"CEASE & DESIST" LETTERS: A RISKY BUSINESS

Demand letters relating to the alleged infringement of intellectual property rights are often referred to as "cease and desist" letters. Their primary goal is often to convince the recipient to "cease and desist" in the use or reproduction of some type of intellectual property. A secondary goal may be to demand the payment of monetary damages for allegedly unlawful past activity in this regard.

Although the goals may be straightforward, the risks are not always clear. Recent legislative amendments also dictate certain requirements for demand letters relating to allegations of copyright and patent infringement. This article will review some of the risks associated with sending cease and desist letters and the new legislative requirements.

Recipient Publishes the Letter

Every document that lawyers prepare will often have more than one audience. Early in my career, I was advised to assume that each letter I write may one day be read by a judge. I think it was good advice. With the advent of the Internet, another assumption that I think lawyers should make is that each letter we write may be published by the recipient via the Internet – usually sooner rather than later.

Although this may not represent a legal risk, it is especially common for cease-and-desist letters to be so published. This is likely because it also especially common for legal counsel to engage in hyperbole and to overstate their client's position in these demand letters. The consequence of publication may be public outrage and ridicule for both the lawyer and the client. A further consequence may be the early discharge of the lawyer as counsel on the matter.

In some situations, this may be a specific risk that should be drawn to the client's attention depending on the intended recipient. In all cases, the risk should inform the content of any cease-and-desist letter.

Letter Sent to Customers/Distributors of Allegedly Infringing Party

Another unfortunately common practice is to send copies of demand letters to customers and distributors of the allegedly infringing party without good cause. In some circumstances, this is entirely appropriate. However, the practice is often used in situations without a strong legal foundation as a pressure tactic and it can backfire.

Unless well-founded and well-crafted, such demand letters can attract claims of defamation against the client, the lawyer and the law firm. If they cause serious damage or bankrupt the business of the allegedly infringing party, the defamation claims can attract considerable damage awards. If the recipient denies the allegations and the client does not, in fact, subsequently commence legal proceedings for infringement, the defence of qualified privilege is not likely to be available in any later action for defamation. With multiple defendants at risk, lawyers may again find that they are quickly discharged as counsel for the matter and, as a bonus, have an insurance claim to file.

Even where the infringement claim appears strong and the client fully intends to pursue legal proceedings to preserve its rights, if necessary, it may still be prudent to wait until the primary target responds to the allegations. They will be highly motivated to find weaknesses in the infringement allegations and in the validity of any related registrations. It may be prudent to know what they find before asserting claims against their customers and distributors as well.

For business reasons, clients may also want to avoid sending strongly worded demand letter to those customers and distributors until it is clear that they will not cease their allegedly infringing activity and voluntarily move their business to the client. It may be better to start, instead, by merely sending them "notice" of the client's intellectual property rights rather than a "demand" letter.

In sum, lawyer should exercise caution and careful judgment when considering the option of sending demand letters to the customers and distributors of the party primarily responsible for the allegedly infringing activity.

Recipient may have Prior Rights in Subject Trademark

A risk somewhat unique to trademarks arises when a lawyer sends a cease-and-desist letter to a third party who MAY have prior rights in the subject trademark. If the recipient does, in fact, have prior rights to the subject trademark, the recipient may turn the tables and demand that the lawyer's client cease using the trademark and pay the recipient damages for its past use. If the marks are not identical, the demand letter itself constitutes an admission by the client that the marks are confusingly similar.

If the client has a pending trademark application, the recipient may also oppose the application and file their own application for the same mark. If the client has a trademark registration for the subject mark that has been registered for LESS than five years, the recipient may also seek a court order expunging the registration as invalid.

This risk arises because many businesses, both small and large, do not register their trademarks and trademark rights are generally granted to the first party to adopt the mark. Even if the trademark appears in a corporate name or business name registration, there may be a predecessor in title such as a sole proprietor who never registered a business name so it can be challenging to identify when the recipient may have actually adopted the trademark. Although the failure to register a business name may be imprudent or unlawful for other reasons, it does not compromise prior trademark rights in the name if it was in fact used as a trademark and there is strong documentary evidence to support the claim. Indeed, it is also important to remember that a corporate name or business name registration is not, on its own, evidence that the name has in fact been used as a trademark. The date of incorporation is therefore just an approximation or "best guess" as to when the name may have been adopted as a trademark.

Although this risk cannot be entirely avoided, it can be minimized by conducting a detailed investigation of the intended recipient's business history BEFORE sending a demand letter to try to determine approximately when it first adopted the subject trademark. Useful sources of information in this regard can be the intended recipient's social media feeds and <archive.org> (also known as the

"Wayback Machine") which may have retained screenshots of the recipient's web site at different points in time.

The risk is also lower if the client has a trademark registration which has been registered for MORE than five years before a demand letter is issued. After five years, a trademark registration cannot be expunged on the grounds of prior use by a third party. In such a situation, the client may not be able to stop a prior user from continuing to use the subject trademark in the region where it had historically done so, but the client will not lose its exclusive rights in the mark elsewhere in the country.

Demand Letters for Copyright Infringement

Under the cloak of anonymity on the Internet, individuals have routinely copied, downloaded and distributed the intellectual property of others, such as movies, songs and writings, without authorization. To check this unlawful activity, Canada introduced a "notice and notice" regime when the *Copyright Act* was substantially amended in 2012. This regime requires Internet service providers (ISP's) to receive and deliver notices of alleged infringement to their account holders. It also authorizes the disclosure of the account holder's identity by the ISP pursuant to a court order. Such a disclosure order is generally sought by the copyright owner when it intends to commence formal legal proceedings against the account holders for copyright infringement.

Implementation of this "notice and notice" regime came into force in January 2015 and, not surprisingly, copyright owners started to issue notices that also included demands for the payment of damages for copyright infringement. Given that copyright owners are presumptively entitled to a minimum of $500 in statutory damages for each instance of infringement, some of the demands were substantial. Of course, many of the letters also threatened more significant claims if legal action was necessary and legal fees were incurred.

In response to public outrage, the government introduced an amendment to the "notice and notice" regime at section 41.25(3) of the *Copyright Act* that prohibits the notices sent through ISP's from including any demands for payment. This restriction came into effect on December 13, 2018.

It is also of interest to note that the courts have also imposed restrictions on the demand letters that may be sent to account holders AFTER the identity of account holders have been disclosed, including:

a. a requirement that the letter include a statement that no Court has made a determination yet that the recipient has infringed or is liable in any way for payment of damages; and

b. a requirement that a draft of the proposed letter be subject to prior approval by the court to ensure that it contains no "inappropriate language".

See discussion and final order issued in *Voltage Pictures LLC* v. *John Doe*, 2014 FC 161.

The statutory prohibitions and court ordered restrictions do not generally apply to demand letters respecting allegations of copyright infringement which are not sent through ISP's. Nevertheless, it may be prudent to consider the court's concerns about the

content of such letters in these cases, especially if proposing to send demand letters to multiple recipients who may or may not be sophisticated in legal matters.

Demand Letters for Patent Infringement

Effective December 13, 2018, the *Patent Act* was also amended to add section 76.2 entitled "Written Demands" which includes provisions that promise to impose specific requirements for demand letters alleging patent infringement. This section provides that "[a]ny written demand received by a person in Canada, that relates to an invention that is patented in Canada or elsewhere or that is protected by a certificate of supplementary protection in Canada or by analogous rights granted elsewhere, must comply with the prescribed requirements".

To my knowledge, no regulations have been enacted to date which set out the "prescribed requirements". However, the background information for the legislation indicates that the "amendment seeks to address concerns that patent owners might use misleading or threatening language to encourage settlements where their right might not otherwise be clearly established".

This suggests that, at minimum, demand letters relating to patents will have to identify the subject patent(s) (by name and number) and provide particulars as to how the recipient has allegedly infringed the patent so that the recipient can evaluate the merits of the claim. It also suggests that the letters should avoid overstating the claim in hyperbolic and/or threatening language.

The new section 76.2 goes on to specify that any violation of the requirements may lead to legal proceedings in the Federal Court which may grant "any relief that it considers appropriate" and that a corporation's "officers, directors, agents or mandataries" may be "jointly and severally, or solidarily, liable" for such defects if not rectified within a reasonable time period after being notified of same.

As the agent for their client, it appears that lawyers and law firms may also be liable for any violation of these requirements if they fail or refuse to correct any alleged defects. An alleged violation of the requirements may therefore raise a conflict of interest between the lawyer and the client. If such a conflict arises, it also seems likely that the lawyer may be discharged as counsel for the matter and have to file an insurance claim.

Conclusion

The preparation of demand letters is not without risk. Although often viewed as an opportunity to impress clients, lawyers also need to consider the other audiences who may come to consider the demand letter, including both judges and the general public. At worst, a poorly conceived and written demand letter can expose lawyers to potential legal claims and create a conflict of interest between the lawyer and their client.

Disclaimer: The content of this article is intended to provide a general guide to the subject matter. Specialist advice should be sought about your specific circumstances.