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The Race to the Courthouse: Using the "First-to-File" Rule to Save Judicial Resources

For decades, the "first-to-file rule" has guided courts in determining the appropriate venue for litigation by creating a rebuttable presumption in favor of the first litigation filed where litigants file competing and substantially overlapping litigations in different jurisdictions. While the presumption can be rebutted in certain instances, the Southern District of New York recently evaluated the "first-to-file" rule and confirmed that it is alive and well and litigants should be guided accordingly.

The Case: *Fit & Fun Playscapes, LLC v. Sensory Path, Inc.*

In *Fit & Fun Playscapes, LLC v. Sensory Path, Inc.*, No. 19 CIV. 11697 (NSR), 2022 WL 118257 (S.D.N.Y. Jan. 12, 2022), Fit & Fun Playscapes (FAF) brought an action in the Southern District of New York (the NY Action), asserting claims against Sensory Path, Inc. (SPI) and several individual defendants (together, the SPI Defendants) for copyright infringement in connection with graphic designs of stencils and decals used to reduce sensory stimulation and promote movement in schoolchildren. The SPI Defendants moved to dismiss or transfer the NY Action to the Northern District of Mississippi on the basis that there was a duplicative litigation (the MS Action) already pending there."

SPI filed the MS Action against FAF and its founder one day after receiving a cease-and-desist letter from FAF, in which SPI was accused of infringing on FAF's copyright for its graphic designs and decals. In the MS Action, SPI sought, among other things, a declaration of non-infringement of FAF's copyright and asserted claims alleging unfair competition. Months later, FAF filed the NY Action against SPI, alleging copyright infringement.

In considering the SPI Defendants' motion to dismiss or transfer the NY Action, Judge Nelson Román analyzed the applicability of the "first-to-file" rule, which states that, "in determining the proper venue, where there are two competing lawsuits, the first suit should have priority. The United States Supreme Court has recognized some of the purposes of the longstanding "first-to-file" rule to include the "conservation of judicial resources" and the "comprehensive disposition of litigation." Judge Román recognized, however, that the "first-to-file" rule acts not as an "invariable mandate," but as a presumption in favor of the first filed complaint.

While Judge Román recognized there to be a split in authority as to whether the court of the first or subsequent action should decide whether the "first-to-file" rule applies, he ruled, recognizing the resources already expended by the Mississippi court, that he would make the determination in this case. The question of whether the "first-to-file" rule applied, Judge Román explained, requires careful consideration of whether the two actions are duplicative in that they have "substantial overlap" in the form of "identical or substantially similar parties and claims." On this issue, the court concluded that the NY Action and the

MS Action substantially overlapped, even though the claims asserted were not identical because "all claims in both actions . . . involve the same work or product—namely, the stencils and decals the parties' sell as their own in competing against each other, [and] . . . the issue at the core of both actions is whether the parties created their own products independently from one another." In fact, Judge Román found that FAF should have asserted the copyright infringement claim that it asserted in the NY Action as a compulsory counterclaim in the MS Action. Accordingly, the court found that SPI Defendants had established that the "first-to-file" presumption was applicable to the case.

Next, Judge Román considered whether FAF had established the applicability of an exception to the "first-to-file" rule – i.e., whether FAF had overcome the presumption that the NY Action should be dismissed and/or transferred to MS. In finding that FAF had failed to establish that an exception applied, Judge Román first rejected its argument that the MS Action was an improper anticipatory action. An improper anticipatory action is "one made under the apparent threat of a presumed adversary filing the mirror image of that suit in another court," and therefore seeks improperly to exploit the "first-to-file" rule. Because FAF's cease-and-desist letter did not threaten an imminent lawsuit, Judge Román ruled that the improper anticipatory action exception to the "first-to-file" rule was inapplicable.

Judge Román also rejected FAF's argument that SPI had engaged in improper "forum shopping" by filing unrelated and irrelevant claims in Mississippi to gain the "home court advantage." In holding that the "forum shopping" exception was also inapplicable, Judge Román noted that if SPI's claims in the MS Action were irrelevant and meritless, as FAF argued, the Mississippi court would have dismissed them, but it did not.

Lastly, Judge Román considered and rejected FAF's argument that the "balance of convenience" required that the NY Action proceed. The court weighed each of the relevant factors, including the location of the parties, witnesses, documents, and operative facts, and concluded that, on balance, they favored transfer of the NY Action to Mississippi for consolidation with the MS Action.

Judge Román granted the SPI Defendants' motion and transferred the NY Action to the Northern District of Mississippi.

Takeaway:

The "first-to-file" rule is alive and well, and, unless one of its limited exceptions apply, it will be enforced to favor the first filed litigation where litigants attempt to feud in two jurisdictions. A litigant should keep the longstanding "first-to-file" rule in mind, whether on the sending or receiving end of a cease-and-desist letter, and when deciding whether it makes strategic and economic sense to file that second lawsuit after losing a race to the courthouse.