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HOW ETHICS RULES CAN BE USED TO ADDRESS TRADEMARK BULLYING*

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I. INTRODUCTION

“Trademark bullying” is a term that has developed to describe the practice, seen by some as prevalent, of overly aggressive tactics used by a trademark owner to enforce rights beyond the scope of the actual legal protection afforded to the owner’s trademark. In a typical scenario, the trademark bully is a large entity with significant legal and economic resources, and the target is an individual or a smaller entity that may lack the means or resolve to respond and therefore may capitulate quickly despite having a valid defense.

One tool of the trademark bully is the cease and desist letter, which asserts the trademark owner’s putative broad rights and lists the parade of horrors that will ensue if the recipient does not immediately back down. To be clear, trademark cease and desist letters are often used by virtually all trademark owners in the course of legitimately enforcing their trademark rights. A cease and desist letter crosses the line and becomes trademark bullying only where the letter asserts rights and remedies beyond those actually available and/or takes a particularly egregious tone in doing so. Of course, the scope of enforceable trademark rights can be a gray area, and trademark law requires mark owners to enforce their rights proactively or face the possibility of losing them. As a result, the question of how aggressive is too aggressive is one that is not easily answered.

As discussed in this article, our legal systems have developed mechanisms for preventing unreasonably aggressive legal tactics, but many of those mechanisms (such as Rule 11 sanctions¹) come

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1. Rule 11 of the Federal Rules of Civil Procedure applies to all pleadings filed in a federal court of the United States and thus applies to most trademark actions. By filing a pleading, the party signing the pleading certifies that “to the best of the person’s knowledge, information, and belief, formed after an inquiry reasonable under the circumstances: (1) [the pleading] is not being presented for any improper purpose, such as to harass, cause unnecessary delay, or needlessly increase the cost of litigation; (2) the claims, defenses, and other legal contentions are warranted by existing law or by a nonfrivolous argument for extending, modifying, or reversing existing law or for establishing new law; (3) the factual contentions have evidentiary support or, if specifically so identified, will likely have evidentiary support after a reasonable opportunity for further investigation or discovery;

into play only after an actual litigation has commenced. Because a trademark bully's aim often is to goad its adversary into submission at an early stage without requiring formal legal action, these mechanisms may not effectively deter bullying at the pre-litigation stage.

The trademark bullying concern was recently addressed in the Trademark Technical and Conforming Amendment Act of 2010 ("Conforming Act"). The law included a provision giving the government one year to study and report on the extent of harm caused by litigation tactics in the trademark arena and what ought to be done about it.² In introducing the requirement for study, Vermont Senator Patrick Leahy said:

I am concerned that large corporations are at times abusing the substantial rights Congress has granted them in their intellectual property to the detriment of small businesses. We saw a high-profile case like this in Vermont last year involving a spurious claim against Rock Art Brewery. When a corporation exaggerates the scope of its rights far beyond a reasonable interpretation in an attempt to bully a small business out of the market, that is wrong.

The study was conducted largely by the United States Patent and Trademark Office (USPTO), and its findings were issued in a report by the Department of Commerce in April of 2011 (the "Report").³ Although the statute spoke in terms of "litigation tactics," the initial USPTO notice seeking public comments used the term "bullies," as had Senator Leahy. The notice described a bully as "a trademark owner that uses its trademark rights to harass and intimidate another business beyond what the law might be reasonably interpreted to allow." The USPTO later removed the "bully" references and instead spoke in terms of "litigation tactics" to mirror the actual language in the legislation. The Report concluded that the problem is not so great as to require

and (4) the denials of factual contentions are warranted on the evidence or, if specifically so identified, are reasonably based on belief or a lack of information."

2. S. 2968 Trademark Technical and Conforming Amendment Act of 2010, Pub. L. No. 111-146 (2010) (providing amendments to the Lanham Act and for the Secretary of Commerce, in consultation with the Intellectual Property Enforcement Coordinator, to study and report any policy recommendations deemed appropriate to the Committee on the Judiciary of the Senate and the Committee on the Judiciary of the House of Representatives on "the extent to which small businesses may be harmed by litigation tactics the purpose of which is to enforce trademark rights beyond a reasonable interpretation of the scope of the rights granted to the trademark owner" and "the best use of Federal Government services to protect trademarks and prevent counterfeiting.").

3. Department of Commerce, Report to Congress: Trademark Litigation Tactics and Federal Government Services to Protect Trademarks and Prevent Counterfeiting (2011) available at <http://www.uspto.gov/ip/officegovaffairs.jsp> www.uspto.gov/ip/officegovaffairs.jsp.

legislation on the matter.⁴ For the reasons described in the Report, and discussed below, the authors of this article believe this was the correct result.

This article also proposes that new legislation is not needed to deter inappropriately aggressive trademark tactics because legal ethics rules provide an adequate framework for addressing truly unsupportable actions by trademark counsel. Part II of this article provides a brief overview of existing mechanisms to combat over-aggressive assertions of trademark rights, aside from ethical rules. Part III describes domestic legislative efforts directed to the problem and describes the USPTO's findings and its recommendations. Part IV discusses the factors that mark owners must evaluate before contacting a potential infringer. Part V explains which ethical rules might be implicated by trademark bullying and concludes that the ethics framework is suitably equipped to combat truly egregious trademark bullying tactics, particularly in the pre-litigation stage.

II. EXISTING LEGAL MECHANISMS TO COMBAT OVER-AGGRESSIVE ASSERTIONS OF TRADEMARK RIGHTS

Efforts to combat over-aggressive assertions of trademark rights are nothing new in either the United States or abroad. From Rule 11 sanctions to being labeled a reverse domain name hijacker, going too far in asserting trademark rights can have serious repercussions.

A. Rule 11 Sanctions

Rule 11 sanctions are available in federal trademark suits just as they are in any other federal litigation. The standard for determining whether to award Rule 11 sanctions is fairly high in that it requires "objective unreasonableness." Objective unreasonableness can be a particularly difficult showing in trademark cases in which the standard for determining whether there is a likelihood of confusion is murky in and of itself. As a result, Rule 11 sanctions are frequently denied in trademark cases. This is particularly so in early stages of litigation. For example, the Southern District of New York has held that even if a plaintiff's trademark infringement claims lacked legal and factual support in its pleadings, such a deficiency would not be

4. For the most part, the Report referred to mechanisms available to address overreaching in the context of litigation. The Report concluded: "Ultimately, because trademark enforcement is a private property rights litigation issue, if abusive tactics are a problem, such tactics may best be addressed by the existing safeguards in the litigation system and by private sector outreach, support and education relating to these issues."

sanctionable under Rule 11.⁵ This, held the court, is because the presumption at such an early stage in the litigation is that there is, or likely will be, evidentiary support for the allegation, not that the plaintiff will prevail.⁶ With such a high standard for issuing sanctions at the complaint stage of the litigation, there is little reason to believe that the standard would be lower, as it relates to activity at the pre-litigation stage.

In any event, Rule 11 sanctions do not present an effective tool against trademark bullies who merely send letters, as they are available only after litigation has commenced. They are not available at the pre-litigation stage at which only demand letters have been sent. Thus, although demand letters can be relevant in a court's determination of whether to issue sanctions after a suit has been brought, sanctions are not available to thwart bullying where an actual suit is never commenced.

B. Declaratory Judgment

One factor that should deter overly aggressive trademark demand letters is the risk that the recipient could initiate an action seeking a declaratory judgment of noninfringement. To bring an action for a declaratory judgment, the plaintiff only needs to show that there is a justiciable controversy. And such controversy will generally be found to exist solely on the basis of a demand letter asserting claims for infringement. Even where a letter does not expressly assert that its writer will seek redress in court and wishes only to settle the matter amicably, courts have held that a justiciable controversy exists.⁷ Thus, a recipient of a baseless or unreasonable trademark demand letter is generally entitled to seek redress in such a declaratory judgment action. In addition to forcing the trademark bully to prove its claim, a declaratory judgment action enables the bullied party to forum-shop for a jurisdiction with law more favorable to its noninfringement claim, and more convenient for it than for the bully. However, this factor will not always be an effective deterrent because it requires that the bullied party initiate federal court litigation, which could be prohibitively expensive. Indeed, the trademark bully typically sends such letters banking on the fact that the recipient does not have the means to retaliate through a declaratory judgment action.

5. *E. Gluck Corp. v. Rothenhaus*, 252 F.R.D. 175, 181 (S.D.N.Y. 2008).

6. *Id.*

7. *See, e.g., McKee Foods Kingman v. Kellogg Co.*, 474 F. Supp. 2d 934 (E.D. Tenn. 2006).

C. Reverse Domain Name Hijacking and URS Abusive Complaints

In the context of actions brought under the Uniform Dispute Resolution Policy (UDRP), which governs domain name arbitrations in the current gTLD domain system,⁸ the UDRP Rules include a provision enabling the arbitrators to find that a domain name complaint brought in bad faith constitutes “reverse domain name hijacking.”⁹ Being labeled a reverse domain name hijacker does not carry any specific penalty, but it does make future enforcement under the UDRP system more difficult, as future UDRP respondents can cite to the earlier decision as indicative of the complainant’s overly aggressive tactics.

Similarly, the procedures for the new Uniform Rapid Suspension (URS), which will be available for domain names launched under the new gTLD system,¹⁰ include a provision pertaining to abusive complaints and a penalty for filing more than one complaint that is deemed abusive.¹¹

While these procedures may create some deterrent to bullying in the domain name context, their applicability is limited to such disputes and, therefore, do not provide a solution in the context of general trademark disputes.

D. Groundless Threats in the United Kingdom

The United Kingdom Trade Marks Act of 1994 includes a prohibition on assertion of “groundless threats.”¹² Under this provision, if the owner of a registered trademark sends a demand letter asserting a claim of infringement, and such claim is determined to be groundless, the sender can be liable for damages.

8. The current gTLD system includes *.com*, *.net*, and *.org*, as well as the less common *.aero*, *.asia*, *.biz*, *.cat*, *.coop*, *.info*, *.jobs*, *.mobi*, *.museum*, *.name*, *.pro*, *.tel*, and *.travel*.

9. Rules for Uniform Domain Name Dispute Resolution Policy, Section 15(e), <http://www.icann.org/en/help/dndr/udrp/rules>.

10. New gTLDs are expected to launch commencing in late 2013 or early 2014. See <http://newgtlds.icann.org/en>.

11. A complaint may be deemed abusive if the examiner determines: (1) it was presented solely for improper purpose such as to harass, cause unnecessary delay, or needlessly increase the cost of doing business; and (2) (i) the claims or other assertions were not warranted by any existing law or the URS standards; or (ii) the factual contentions lacked any evidentiary support. An examiner may also find that complaint contained a deliberate material falsehood if it contained an assertion of fact, which, at the time it was made, was made with the knowledge that it was false and which, if true, would have an impact on the outcome on the URS proceeding. In the event a party is deemed to have filed two abusive complaints, or one “deliberate material falsehood,” that party shall be barred from utilizing the URS for one-year following the date of issuance of a determination finding a complainant to have: (i) filed its second abusive complaint; or (ii) filed a deliberate material falsehood. See <http://newgtlds.icann.org/en/applicants/urs>.

12. Trade Marks Act, 1994, c. 26 § 21, available at <http://www.legislation.gov.uk/ukpga/1994/26/section/21>.

There are a number of limitations to this rule (for example, it generally applies only to registered trademarks and only with respect to goods, not services). As a result of this groundless threats provision, demand letter practice in the United Kingdom is fraught with pitfalls, and trademark owners are well advised to seek U.K. counsel's advice before sending demand letters to recipients in that country.

E. Other Possibilities

Although not specific to IP, other legal remedies have been used to attack parties who might be deemed bullies in the pre-litigation stage. "Attorney to the stars" Marty "Mad Dog" Singer is apparently famous for his intimidating letters on behalf of celebrities. Recently, the Los Angeles Superior Court held that one of his letters went too far and that the letter's demands were "conclusive evidence of extortion as a matter of law" because it imputed to the recipient "some disgrace or crime or [to] expose some secret affecting him for purposes of obtaining money."¹³ Thus, in situations where a demand letter rises to this level, it would appear that at least some jurisdictions might provide the bullied mark owner with some relief.

III. PROPOSED ANTI-BULLYING LEGISLATION

In light of the harm that some perceive trademark bullying to have inflicted on small businesses in particular, state and federal legislative efforts have been made to address it.

A. Minnesota Proposed Legislation

Last year, Minnesota Representative Joyce Peppin, who was also a student at William Mitchell School of Law, proposed a bill entitled the Minnesota Small Business Trademark Protection Act.¹⁴ The bill proposed a requirement that trademark demand letters to Minnesota recipients contain a provision notifying the recipient of the entitlement of either party to initiate a settlement conference before the Minnesota Office of Administrative Hearings. If initiated, both parties would be required to participate in such conference or possibly face a \$1,500 fine. If no settlement were reached at the conference, the administrative law judge presiding over such conference would have been empowered, either on its own, or at the request of a party, to issue a summary of the

13. Stan Sinberg, *The Muck Stops Here: Celebrities Call on Marty Singer When They Need to Make a Story Disappear*, Calif. Law. (July 2012), <http://www.callawyer.com/clstory.cfm?eid=923327>.

14. H.F. 2996, 87th Sess. (Minn. 2012), available at <https://www.revisor.mn.gov/bin/bldbill.php?bill=H2996.0.html&session=1s87>.

case, including a determination of whether the claim constituted trademark bullying. If a Minnesota state district court were to find that the plaintiff engaged in trademark bullying, it could have imposed treble damages. Also, if a party were found to have engaged in trademark bullying twice in ten years, its right to conduct business in Minnesota could have been revoked.

The proposed bill ultimately died. Unfazed, however, Peppin introduced a new bill dealing with trademark bullying this year.¹⁵ The new bill, however, does not affect bullying at the demand letter stage. It still allows for the recovery of prevailing parties to be trebled when the suit is initiated by a trademark bully.¹⁶ Trademark bullying is defined as “using litigation tactics in an attempt to enforce trademark rights beyond a reasonable interpretation of the scope of the rights granted to the trademark holder.”¹⁷ What constitutes reasonableness is an open question. Moreover, there are significant questions concerning the enforceability of such a law, including federal trademark preemption and ambiguity in the measure of damages that would be trebled because no damages are typically awarded to a successful defendant in trademark infringement litigation. Nevertheless, the effort to enact such a law rightfully catches the attention of trademark owners, given the potential for liability that it could impose on parties seeking to enforce their trademark rights.

B. Possible Federal Legislation

As mentioned earlier, a provision of the Conforming Act, added by Senator Patrick Leahy of Vermont, required that the government conduct a study on the effects of trademark bullying and whether legislation is necessary to combat it.

The study, which was conducted by the USPTO, analyzed current trademark enforcement as well as the impact of such enforcement on the marketplace. It evaluated the scope of trademark rights and litigation. As for trademark bullying at the pre-litigation stage, it found that empirical evidence was lacking and solicited public comment to determine its impact. It sought feedback from trademark owners and practitioners “regarding their experience with litigation tactics, especially those involving an attempt to enforce trademark rights beyond a reasonable interpretation of the scope of the owner’s rights.”¹⁸ One prompt used by the USPTO in soliciting comment included the following:

15. H.F. 1116, 88th Sess. (Minn. 2013), *available at* <http://www.duetsblog.com/files/2013/03/MNTMBullying.pdf>.

16. *Id.*

17. *Id.*

18. Report at 15.

Please describe situations where you have been involved in receiving a cease-and-desist letter. Anecdotal information might include, but is not limited to, a description of whether the letter resulted in the small business ceasing its use of one or more marks, or whether the sender of the cease-and-desist letter withdrew or abandoned its demands against the small business owner.¹⁹

This prompt was clearly meant to determine the impact of trademark bullying at the demand letter stage. Comments were received from several stakeholders groups such as the International Trademark Association (INTA), the American Intellectual Property Law Association (AIPLA), and the Intellectual Property Owner's Association (IPO).²⁰

For its part, INTA responded that regulation was not the answer and that education would be a better solution. It deemed the remedies available at law for overly aggressive assertions of trademark rights as sufficient, and cited the availability of sanctions, attorney's fees, declaratory judgments, and reprimands from state bars. Further, it regarded cease and desist letters as important tools—whether overly aggressive or not—to enable parties to enter into a negotiation or alternative dispute resolution, thereby preventing the burden of litigation for either party.

The AIPLA largely echoed the sentiments of INTA. It pointed out how existing trademark law does not merely permit mark owners to be aggressive, it *requires* them to be. It cited Judge Leval's discussion regarding Procter & Gamble after it lost a trademark suit. "Procter & Gamble cannot be faulted for zealously protecting [its] trademark interest. Indeed, the trademark law not only encourages but requires one to be vigilant on pain of losing exclusive rights."²¹ AIPLA also discussed the notion that small businesses have the David & Goliath angle on their side, which enables them to rally public support in their favor and publicly shame a large, overly aggressive mark owner. If effective, this strategy would be available at even the demand letter stage.

The IPO's view is that trademark bullying needs no regulation because mark owners are keenly aware of the need to appear before a court with "clean hands" and because, more often than

19. Report at 17.

20. See INTA, Request for Comments: Trademark Litigation Tactics (Jan. 4, 2011), <http://www.inta.org/Advocacy/Documents/January42011TMLitigationTactics.pdf>; AIPLA, Response to USPTO "Request for Comments on Trademark Litigation Tactics" (Jan. 7, 2011), <http://www.aipla.org/advocacy/executive/2011/Documents/AIPLA%20Comments%20to%20UPSTO%20on%20TrademarkLitigationTactics-01.7.11.pdf>; IPO, IPO's Response to the USPTO Study on Trademark Litigation Tactics (Jan. 7, 2011), http://www.ipo.org/AM/Template.cfm?Section=Board_Resolutions_and_Position_Statements&template=/CM/ContentDisplay.cfm&ContentID=28192.

21. Procter & Gamble Co. v. Johnson & Johnson, Inc., 485 F. Supp. 1185, 205 U.S.P.Q. 697 (S.D.N.Y. 1979).

not, the real goal in a trademark case is equitable relief. This means that truly objectionable demand letters are deterred at the outset by the mark owner's desire for an injunction. The IPO also opined that labeling large mark owners alone as bullies is a misnomer because there are many examples of smaller mark owners engaging in bullying tactics. For example, a small mark owner with weak rights asserting broad protection over a larger mark owner in an attempt to extract payment, aka a trademark troll.

The USPTO largely agreed with the comments of the foregoing associations and concluded that education as opposed to regulation was the proper course of action in combating trademark bullying. Given that the overarching concern of the study in the first place was protecting small businesses because of their lack of funds to hire counsel, the Department of Commerce, in consultation with the Intellectual Property Enforcement Coordinator, agreed to take a three-pronged approach: (1) engage the private sector and encourage it to provide free or low-cost legal advice to small businesses via *pro bono* programs and clinics; (2) engage the private sector and encourage it to offer continuing legal education programs focused on trademark policing measures and tactics; and (3) enhance federal agency education outreach programs by identifying resources that enable small businesses to further their understanding of trademark rights, enforcement measures, and available resources for protecting and enforcing trademarks.²²

Thus, at least for now, the mechanisms in place for thwarting trademark bullying will remain the same at the federal level except that trademark owners may now have more access to information about their rights. This increase in education should assist a smaller mark owner in evaluating the legitimacy of claims and rights asserted in a demand letter, and to know when such claims may be an unsupportable bluff.

IV. SELF-HELP MEASURES: SHAMING THE BULLY

Several cases have attracted press lately in which the smaller recipient of an aggressive demand letter has utilized the Internet as an effective means to "shame" the sender of the demand letter into a settlement favorable to the recipient. One such recent case involved a Vermont microbrewery that produces a beer called VERMONSTER. The company received a demand letter from the makers of MONSTER energy drinks asserting that there would be confusion between the two beverages and demanding that the brewery change the name of its beer.²³ The brewery fought back

22. Report at 26.

23. See "Little guy" wins Goliath Vermonster battle, Associated Press (Oct. 22, 2009), <http://abclocal.go.com/ktrk/story?section=news/bizarre&id=7078063>.

with an Internet campaign against Monster that ran mostly on Facebook. This produced a very quick settlement between the two companies, but not before causing a lot of damage. Not only did Monster take a major public relations hit, but it was this dispute that prompted Senator Leahy to include the trademark bullying study in the Conforming Act.

In another recent widely publicized case, Chick-fil-A has taken flak for going after an individual t-shirt maker, Robert “Bo” Muller-Moore (who, strangely enough, is also based in Vermont), for using the mark EAT MORE KALE.²⁴ In demand letters sent to Muller-Moore, Chick-fil-A asserted confusion between that mark and its EAT MOR CHIKIN tagline and filed a letter of protest against Muller-Moore’s trademark application for his mark.²⁵ The USPTO granted the letter of protest and issued an office action refusing Muller-Moore’s application, and the case remains pending.

These examples counsel against more than just avoiding Vermont. They instruct that mark owners need to be particularly careful in their approach to entities that they believe present potential infringement concerns. Given the wide availability of the Internet and social media, a mark owner is far more likely to be branded a trademark bully than ever before. Indeed, there have been many (generally less well publicized) cases over the years, in which even a flagrant infringer may utilize the Internet or social media in an effort to embarrass the trademark owner (such as by posting the demand letter or other objectionable content about the trademark owner or its counsel). Consumer-facing companies, which may be more sensitive to the public relations blowback associated with such bad press, therefore, may be deterred from sending strong demand letters.

Instead, some companies may opt to send a “soft” or “friendly” demand letter in the hopes that the recipient will be less inclined to make a public spectacle out of the matter and to look better in the event the letter is posted. One such example that has garnered a great deal of recent attention is the demand letter sent by Jack Daniel’s Properties to an author named Patrick Wensink relating to the cover art used for his book *Broken Piano for President*. The cover, as shown below, is an obvious copy of the Jack Daniel’s label:

24. See Jess Bidgood, *Chicken Chain Says Stop, but T-Shirt Maker Balks*, N.Y. Times (Dec. 4, 2011), http://www.nytimes.com/2011/12/05/us/eat-more-kale-t-shirts-challenged-by-chick-fil-a.html?_r=0.

25. U.S. Trademark Application Serial No. 85/412,053.



In an article in the *Atlantic* entitled “This Cease-and-Desist Letter Should Be the Model for Every Cease-and-Desist Letter,” Megan Garber characterized the Jack Daniel’s letter as perhaps “the most polite, encouraging, and empathetic cease-and-desist letter ever to be sent in the history of lawyers and humanity.”²⁶

While it is true that the Jack Daniel’s model of demand letter may enable the trademark owner to avoid the stigma of being publicly branded a trademark bully, one must wonder whether it would be effective against a more nefarious infringer. Moreover, while it may create public relations issues with customers, being publicly recognized as an aggressive enforcer of one’s rights can also encourage other parties to steer clear of making trademark uses that arguably infringe. By contrast, being publicly seen as a soft-pedal enforcer might have the opposite effect, making third parties more inclined to engage in uses that arguably infringe. So, trademark owners should seek to internally balance their companies’ interests in avoiding public relations issues, on the one hand, with the benefit of being regarded publicly as a strong enforcer of trademark rights, on the other hand.

V. ETHICS RULES AS A POSSIBLE FRAMEWORK

As discussed above, while there are existing measures in place that can be effective to address and deter trademark bullying in certain circumstances, there is a perception that such measures may not be adequate, particularly in the context of overly aggressive demand letters. However, the professional responsibility rules in place in each state and before the USPTO provide an additional level of protection, which may be a sufficient safeguard against demand letters that are truly bullying. Because such rules govern an attorney’s behavior in all activities (i.e., not

26. Megan Garber, *This Cease-and-Desist Letter Should Be the Model for Every Cease-and-Desist Letter*, *The Atlantic* (Jul. 23, 2012), <http://www.theatlantic.com/technology/archive/2012/07/this-cease-and-desist-letter-should-be-the-model-for-every-cease-and-desist-letter/260170/#>.

just litigation), unlike sanctions, ethics rules apply even in cases that never proceed to a formal legal proceeding.

Currently, but for some minor variations, nearly all states follow the American Bar Association (ABA) Model Rules of Professional Conduct, while the USPTO follows the USPTO Code of Professional Responsibility. The USPTO's Code is based on the 1980 version of the ABA Model Code of Professional Responsibility, but at some point in 2013 will be changed to align more closely with the ABA's 2011 version of the Model Rules of Professional Conduct.²⁷ The change also includes adoption of the Model Rules' comments and will give practitioners and others more guidance on what is expected at the USPTO. The USPTO will continue to rely on its own ethics opinions but will also accept the different states' ethics opinions as persuasive authority.²⁸ In light of the USPTO's pending transition, discussion of the relevant rules in this article is limited mostly to those from the 2011 version of the Model Rules of Professional Conduct.²⁹

A. Relevant Model Rules

Rule 1.0: Terminology

Unsurprisingly, an attorney writing a fraudulent demand letter can be disciplined. Some jurisdictions differ, however, and require more than merely a false assertion. New York, for example, requires scienter, and the USPTO requires that a party suffer harm as a result of relying on the misrepresentation. Both of these definitions appear to set a higher standard than the Model Rules.

The Model Rules define "fraud" or "fraudulent" as conduct under the substantive or procedural law of the applicable jurisdiction that has a purpose to deceive. Comment 5 then states that this does not include merely negligent misrepresentation or negligent failure to apprise another of relevant information.

In New York's version of the Model Rules, "fraud" has the same definition but excludes conduct that lacks scienter, deceit, intent to mislead, or knowing failure to correct misrepresentations that can be reasonably expected to induce detrimental reliance by another.

27. Changes to Representation of Others Before the USPTO, 77 Fed. Reg. 64190, 64191 (proposed Oct. 18, 2012). The proposed rules exclude certain Model Rules such as those pertaining to criminal practice, but do not foreclose the possibility that punishment in another jurisdiction for violation of a rule of criminal practice will not result in discipline before the USPTO.

28. *Id.*

29. All discussion of the Model Rules and their respective comments comes from the *Model Rules of Professional Conduct* (2011).

The USPTO has decided to adhere to the common law definition of fraud as defined by the Federal Circuit. The Federal Circuit has held that the elements of fraud include:

(1) a representation of a material fact, (2) the falsity of that representation, (3) the intent to deceive or, at least, a state of mind so reckless as to the consequences that it is held to be the equivalent of intent (*scienter*), (4) a justifiable reliance upon the misrepresentation by the party deceived which induces him to act thereon, and (5) injury to the party deceived as a result of his reliance on the misrepresentation.³⁰

Despite the slightly higher standards of New York and the USPTO, an attorney writing a letter found to be fraudulent in a jurisdiction that follows a lower standard could still result in discipline in jurisdictions that follow a higher standard. This is because nearly all jurisdictions provide reciprocal treatment for the disciplinary findings of one another's bar associations. Accordingly, attorneys writing demand letters should be mindful of the ethics rules of all the jurisdictions in which they practice. Particularly, attorneys should be familiar with the Model Rules generally, as that is what the USPTO mostly adheres to. And, as if it needs to be said, a good general rule of thumb is that an attorney should not intentionally lie, no matter what the standard.

Rule 1.3: Diligence

Rule 1.3 requires that a "lawyer shall act with reasonable diligence and promptness in representing a client." Comment 1 then states that a lawyer must act with dedication to the client's interests and "with zeal in advocacy upon the client's behalf." This zealotry requirement may be how many attorneys justify writing an overly broad/borderline offensive demand letter. The comments advise, though, that the lawyer's "duty to act with reasonable diligence does not require the use of offensive tactics or preclude the treating of all persons involved in the legal process with courtesy and respect." New York's comments take it a step further by stating that lawyers "should not use offensive tactics."

So while an attorney must act with zeal, this does not excuse treating the other party with disrespect. Thus, an attorney would be wise to avoid bullying behavior. Indeed, even situations in which a letter does not overly state the mark owner's rights could result in discipline if written in an inappropriate manner.

Rule 3.1: Meritorious claims and contentions

Rule 3.1 is a prohibition against asserting frivolous claims. The rule is like Rule 11 in that its applicability is reserved for

30. *Unitherm Food Sys., Inc. v. Swift-Edrich, Inc.*, 375 F.3d 1341, 1358 (Fed. Cir. 2004).

situations where a formal proceeding has been commenced. Still, it should inform how an attorney approaches the demand letter. The comments state that an action is “not frivolous even though the lawyer believes the client’s position ultimately will not prevail.” Believing and knowing for a fact, however, are distinctly different. Therefore, even at the demand letter stage, if an attorney writes a letter he knows to be utterly meritless, he could find that he has broken other ethics rules, such as Rule 4.1, described below, which requires truthfulness in statements to others. Accordingly, while the rule against frivolous claims technically pertains only to a trademark bully who files suit, it should also inform and deter attorneys from asserting such claims even in the demand letter.

Rule 4.1: Truthfulness in statements to others

Rule 4.1 of the Model Rules prohibits attorneys from making “a false statement of material fact or law to a third person.” Further, this rule can be implicated where a lawyer incorporates or affirms a statement of another person that the lawyer knows to be false, and where a lawyer makes a partially true but misleading statement that is the equivalent of an affirmatively false statement.

This rule appears to be directly available as a deterrence to trademark bullying. It would seem that if a lawyer wrote a demand letter asserting rights she knew her client absolutely did not have, she might be liable for discipline under this rule.

Rule 4.4: Respect for rights of third persons

This rule is similar to Rule 1.3 insofar as it affirms the notion that a lawyer should not be disrespectful to others in zealously representing his own client. It states that “lawyer[s] shall not use means that have no substantial purpose other than to embarrass, delay, or burden a third person” While this rule also appears to apply more to situations where a suit has been commenced, it should also inform the manner in which a lawyer goes about dealing with an alleged infringer. There is no value in embarrassing the other side either in a demand letter or any other method.

Rule 8.4: Misconduct

Rule 8.4 serves as a bit of a catchall. It is Rule 8.4 that forbids the fraudulent conduct defined in Rule 1.0. In addition to prohibiting fraud, the rule also proscribes violation or attempted violation of any of the ethical rules, criminal acts, conduct prejudicial to the administration of justice, improper influence, and knowingly assisting a judge or another in prohibited conduct. The comments elucidate that what matters here is conduct adverse

to the practice of law. The profession wants to curb behavior that suggests a lawyer lacks the requisite character to practice. The comments also suggest that one offense in isolation may not amount to a breach of the ethical rules but that repeated, seemingly insignificant offenses could amount to a breach when taken together.

Rule 8.4 is particularly relevant to the trademark bullying issue. For the most part, a lawyer would presumably not go beyond the fray, particularly after a suit has begun, given the stiff penalties available to the other side. The same lawyer, however, may feel much more comfortable with writing outrageous demand letters. And the lawyer might even get away with it a few times. If the lawyer develops a pattern, though, and enters the realm of trademark bullying, Rule 8.4 could potentially be implicated.

B. Other Ethical Considerations

Of additional importance is the Model Code of Professional Responsibility. As mentioned, it is the 1980 version of the Model Code to which the USPTO currently adheres—but it will be changing. Even after the change, however, the Model Code will remain important because all the ethical rules are derived from canons of ethics, which have remained relatively constant throughout the years. Thus, most of the Model Rules are based in some way on the Model Code. As a result, opinions issued under the Model Code will continue to have a bearing on ethics issues being decided under the Model Rules. Accordingly, opinions issued under the Model Code will continue to be relevant and carry persuasive authority before the USPTO and other jurisdictions.

Ethics opinions issued by the New York State Bar Association Committee on Professional Ethics help to provide insight on how an ethics framework might address trademark bullying as early as the demand letter stage.

One opinion found misconduct where a lawyer wrote a letter to a debtor on behalf of a creditor threatening to file suit when, in fact, the lawyer knew that the creditor would not be filing suit.³¹ This represented fraud by knowingly making a false statement of law or fact. While required zeal would warrant such a letter where the client was uncertain about bringing suit, a demand letter stating otherwise is unethical where the attorney knows its client has no intention of bringing suit. And this was a situation in which the client actually had rights. As a result, it would appear that if a New York trademark practitioner threatened suit in a demand letter and knew that no suit would be filed, he would be in

31. New York State Bar Association (NYBSA) Comm. on Prof'l Ethics, Formal Op. 293 (1973) (discussing DR 1-102(A)(4) and DR 7-102(A)(5) of the Model Code, which are comparable to Model Rules 4.1 and 8.4, thus ensuring that the opinion is still precedential).

violation of the ethics rules, especially if it was the traditional trademark bullying scenario involving an overbroad assertion of rights.

Also pertinent to the trademark bullying context is the provision of the Model Code that states a lawyer shall not present, participate in presenting, or threaten to present criminal charges solely to obtain an advantage in a civil matter.³² This rule has slight variations throughout the country about what “presenting criminal charges” means and what “solely obtaining an advantage” means. Regardless of how it is interpreted, though, it can be particularly relevant given the federal and local criminalization of counterfeiting. Indeed, a lawyer may be found to have violated the disciplinary rule when he asserts that a mark owner is criminally liable for counterfeiting and threatens such action to bring about a civil advantage for his client.

VI. CONCLUSION

In conclusion, the authors agree with the position stated by INTA, AIPLA, and IPO and adopted by the USPTO that concerns regarding trademark bullying do not justify new legislation, and instead there are sufficient safeguards in the form of sanctions, declaratory judgment actions, reverse domain name hijacking provisions, self-help, social media, and Internet publicity to address egregious conduct by trademark counsel. The authors further support the USPTO’s recommendations for public education and outreach to smaller mark owners, both by the public and private sectors, because an informed public is less likely to be vulnerable to bullying. But, when extreme trademark bullying does occur, as discussed above, ethics rules may provide a further avenue for recourse.

32. See, e.g., NYSBA Comm. on Prof'l Ethics, Formal Op. 772 (2003) (discussing DR 1-102(A)(4) of the Model Code, which is comparable to Model Rules 4.1 and 8.4, thus ensuring that the opinion is still precedential).