use of the contested terms did not interfere with the Cheesecake Factory’s trademark rights. Five days later, the Cheesecake Factory filed a trademark infringement action in the United States District Court for the Central District of California. The Illinois court referred to the California filing as a “mirror image” of the Illinois action.<sup>115</sup> It granted the Cheesecake Factory’s motion to dismiss even though the Illinois action was filed first.

The Illinois court found that the purpose of the DJA, to prevent “one party from continually accusing the other, to his detriment, without allowing the other to secure an adjudication of his rights by bringing suit,” would be “disserved” by exercising jurisdiction.<sup>116</sup> After all, the Cheesecake Factory had not “continually” accused Eli’s. Rather, it had sent a single letter in which it had requested a reply within ten days. The court concluded that Eli’s filed suit not to avoid the accrual of damages resulting from uncertainty about its rights, but rather “to secure this venue in anticipation of legal action by Defendant.”<sup>117</sup> The court was unconcerned whether Illinois or California was a “more appropriate venue for the resolution of these issues.”<sup>118</sup>

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112. *Buztronics, Inc. v. Theory3, Inc.*, No. 1:04-CV-1485-DFH-VSS2005, 2005 U.S. Dist. LEXIS 8661, at \*7 (S.D. Ind. May 9, 2005).

113. 23 F. Supp. 2d 906 (N.D. Ill. 1998).

114. *Id.* at 907.

115. *Id.*

116. *Id.* at 907, 908 (quoting *Tempco*, 819 F.2d at 749).

117. *Id.* at 908.

118. *Id.* at 909.

*Tempco* is binding on and is frequently cited by courts in the Seventh Circuit.<sup>119</sup> It has also been influential outside of the Seventh Circuit. The United States District Court for the District of New Jersey, for example, embraced the *Tempco* rule in *One World Botanicals v. Gulf Coast Nutritionals*.<sup>120</sup> In that case, One World Botanicals, owner of the mark NOAH'S KINGDOM for pet products, sent Gulf Coast a letter stating that Gulf Coast's use of its mark NOAH'S ARK for pet products constituted trademark infringement and unfair competition. The letter requested that Gulf Coast discontinue its use of the NOAH'S ARK mark or face possible litigation, and it requested a response within 15 days. Gulf Coast's attorney asked One World Botanicals for an extension of time in which to respond. One World Botanicals' attorney sent Gulf Coast a letter confirming the extension. The next correspondence between the parties was about two weeks later, when Gulf Coast sent One World Botanicals a complaint seeking declaratory relief that it had filed in the United States District Court for the Middle District of Florida. Approximately one week later, One World Botanicals filed suit in the United States District Court for the District of New Jersey. Gulf Coast moved to transfer the case to Florida based on the first-to-file rule. The New Jersey court agreed with Gulf Coast that Gulf Coast had not demonstrated bad faith, nor had it made any misrepresentations to One World Botanicals, but the court nevertheless denied the motion.

The court, citing *Tempco*, "rejected the rigid application of the first-filed rule."<sup>121</sup> It found that the timing and circumstances of the suits supported a departure from the rule since they suggested anticipatory filing and forum shopping.

While there is no evidence that the outcome in Florida district court would be more "favorable" to Gulf Coast in the sense that circuit precedent differed . . . defendant's brief reveals that it perceived Florida to be a more favorable locale for Gulf Coast to adjudicate this dispute. This is because venue in Florida is more convenient for defendant, a domiciliary of that state.<sup>122</sup>

*Tempco* also influenced the result in the very recent case of *Internet Transaction Solutions v. Intel Corp.*<sup>123</sup> Plaintiff ITS had

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119. See, e.g., *Institute for Studies Abroad, Inc. v. International Studies Abroad, Inc.*, 263 F. Supp. 2d 1154 (S.D. Ind. 2001); *Wireless Marketing Corp. v. Cherokee, Inc.*, 48 U.S.P.Q.2d 1693 (N.D. Ill. 1998).

120. 987 F. Supp. 317 (D.N.J. 1997).

121. *Id.* at 329 n.10.

122. *Id.* at 329.

123. 2006 U.S. Dist. LEXIS 29532 (S.D. Ohio 2006).

received a cease and desist letter from Intel challenging ITS's use of the mark ePAYMENTS INSIDE. The letter called for a response by January 13, 2006. Within the time period for the response, without contacting Intel, ITS filed its declaratory judgment action. Citing *Zide, Eli's Chicago Finest*, and *Tempco*, the court found that Intel was the "natural plaintiff." By filing a declaratory suit within the time period for a response to Intel's letter, the court concluded, ITS launched a preemptive strike which improperly foreclosed any opportunity to settle the matter. This was sufficient evidence of bad faith to require dismissal of the first-filed action. The court stated:

After receiving just one letter from Intel, ITS filed the declaratory judgment action in this district, preemptively foreclosing any settlement opportunity. The Court agrees with Intel that, as a matter of public policy, this conduct should be discouraged. Agreeing to exercise jurisdiction over the declaratory judgment action, under these circumstances, would encourage trademark holders to immediately file trademark infringement actions without first attempting to resolve the dispute short of litigation.<sup>124</sup>

*Tempco* has its detractors, as well, and it has not been embraced throughout the country.<sup>125</sup> Professor McCarthy is critical of the *Tempco* rule:

In the author's opinion, the Seventh Circuit view considerably detracts from the traditional ability of the declaratory judgment plaintiff to sue first and select a favorable forum. The Seventh Circuit view permits the trademark owner to use threats to chill a competitor's marketplace activities without filing suit, and then, when the competitor files a declaratory judgment suit, to finally file an infringement suit and have all proceedings determined in that forum, which is the one most convenient to the trademark owner. This is not consistent with the theory and policy of declaratory judgment. If the trademark owner desires to litigate in a forum convenient to itself, it should file suit there, not just threaten to do so.<sup>126</sup>

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124. *Id.* at \*20.

125. See *Genentech v. Eli Lilly & Co.*, 998 F.2d 931, 937 (Fed. Cir. 1993) ("We incidentally take note that the rule of *Tempco Electric* is not followed for trademark cases in all circuits.") In *Genentech*, the Federal Circuit expressly declined to apply *Tempco* to patent cases, explaining that "[s]uch a rule would automatically grant the patentee the choice of forum, whether the patentee had sought—or sought to avoid—judicial resolution of the controversy. This shift of relationship between litigants is contrary to the purpose of the Declaratory Judgment Act to enable a person caught in controversy to obtain resolution of the dispute, instead of being forced to await the initiative of the antagonist." *Id.*

126. 5 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* § 32:50, at 32-102.5 (4th ed. 2005).

In *J. Lyons & Co. v. Republic of Tea*,<sup>127</sup> the United States District Court for the Southern District of New York essentially rejected *Tempco*. That case and two others in the Southern District of New York involved Lyons's claims of trademark infringement based on other parties' use of round tea bags, to which Lyons claimed trademark rights. Lyons filed its infringement actions in December 1994 and January 1995. All three of the parties that Lyons sued, Republic of Tea, Lipton, and Barrows, had previously filed actions against Lyons in other jurisdictions seeking declaratory judgments of non-infringement. The Southern District of New York granted these parties' motions to dismiss on the basis of the first-to-file rule.

The New York court explained that "special circumstances" justifying departure from the first-to-file rule may exist "where . . . the first-filed declaratory judgement [sic] action had been filed in anticipation of the second suit or where forum shopping alone motivated the choice of forum in the filing of the first suit."<sup>128</sup> The court found that there were no such special circumstances here. Regarding Lyons's claim of anticipatory filing, the court explained:

There is no indication here that defendants actually anticipated litigation or engaged in forum shopping. While all defendants received cease and desist letters, they did not have actual notice of litigation. Although Lyons mentioned the possibility of legal actions, it did not specify any date or forum. Indeed, when Republic refused to cease and desist, Lyons responded that it would take the response "under advisement," . . . and when Barrows refused, Lyons kept up its barrage of cease and desist letters. . . . Lyons' behavior did not indicate that it was about to file suit; rather Lyons' actions were indicative of negotiations.<sup>129</sup>

The court also rejected Lyons's argument that "the filing of the declaratory actions was a race to the courthouse resulting in barely disguised forum shopping."<sup>130</sup>

Each defendant responded to Lyons' cease and desist letters by denying the alleged infringement. When no understanding was reached and Lyons continued its cease and desist letters, the defendants had every right to seek a definitive resolution of the issues. The defendants appropriately filed their actions in the forum most convenient to them. Had Lyons feared litigation in an inconvenient forum, it had plenty of time to file

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127. 892 F. Supp. 486 (S.D.N.Y. 1995).

128. *Id.* at 490.

129. *Id.* at 491.

130. *Id.*

actions in New York before the respective declaratory judgement [sic] actions were filed.<sup>131</sup>

Citing *Tempco*, Lyons contended that “there is a general presumption against declaratory judgment actions.”<sup>132</sup> The court disagreed. “[T]his circuit has not followed *Tempco*.”<sup>133</sup> On the contrary, the court noted that the first-to-file rule, “places a strong presumption in favor of the first-filed suit.”<sup>134</sup>

Courts frequently cite anticipatory filing as the primary reason for dismissing a first-filed DJA action. Few courts, however, have directly addressed the policy conflict between the “reasonable apprehension” requirement of the DJA and the “anticipatory suit” exception to the first-to-file rule. In *M.D. Beauty, Inc. v. Dennis F. Gross, M.D., P.C.*,<sup>135</sup> the United States District Court for the Northern District of California recognized this apparent conflict and attempted to reconcile these rules.

Dr. Gross sold skin care products under the mark M.D. SKINCARE and did business under that trade name. M.D. Beauty offered a line of skin care products under M.D. FORMULATIONS and similar marks. On March 17, 2003, M.D. Beauty’s subsidiary, Bare Escentuals, sent a cease and desist letter to Gross asserting that Gross’s use of marks incorporating the M.D. formative “infringes the Marks in violation of federal law and the law of the State of California.” The letter also stated that Bare Escentuals had a number of remedies available to it, including injunctive relief, an award of profits earned, an award of damages, costs, and attorneys’ fees. Bare Escentuals noted that it “would prefer to resolve this matter amicably” and requested written assurances within fourteen days of the date of the letter.

On April 8, Gross responded with a letter stating that he was “perplexed” by Bare Escentuals’ demand letter because he believed that these marks were owned by Allergan, and he had an arrangement with Allergan. Gross also requested that Bare Escentuals explain what rights it owned in the marks. In response, Bare Escentuals sent Gross a letter on April 24 requesting that Gross provide evidence of his arrangement with Allergan. The letter stated that Bioceutix, an affiliated company, obtained rights in the marks through an assignment from Allergan. (Bioceutix was also a subsidiary of M.D. Beauty.) Bare Escentuals demanded that Dr. Gross provide written assurances that he would cease all use of the M.D. formative marks within seven days. The letter concluded:

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131. *Id.*

132. *Id.*

133. *Id.*

134. *Id.* at 493.

135. 2003 WL 24056263 (N.D. Cal. 2003).

“If we do not hear from [you] in this regard within the specified time period, Bare Escentuals will have no choice but to pursue the alternatives available to it.”

Dr. Gross did not respond to this letter. On May 1, he filed a complaint in the United States District Court for Southern District of New York against Bare Escentuals and Bioceutix seeking a declaratory judgment of non-infringement. Exactly two months later, M.D. Beauty filed this action in the United States District Court for the Northern District of California alleging trademark infringement. The court dismissed M.D. Beauty’s complaint based on the first-to-file rule.

The California court explained that “the first-to-file rule was developed to promote efficiency and ‘should not be disregarded lightly.’”<sup>136</sup> It continued, relying heavily on *Guthy-Renker Fitness, L.L.C. v. Icon Health*,<sup>137</sup> which is a patent case:

The Ninth Circuit has identified three special circumstances in which a court may decline to apply the first-to-file rule: when the first-filed suit was filed in bad faith, was anticipatory, or was forum shopping.<sup>138</sup> Thus, some courts have chosen not to apply the first-to-file rule when the first-filed action is one for declaratory relief. In these cases, the courts found that the declaratory action was anticipatory and plaintiff was forum shopping. These courts somewhat melded the anticipatory exception with the forum shopping exception—plaintiff anticipated an immediate litigation and raced to the courthouse to secure his choice of forum.

At the same time, one of the key purposes of the [DJA] is to “alleviate the necessity of waiting indefinitely for a [party] to file an infringement action.” It allows a party in *reasonable apprehension* of suit to file a declaratory action. In fact, if a declaratory plaintiff is not in reasonable apprehension of a suit, then a court may not exercise jurisdiction because there is no case or controversy. This Court observes that, construed broadly, the first-to-file exception conflicts with the jurisdictional prerequisite of “reasonable apprehension.” For a

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136. *Id.* at \*2 (quoting *Alltrade, Inc. v. Uniweld Products, Inc.*, 946 F.2d 622, 623 (9th Cir. 1991)).

137. 179 F.R.D. 264 (C.D. Cal. 1998).

138. The court cited *Alltrade*, 946 F.2d at 625, for this proposition. *M.D. Beauty* notwithstanding, *Alltrade* suggests that these three “special circumstances” are only *examples* of reasons that a court might depart from the first-to-file rule. “The circumstances under which an exception to the first-to-file rule typically will be made *include* bad faith . . . anticipatory suit, and forum shopping. . . .” *Alltrade*, 946 F.2d at 628 (emphasis added). See *Barapind v. Reno*, 72 F. Supp. 2d 1132, 1146 (E.D. Cal. 1999) (“The rule may be dispensed with for equitable reasons; for example, where the first action is filed merely as a means of forum shopping or other indicia of bad faith . . . when the later-filed action has progressed further . . . or where ‘the balance of convenience weighs in favor of the later-filed action.’”).

court to hear a claim for declaratory relief, the declaratory plaintiff must be in reasonable apprehension of a suit. If there is a reasonable apprehension of a suit, however, then the declaratory action may be perceived as anticipatory. Thus, a court must balance the competing interests of the anticipatory exception to the first-to-file rule with the reasonable apprehension prerequisite of the DJA. In weighing this balance, courts in the Second and Ninth Circuits have focused on the reasonableness of the declaratory plaintiff's apprehension. The Court adopts this approach because it prevents a declaratory defendant from abusing the first-to-file rule to engage in his own forum shopping. Otherwise, "each time a party sought declaratory judgment in one forum, a defendant filing a second suit in a forum more favorable to defendant could always prevail under the anticipatory filing exception." Accordingly, "[a] suit is 'anticipatory' for the purposes of being an exception to the first-to-file rule if the plaintiff in the first-filed action filed suit on receipt of specific, concrete indications that a suit by the defendant was imminent."<sup>139</sup>

Applying these principles to the case at hand, the court found that Gross's suit was not "anticipatory" for purposes of the first-to-file rule because "the threat of litigation was reasonable, but not imminent."<sup>140</sup>

The California court pointed out that the first letter stated that "Bare Escentuals would prefer to resolve this matter amicably," and it invited Gross to contact it to discuss the matter.<sup>141</sup> It emphasized that this letter included a deadline, but when Gross ignored the deadline, Bare Escentuals did not file suit. Thus, there was no reason for Gross to take seriously the deadline in the second letter.<sup>142</sup>

Furthermore, the court noted, the second letter stated that if Gross did not respond by the deadline, Bare Escentuals would pursue available "alternatives" (plural), suggesting that Bare Escentuals (or M.D. Beauty) was considering more than one means of enforcing its rights. "Litigation was ostensibly one, but not the only, option."<sup>143</sup> The court remarked: "While this language certainly creates a reasonable apprehension of litigation, it does not render litigation imminent."<sup>144</sup> The court added that M.D.

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139. *M.D. Beauty, Inc.*, 2003 WL2405623 at \*3 (citations omitted).

140. *Id.* at \*4.

141. *Id.*

142. *Id.*

143. *Id.*

144. *Id.*

Beauty's decision to wait two months to file suit further indicated that Gross did not file his suit simply to win the race to the courthouse.<sup>145</sup>

### III. CEASE AND DESIST LETTER GUIDELINES FOR TRADEMARK OWNERS

#### *A. Minimizing the Risk of a Declaratory Action in an Unfavorable Forum*

A trademark owner risks a DJA action every time it sends a cease and desist letter to an alleged infringer. This risk is unavoidable because this area of the law involves case-by-case analyses, and because of the lack of uniform rules and the unpredictability of courts. "The difference between an abstract question and a 'controversy' contemplated by the Declaratory Judgment Act is necessarily one of degree, and it would be difficult, if it would be possible, to fashion a precise test for determining in every case whether there is such a controversy."<sup>146</sup> The foregoing survey of case law suggests that a trademark owner can take certain precautions to reduce, but not eliminate, the risk of a DJA action.

A trademark owner who wishes to minimize the possibility of a DJA action should mention in its cease and desist letter the trademark owner's desire to resolve the matter without litigation, if it mentions litigation at all.<sup>147</sup> The letter should invite the recipient to negotiate a settlement.<sup>148</sup> It should not threaten suit, nor should it mention the trademark owner's general policy of filing infringement actions to enforce its rights.<sup>149</sup> A trademark owner hoping to avoid litigation should be reluctant to send a second cease and desist letter if the first letter is ineffective.<sup>150</sup>

In addition to carefully considering the contents of a cease and desist letter, a trademark owner hoping to avoid litigation should stand clear of other behavior that may create a "reasonable apprehension" of litigation. Filing an opposition or cancellation petition in the USPTO may be enough to convert an otherwise

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145. *Id.* at \*5.

146. *Maryland Casualty Co. v. Pacific Coal & Oil Co.*, 312 U.S. 270, 273 (1941).

147. *See Progressive Apparel Group v. Anheuser-Busch, Inc.*, No. 95 CIV. 2794 (DLC) 1996 U.S. Dist. LEXIS 1292 (S.D.N.Y. Feb. 8, 1996).

148. *See Dunn Computer Corp. v. Loudcloud, Inc.*, 133 F. Supp. 2d 823 (E.D. Va. 2001).

149. *See Manufacturers Hanover Corp. v. Maine Sav. Bank*, 84 CIV. 2046 (JFK), 1985 U.S. Dist. LEXIS 23580 (S.D.N.Y. Jan. 9, 1985).

150. *See Trippe Manufacturing Co. v. American Power Conservation Corp.*, 46 F.3d 624 (7th Cir. 1995); *HealthNet, Inc. v. Health Net, Inc.*, No. 2:01-0835, 2003 U.S. Dist. LEXIS 139 (S.D. W. Va. Jun. 7, 2003).

harmless letter into the basis of subject matter jurisdiction under the DJA.<sup>151</sup> Moreover, a trademark owner who unwittingly becomes a defendant in a DJA action should think twice about filing counterclaims of infringement, dilution or unfair competition until it is clear that the action will proceed.<sup>152</sup> The trademark owner may be better off moving to dismiss first.

A trademark owner who threatens suit if an alleged infringer does not cease use of a mark essentially concedes jurisdiction under the DJA. If a trademark owner is willing to engage in litigation and chooses this course, it should state that it plans to file suit (and be ready to do so) if the alleged infringer does not comply by a specified deadline. If the trademark owner makes this threat and the recipient of the letter files a DJA action before the deadline arrives, the trademark owner can usually file its own suit in a different jurisdiction and successfully move to dismiss the DJA action on the basis that the declaratory plaintiff has made an anticipatory filing.<sup>153</sup> In this manner, the trademark owner can avoid litigating in an unfavorable forum.

### ***B. What Constitutes “Bad Faith” and “Procedural Fencing”?***

Courts point to evidence of “procedural fencing,” which typically is anticipatory suit or forum shopping, as a basis for departing from the first-to-file rule and declining jurisdiction under the DJA. Courts also consider a declaratory plaintiff’s bad faith as a reason for favoring the later-filed infringement action. These reasons for dismissing or transferring a DJA action overlap, and courts often do not distinguish between them.

#### **1. Bad Faith**

The most obvious illustration of bad faith involves a party surreptitiously filing but not serving a DJA action while misleading its opponent into believing that it still plans to resolve the dispute through negotiations. In *Zide* and *Plymouth Press*, the courts declined to exercise jurisdiction under these circumstances. The Sixth Circuit concluded that *Zide*’s bad faith was “overwhelmingly supported by the record” because it “misled the defendants by going along with written correspondence regarding

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151. See *Manufacturers Hanover*, 1985 U.S. Dist. LEXIS 23580 (S.D.N.Y. Jan. 9, 1985); *Chesebrough-Pond’s, Inc. v. Faberge, Inc.*, 666 F.2d 393 (9th Cir. 1982).

152. See *Chesebrough*, 666 F.2d 393; *HealthNet*, 2003 U.S. Dist. LEXIS 139.

153. *Tempco Electric Heater Corp. v. Omega Engineering*, 819 F.2d 746 (7th Cir. 1987); *Obsolete Ford Parts v. Ford Motor Co.*, 306 F. Supp. 2d 1154 (W.D. Ok. 2004); *One World Botanicals v. Gulf Coast Nutritionals*, 987 F. Supp. 317 (D.N.J. 1997); *Internet Transaction Solutions v. Intel Corp.*, 2006 U.S. Dist. LEXIS 29532 (W.D. Ohio 2006).

settlement while, in fact, the plaintiffs had already filed but not served an anticipatory federal action.”<sup>154</sup> Likewise, the United States District Court for the Eastern District of Michigan found that the “critical issue” was that Plymouth Press “misled the defendant into believing that their dispute could be resolved amicably so that the plaintiff could win the race to the courthouse and therefore choose the forum for the dispute.”<sup>155</sup> It determined that the DJA action could not survive because, *inter alia*, Plymouth Press had been “less candid” with Klutz.<sup>156</sup>

Similarly, the United States District Court for the Western District of Oklahoma faulted Obsolete and dismissed its DJA action for “attempting to stall Defendant’s suit by requesting additional time to locate more persuasive support for its views.”<sup>157</sup> While the court characterized this behavior as “the kind of procedural fencing that courts condemn,” it no doubt objected to Obsolete’s failure to be forthright.<sup>158</sup>

Quickly filing a declaratory action without any attempt to settle also may constitute bad faith. The court in *Internet Transaction Solutions* expressly so concluded, where plaintiff filed a declaratory action, without first contacting the declaratory defendant, within the time period for a response to the latter’s cease and desist letter.<sup>159</sup> Although the court in *Dunn* did not mention bad faith by name, it determined that the plaintiff acted improperly by “hastily filing suit” when it “should have responded to the letter’s request for negotiation by contacting defendant and attempting to resolve the matter.”<sup>160</sup> In that case, the declaratory plaintiff filed within eight days of receiving a single cease and desist letter, and without responding to or contacting the defendant. Similarly, the court in *Bausch & Lomb, Inc.* dismissed a declaratory action filed within a week of receiving the cease and desist letter, and in fact on the deadline by which the letter requested a response. The court found that “[t]o allow this action to proceed would be to discourage such good faith effort to negotiate.”<sup>161</sup>

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154. *Zide Sport Shop of Ohio, Inc. v. Ed Tobergte Assocs.*, 16 Fed. Appx. 433, 438 (6th Cir. 2001).

155. *Plymouth Press v. Klutz, Inc.*, No. 96-CV-73925-DT, 1997 U.S. Dist. LEXIS 12185, at \*5-6 (E.D. Mich. June 24, 1997).

156. *Id.* at \*7.

157. *Obsolete*, 306 F. Supp. 2d at 1158.

158. *Id.*

159. *Internet Transaction Solutions v. Intel Corp.*, 2006 U.S. Dist. LEXIS 29532 (S.D. Ohio 2006) at \*20.

160. *Dunn*, 133 F. Supp. 2d at 830.

161. *Bausch & Lomb, Inc. v. Alcide Corp.*, 684 F. Supp. 1155, 1160 (W.D.N.Y. 1987).

A quick declaratory judgment action in response to a single cease and desist letter will not always be dismissed, however. Recall that in *Plough, Inc.*, the plaintiff commenced a declaratory judgment action nine days after receiving a cease and desist letter that did not promise litigation, but merely suggested that if the plaintiff did not respond favorably, the defendant would give “serious consideration to the legal remedies available.”<sup>162</sup> The court nevertheless concluded that this behavior was acceptable since there was “no allegation that Plough coaxed Allergan into delaying to file suit so that Plough could file first and choose its forum.”<sup>163</sup>

## 2. Procedural Fencing

The primary forms of procedural fencing are anticipatory suit and forum shopping. These two concepts are similar and the terms are often used interchangeably. As *Zide* and *Plymouth Press* make clear, a declaratory judgment plaintiff’s bad faith often buttresses a finding of procedural fencing. But bad faith is not required. In fact, *One World Botanicals* expressly found that the declaratory judgment plaintiff had *not* engaged in “deceitful conduct, misrepresentation or bad faith,”<sup>164</sup> but it dismissed the DJA action anyway as a result of, *inter alia*, One World Botanicals’ anticipatory filing and forum shopping.

Evidence of an anticipatory suit generally consists of the declaratory judgment plaintiff’s rushing to get its complaint on file when it knows that action by the declaratory judgment defendant is imminent. It typically arises where the declaratory defendant sends a letter giving the recipient a specified amount of time to respond or to comply with its demands, and the recipient promptly files suit. In *Eli’s Chicago Finest*, for example, the court dismissed a DJA action that the declaratory judgment plaintiff had filed within six days of receiving a cease and desist letter, well within the ten-day deadline specified in the letter. The court explained: “Nothing before this court indicates that Plaintiff’s swift action was anything more than the ‘race to the courthouse.’”<sup>165</sup> It recognized that “allowing a potential defendant to make a procedural preemptive strike robs the natural plaintiff of his ability to select his forum.”<sup>166</sup> Likewise, in *One World Botanicals*, the court focused on the close timing between the filing of the declaratory judgment action and coercive actions, and determined that the former was “anticipatory.” It refused to allow Gulf Coast

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162. *Plough, Inc. v. Allergan, Inc.*, 741 F. Supp. 144, 146 (W.D. Tenn. 1990).

163. *Id.* at 147.

164. *One World Botanicals*, 987 F. Supp. 317 at 327-28.

165. *Eli’s Chicago Finest v. Cheesecake Factory*, 23 F. Supp 2d. 906, 908 (N.D. Ill. 1998).

166. *Id.*

to litigate in a “more favorable locale” simply because it reacted to One World Botanicals’ threat of suit with a suit of its own.<sup>167</sup>

In *Tempco*, the Seventh Circuit’s landmark decision concerning the anticipatory suit exception to the first-to-file rule, Omega’s counsel clearly communicated his client’s intention to file suit in its cease and desist letter. The day that Tempco received the letter, it filed a declaratory judgment action, four days before the coercive action was filed by the declaratory judgment defendant. The Seventh Circuit found this to be persuasive evidence of an “anticipatory” filing. It relied on other cases where the coercive action followed the declaratory action by “a few days,” in one instance, and by fifteen days, in another. It “could not agree more,” the Seventh Circuit said, with the observation in the latter case that “the court is not called upon merely to say which side won the hundred yard dash to some courtroom.”<sup>168</sup>

#### **IV. POLICY RECONCILIATION: ENCOURAGING EARLY AND INFORMAL SETTLEMENT WHILE RESPECTING THE AIMS OF THE DJA AND THE FIRST-TO-FILE RULE**

The court in *Plymouth Press* neatly summarized the policy conflict raised by these cases:

Two policies must be balanced when the court decides whether to exercise discretion to dismiss an earlier-filed declaratory judgment action. Courts should give effect to the Federal Declaratory Judgment Act’s policy of providing persons threatened with litigation a means to determine their rights. However, the Act should not be applied to encourage would-be trademark plaintiffs to file suit rather than resolve their disputes amicably by providing the incentive of forum choice to file suit quickly.<sup>169</sup>

While it is easy to describe the policy tension, finding the proper balance is a challenge. How can courts best respect and fulfill the policy aims of the DJA and the broadly recognized first-to-file rule while encouraging settlement and neutralizing or at least mitigating the risk of forum shopping and a “race to the courthouse”? In general, the authors believe that courts can best promote public policy by showing a willingness to depart from the first-to-file rule when a trademark owner attempts to settle a dispute through a letters and negotiations rather than

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167. *One World Botanicals*, 987 F. Supp. at 329.

168. *Tempco*, 819 F. 2d at 750 (quoting *Technical Tape Corp. v. Minnesota Mining & Mfg. Co.*, 135 F. Supp. 505, 509 (S.D.N.Y. 1955)).

169. 1997 U.S. Dist. LEXIS 12185, \*3 (citations omitted).

immediately resorting to litigation, and when the letter recipient, ignoring the overtures to negotiate, files suit instead.

To hold otherwise invites recipients of cease and desist letters to engage in gamesmanship. Rigid application of the first-to-file rule would undermine the important federal policy of encouraging settlement of disputes via informal means. If a trademark owner routinely can expect its cease and desist letters to generate declaratory judgment filings, the cease and desist letter will become a less attractive option for resolving disputes. Instead, the trademark owner will be inclined to file suit without attempting to initiate a settlement dialogue. Such a “litigate first, ask questions later” practice is hardly commensurate with the federal policy encouraging settlement. As stated by the court in *Eli’s Chicago Finest*:

[P]rohibiting a “race to the courthouse” encourages settlement and discourages costly duplicate litigation. . . . If the Court were to allow such maneuvering, litigants would have no alternative but to quickly file suits in the forum of their choice. Delay caused by a good faith effort at negotiation could deprive a litigant of a favorable venue. Such an incentive system would be highly inefficient.<sup>170</sup>

This pro-settlement policy is recognized throughout the law and the legal system. For example, the Federal Rules of Evidence provide that conduct and statements during settlement negotiations are inadmissible,<sup>171</sup> and federal courts throughout the country require or encourage alternative dispute resolution.<sup>172</sup>

This is a question of emphasis and sensitivity, of course, rather than a bright-line rule. The authors recognize the risk Professor McCarthy identifies in a too-liberal application of the “anticipatory suit” exception to the first-to-file rule giving excessive control to the trademark owner, who can indefinitely threaten litigation as a means of chilling its opponent’s activities while still securing its home forum by crying “anticipatory suit” should the opponent seek relief under the DJA.

In balancing the competing interests of the anticipatory exception to the first-to-file rule with the reasonable apprehension prerequisite of the DJA, it is useful to focus on the reasonableness of the declaratory judgment plaintiff’s apprehension and the immediacy of the litigation threat. Under this approach, a cease

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170. 23 F. Supp. 2d at 909. This reasoning followed directly from *Tempco*, in which the Seventh Circuit realized that “[a]lthough a ‘first to file’ rule would have the virtue of certainty and ease of application, thus eliminating some of the waste referred to [above], the cost—a rule which will encourage an unseemly race to the courthouse and, quite likely, numerous unnecessary suits—is simply too high.” *Tempco*, 819 F.2d at 749.

171. Fed. R. Evid. 408.

172. See, e.g., N.D. Cal. Civil L.R. 16-8; S.D. Fla. L.R. 16.2.

and desist letter recipient can be in real and reasonable apprehension of litigation (thus satisfying the threshold jurisdictional requirement under the DJA) but not engage in an “anticipatory suit” by filing a declaratory judgment relief action unless the threat of litigation is concrete, clear and imminent. This is the test that Judge Armstrong applied in rejecting an “anticipatory suit” challenge in *M.D. Beauty*:

The Court adopts this approach because it prevents a declaratory defendant from abusing the first to file rule to engage in his own forum shopping. Otherwise, “each time a party sought declaratory judgment in one forum, a defendant filing a second suit in a forum more favorable to defendant could always prevail under the anticipatory filing exception.” Accordingly, “[a] suit is ‘anticipatory’ for the purposes of being an exception to the first to file rule if the plaintiff in the first-filed action filed suit on receipt of specific, concrete indications that a suit by the defendant was imminent.”<sup>173</sup>

In *M.D. Beauty*, the court found the cease and desist demands not sufficiently concrete to constitute an imminent litigation threat because they failed even to identify who owned the trademark; they spoke only in terms of pursuing “alternatives” and not specifically litigation, if their demands were not met; M.D. Beauty repeatedly ignored its own deadlines by which it demanded a response; and ultimately, M.D. Beauty waited two full months past the last deadline to file its suit.

While not expressly addressing the policy conflict, the United States District Court for the Southern District of Florida essentially took the same approach in *Supreme*. It acknowledged Supreme’s threats of litigation, but it found that they were not sufficiently concrete to make Anheuser-Busch’s lawsuit improperly anticipatory, since Supreme had given a “series of mixed signals.”<sup>174</sup> Similarly, the United States District Court for the Southern District of New York found that the first-filed DJA actions should proceed because “[a]lthough Lyons mentioned the possibility of legal actions, it did not specify any date or forum.”<sup>175</sup>

In *Tempco*, the court noted that the purposes of declaratory judgment are to “clarify[ ] and settl[e] the legal relations at issue” and to “terminate and afford relief from the uncertainty, insecurity, and controversy giving rise to the proceeding.”<sup>176</sup> In such circumstances, the Seventh Circuit stated:

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173. *M.D. Beauty, Inc. v. Dennis F. Grose, M.D., D.C.*, 2003 WL 24056263 at \*3 (quoting *800-Flowers*, 860 F. Supp. at 132 and *Guthy-Rinker Fitness*, 179 F.R.D. at 278).

174. *Supreme Int’l Corp. v. Anheuser-Busch*, 972 F. Supp. 604, 607 (S.D. Fla. 1997).

175. *J. Lyons & Co. v. Republic of Tea*, 892 F. Supp. 486, 491 (S.D.N.Y. 1995).

176. 819 F.2d. at 749 (quoting Borchard, *Declaratory Judgments* 299 (2d ed. 1941)).

[A] federal court may grant a declaratory judgment to prevent one party from continually accusing the other, to his detriment, without allowing the other to secure an adjudication of his rights by bringing suit.<sup>177</sup>

The declaratory judgment defendant in *Tempco*, however, had not engaged in such conduct. Rather, it promptly filed suit to enforce its claim of trademark infringement. Thus, the court concluded, a declaratory judgment would serve no useful purpose and was properly denied.

Courts and commentators have contrasted the approaches of the Second and Ninth Circuits with the Seventh Circuit in *Tempco*, and as noted above, Professor McCarthy criticizes *Tempco* as not consistent with the policies of the DJA. Interestingly enough, however, had the Seventh Circuit applied the approach suggested by *M.D. Beauty* to the facts in *Tempco*, the result would have been the same. The declaratory judgment defendant's threat of suit in *Tempco* was certainly concrete and immediate. The declaratory judgment plaintiff reacted by filing suit the same day it received it and four days before the coercive action was filed. Under these circumstances, a finding of "anticipatory suit"—precluding application of the first-to-file rule—seems likely under the *M.D. Beauty* standard.

In the authors' view, courts should give precedence to the judicial policy favoring informal negotiation and settlement of disputes over rigid enforcement of the first-to-file rule. This does not mean that in all instances a declaratory judgment action filed upon receipt of a cease and desist letter must be regarded as "anticipatory" and therefore dismissed or transferred in favor of the coercive action filed by the trademark owner. Rather, courts should evaluate the facts leading up to litigation with the goal of discouraging gamesmanship and encouraging a genuine settlement dialogue. A contrary approach will necessarily lead to a strategy of "litigate first, ask questions later" on the part of trademark owners, ironically encouraging inefficiencies and a waste of resources—the very ills that the first-to-file rule and the DJA are meant to address.

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177. *Id.*