

**Using the “P” Word. The Inside Scoop on Pretext Investigations.\***

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Pretext. The word has been in our language since 1501, from the Latin, *praetextum*, meaning “to disguise”, or literally, “to weave in front”. The notion of “pretexting” burned up the headlines in 2006, after it was discovered that investigators hired by HP, obtained unauthorized access to phone records and bank accounts by impersonating the people whose information they were after. This resulted in the removal or resignation of HP board members, officers and counsel, the filing of lawsuits, a congressional hearing, an SEC inquiry, criminal charges, new legislation and the revelation of poor gate keeping by the major phone companies in protecting their confidential customer information. The effects of the HP debacle still resonate in the legal and business communities to this day. So what does all this have to do with intellectual property investigations?

There are several good reasons why an IP attorney might hire an IP investigative specialist. These might include discovering the first use date of a trademark, gathering evidence of patent marking, researching prior art or acting as a straw man in negotiating for the rights to a trademark, patent or Internet domain name. Investigative firms who specialize in uncovering the issues of use and misuse of trademarks and other intellectual property issues often use pretexts to obtain this information.

The difference is that the term “pretext” (and the associated claims of illegality) was used very broadly in the news to describe a narrow activity by the investigators working for HP. In the IP context, there is precedence in US case law that company attorneys and/or their outside counsel can employ investigators who use pretext inquiries without violating law or ethics to obtain information on their behalf as to the use or infringement of their IP. For a list of the ABA Model Rules of Professional Conduct, see: [http://www.abanet.org/cpr/mrpc/model\\_rules.html](http://www.abanet.org/cpr/mrpc/model_rules.html).

There are limitations of course, which as a detailed reading of the following cases show, that as long as investigators contact low level employees and approach the target of their inquiry as any other consumer would in asking about the sale of goods and services (even if they use a pretext identity) then the courts have said there is no violation of law or ethics. Another notable limitation is when local jurisdictions or a State’s ethical rules trump federal ethics guidelines (see the *Midwest* case below). To date, California, Maine, and New York are the only states that do not have professional conduct rules that follow the format of the ABA Model Rules of Professional Conduct. New York follows the predecessor ABA Model Code of Professional Responsibility, and California and Maine developed their own rules. For a link that lists the individual States that have adopted the ABA Model Rules of Professional Conduct, see: <http://www.abanet.org/cpr/links.html>.

Early cases from NY district courts involving the use of investigators in an IP context include: *Louis Vuitton S.A. v. Spencer Handbags Corp.*, 765 F.2d 966, 227 U.S.P.Q. 377 (2d Cir. 1985); and *Nikon Inc. v. Ikon Corp.*, 803 F. Supp. 910 (S.D.N.Y. 1992), *aff’d*, 987 F.2d 91, 25 U.S.P.Q.2d (2d Cir. 1993). In the first case, the use of private investigators was allowed in providing evidence involving counterfeit handbags. In the second, investigators were employed to provide evidence of “passing off”. In both instances, investigators acted under pretext to gather evidence, which the courts did not question ethically.

In a case that did not involve intellectual property, Weider Sports Equipment v. Fitness First, Inc., 912 F. Supp. 502 (D. Utah 1996), plaintiff hired an investigator to pose as a consumer in pre-litigation contacts with a third party defendant (Icon Health Fitness) to determine if a distribution agreement had been breached. Icon contended that these contacts violated Rule 4.2 of the Utah Rules of Professional Conduct (regarding contact with a represented party) and sought an order to exclude the evidence. The court denied the motion and stated:

What becomes apparent is that Rule 4.2, as Icon would have the court apply it, is not a matter of ethics but becomes, in reality, a rule of political and economic power that shelters organizations, corporations and other business enterprises from the legitimate less costly inquiry and fact gathering process sometimes necessary to make a legitimate assessment of whether a valid claim for relief exists.

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The rigid application of Rule 4.2 to organizational contacts can frustrate the inquiry necessary to meet Rule 11, F.R.C.P. standards. Such as broad construction is irresponsible.

*Id.* at 508

Two years later in Apple Corps Ltd. v. International Collectors Society, 15 F. Supp. 2d 456 (D.N.J. 1998) investigators were hired under attorney direction to purchase collectable stamps bearing the likenesses of John Lennon and the Beatles, after the parties had entered into a consent order that International could no longer sell these stamps to anyone except to members of the Beatles/Lennon Club. The investigators were able to purchase the stamps under a pretext (but not as members of the club). The investigators' efforts under pretext were challenged under New Jersey ethical rules as *ex parte* contact with a represented party. The court stated:

Undercover agents in criminal cases and discrimination testers in civil cases, acting under the direction of lawyers, customarily dissemble as to their identities or purposes to gather evidence of wrongdoing. This conduct has not been condemned on ethical grounds by courts, ethics committees or grievance committees.... This limited use of deception, to learn about ongoing acts of wrongdoing, is also accepted outside the area of criminal or civil-rights law enforcement.... The prevailing understanding in the legal profession is that a public or private lawyer's use of an undercover investigator to detect ongoing violations of the law is not ethically proscribed, especially where it would be difficult to discover the violations by other means.

15 F. Supp. 2d

The following year, in a pivotal ethics case with IP implications, *Gidatex v. Campaniello Imports, Ltd.*, 82 F. Supp. 2d 119 (S.D.N.Y. 1999), a furniture manufacturer sued one of its terminated distributors for trademark infringement. The defendant moved to exclude evidence that plaintiff's private investigator, hired by plaintiff's attorney, obtained by secretly taping conversations with defendant's salespeople. The defendant argued that such conduct violated the ethical rules for attorneys. The court disagreed:

These ethical rules should not govern situations where a party is legitimately investigating potential unfair business practices by use of an undercover posing as a member of the general public engaging in ordinary business transactions with the target. To prevent this use of investigators might permit targets to freely engage in unfair business practices, which are harmful to both trademark owners and consumers in general. Furthermore, excluding evidence obtained by such investigators would not promote the purpose of the rule, namely preservation of the attorney/client privilege.

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In the instant case, enforcement of the trademark laws to prevent consumer confusion is an important policy objective, and undercover investigators provide an effective enforcement mechanism for detecting and proving anti-competitive activity, which might otherwise escape discovery or proof. It would be difficult, if not impossible, to prove a theory of "palming off" without the ability to record oral sales representations made to consumers. Thus, reliable reports from investigators posing as consumers are frequently recognized as probative and admissible evidence in trademark disputes.

*Id.* at 122-124

In an unpublished case in the same year as *Gidatex* that did not go so well, *Sunrise Assisted Living, Inc. v. Sunrise Healthcare Corp.*, Civil Action No. 98-1702-A, slip ops. (E.D. Va. Apr. 9 & 28, 1999), an investigator hired by Healthcare Corp. used a pretext in setting up a dummy investment company and falsely told the trademark seller (and senior rights holder for competing assisted living facilities) that he wanted to obtain rights in THE SUNRISE CLUB mark for a sandwich to be advertised and sold in restaurants in North Carolina. Under this pretext the deal was consummated. The court concluded that the transfer of rights was fraudulently induced and rescinded the agreement and granted a partial summary judgment of fraud.

Please note, that it is a common and ethical practice in the IP community for companies and attorneys to use investigators to act as a negotiator for trademark and other IP rights representing their client as an undisclosed principal (even if the investigators mask their identity). A best practice tip would be for the investigator to ask if the mark is available

and then make the disclosure that it is being purchased for an unnamed principal without making any representations whatsoever about the future use of the mark.

Two years later in *Midwest Motor Sports, Inc. v. Arctic Cat Sales, Inc.*, 144 F. Supp. 2d 1147 (D.S.D. 2001) the district court of South Dakota found that the evidence gathered by an investigator using a pretext and wearing a wire (hired by the defendant) was excluded under ethical rules (Rule 4.2 of the South Dakota Rules of Professional Conduct) against contact with represented parties. This is the opposite conclusion found by the courts in both *Gidatex* and *Apple Corps*. In both of these cases, the court found that contact by the investigators was acceptable, in part, because they were speaking with low-level employees (or as was described in *Apple Corps*., company employees outside of the “litigation control group”.) The court in South Dakota stated that this limitation was not present under South Dakota rules, which prohibit any communication by counsel with a represented party, when made without the knowledge or permission of opposing counsel.

Since the *Sunrise* and *Midwest* cases, the use of investigators (operating under pretext) by attorneys, in both IP and non-IP cases, has been accepted.

In *Flebotte v. Dow Jones & Co., Inc.*, 2001 U.S. Dist. LEXIS 2127 (D. Mass. 2001), an employment age discrimination case, the court granted an *ex parte* discovery order to Dow Jones when they learned that the plaintiff offered massage services on the Internet (Flebotte had claimed that he was not able to find work after being terminated by Dow Jones). Dow Jones hired an investigator using the pretext of a consumer to contact plaintiff and gather evidence, which included statements by Flebotte that he had been in business for 5 years with a clientele of over 30 regulars. When this evidence gathering was challenged, the court cited *Gidatex* in its rejection, stating that it would be difficult if not impossible to discover the truth by other means.

Similarly, in *A.V. by Versace, Inc. v. Gianni Versace*, 2002 WL 2012618 (S.D.N.Y. 2002), a fashion designer brought trademark infringement actions against a competitor with the same last name and used a private investigator, posing as a customer, to obtain evidence of the infringement. The defendant argued that the use of the private investigator invaded his privacy. Again, the court disagreed:

The Court rejects Alfredo Versace’s complaint that the use of a private investigator has caused an unfair invasion of his privacy. Gianni Versace’s investigator used a false name and approached L’Abbigliamento posing as a buyer in the fashion industry. The investigator’s actions conformed to those of a businessperson in the fashion industry, and Alfredo Versace makes no allegation that the private investigator gained access to any non-public part of L’Abbigliamento. Further, courts in the Southern District of New York have frequently admitted evidence, including secretly recorded conversations, gathered by investigators posing as consumers in trademark disputes.

*Id.* at \*9.

A general guideline for acceptable versus unacceptable investigation tactics was addressed in *Hill v. Shell Oil Company*, 209 F. Supp. 2d 876 (N.D. Ill. 2002). In *Hill*, African-American customers brought a civil rights action against Shell, alleging that Shell required only African-Americans to pre-pay for gas. Plaintiffs used investigators to tape the interaction between people acting as customers and the Shell employees for the purpose of recording the unlawful conduct (citing *Apple Corps* and *Gidatex*) Defendant argued that the communications violated the ethical rules for lawyers (citing *Midwest*). Disagreeing with the defendant, the court held as follows:

Here we have secret videotapes of station employees reacting (or not reacting) to plaintiffs and other persons posing as consumers. Most of the interactions that occurred in the videotapes do not involve any questioning of the employees other than asking if a gas pump is prepay or not, and as far as we can tell these conversations are not within the audio range of the video camera. These interactions do not rise to the level of communication protected by [Illinois's ethical rules]. To the extent that employees and plaintiffs have substantive conversations outside of normal business transactions, we will consider whether to bar that evidence when and if it is offered at trial.

*Id.* at 880.

In reaching its decision, the court discussed acceptable versus unacceptable conduct:

Although *Midwest Motor Sports* is considerably more restrictive than *Gidatex*, we think there is a discernable continuum in the cases from clearly impermissible to clearly permissible conduct. Lawyers (and investigators) cannot trick protected employees into doing things or saying things they otherwise would not do or say. They cannot normally interview protected employees or ask them to fill out questionnaires. They probably can employ persons to play the role of customers seeking services on the same basis as the general public. They can videotape protected employees going about their activities in what those employees believe is the normal course. That is akin to surveillance videos routinely admitted.

*Id.*

Other cases since *Midwest* where the courts rejected ethical challenges to the use of investigators under pretext making contact to represented parties include: *Mena v. Key Food Stores*, 195 Misc. 2d 402, 758 N.Y.S.2d 246 (N.Y. Sup. Ct., Kings County 2003); *Design Tex Group, Inc. v. U.S. Vinyl Mfg. Corp.*, 2005 U.S. Dist. LEXIS 2143 (S.D.N.Y. 2005); and *Cartier v. Symbolix, Inc.*, 386 F. Supp. 2d 354 (S.D.N.Y. 2005). In one instance, in *Phillip Morris USA Inc. v. Shalabi*, 353 F. Supp. 2d 1067 (C.D. Cal. 2004), the court relied on evidence gathered by investigators under pretext without even considering ethical issues.

There are of course other challenges, besides ethics and “pretexting”, in conducting IP investigations successfully. A major hurdle is that communications, advertising and branding have leveraged technology in almost unimaginable ways and their convergence has raised the bar on the difficulty in protecting all manner of intellectual property rights. The value of trademarks and Internet domain names for example, is no longer anecdotal fodder for trade publications. Privacy issues are in flux both on the Internet and in the brick and mortar world due in part to advanced data-mining technologies developed for legitimate purposes (such as customer service applications) as well as terrorist influences, identity theft and governmental responses. And then there are the copyright battles being waged over Internet file swapping, encryption, distribution and the protection of digital assets.

Then there is the Internet. There are now over hundreds of terabytes of searchable web data (as compared with 11 terabytes of data contained by the US Library of Congress database). There is far more data (tens of thousands of terabytes) in what is known as the “Deep Web” or Web 2.0 (which includes pay databases, password protected content, social networking sites and other web pages excluded from search engine search for various reasons). We really don’t know how much data there is because no one is in charge of the Internet. But with the Internet has come entrepreneurial opportunity for hackers, cybersquatters and other IP infringers to exploit IP rights holders with easy access to a massive worldwide audience. META-tags, hidden text, banner ads, deep-linking, framing, hidden browser doors, whacking Web sites, are all old news, but have not gone away. Distributed denial of service attacks have brought major sites like eBay, Yahoo, CNN, and Microsoft to their knees for hours and sometimes days at a time. And identity spoofing and phishing schemes are troubling realities that combat us daily.

One of the great investigative tools to come along in recent times is, of course, the Internet. On it, there are links to IP filings and registrations, business directories, secretary of state offices, international governmental databases, archived news, press releases, industry, trade and specialty sites, cross-referenced telephone directories, yellow pages, white pages, WHOIS records and email finders. There are free DNS look-up and geographical trace-route tools available, as well as many freeware and shareware applications that can assist in the fact gathering necessary to make informed legal decisions. And obviously there are the popular search engines that can be utilized creatively and for free (excluding ISP costs) in uncovering, for example, infringing evidence or locating the financial information of a private company, all without ever hiring an investigative professional.

Before you choose to engage the services of an IP investigative specialist, the first consideration should be to determine if it is cost effective for you or someone in your firm to do the work yourself. Clearly, the issue is not a lack of information, but information glut. Do you have the time to go through all that information and determine what is going to be helpful? Can your firm bill that time? Secondly, it is one thing to have access to the tools the Internet provides, but another matter completely when the tools fail to deliver what you need to advise your client to go forward with that multi-million dollar branding campaign or expensive patent litigation. Some business directories for example,

report little more than what company management wants customers, creditors, competitors or investors to hear. Secretary of state information is only as good as the particular state's budget for maintaining that database. The search engine results are as good as their algorithms and the frequency in which the information is refreshed, and those results are only as good as the person in your office making the search query.

Another consideration is what you leave behind when you go on-line. Unfortunately, if someone at your firm or company visits a Web site, they leave information that can be collected about who they are, the systems your company is running, the Web site they just visited, what they are looking at presently and how long they stay to look. If preferences are stored on their browser such as auto-fill forms, passwords or address books then they also expose your company to applications that can grab this information and distribute it for nefarious purposes.

If the information you need is not readily available on-line or through off line sources, then making direct contact with the intellectual property owner (or infringer) is the next step. If you are an IP attorney, issues of ethics certainly come into play. Case law supports that attorneys can call a trademark owner or infringer and ask questions about use and even collect product samples without revealing who they are—as long as they are not asked to identify themselves (see *Apple Corps*, mentioned above). It's been our experience that the question of identity gets asked pretty early in the conversation. Then what does the attorney do? Hang up? Use a paralegal or trademark administrator to call back? Use their spouse? It soon becomes a slippery slope and even if they do manage to get the information they are seeking, they may have created unnecessary interest in the mark. Perhaps the trademark owner was on the verge of abandoning the mark and now that she's gotten a rash of calls is suddenly drunk with the fantasy that her product will be bigger than the iPod

®. If it's an infringer your firm is calling, then you might be dealing with a criminal element. If the infringement is on-line, then the exposure for your company increases.

If you are an attorney, asking a paralegal or administrator to contact the IP owner or infringer directly is as effective as their intestinal fortitude in talking on the phone. Calling up the toll-free customer service number on the back of shampoo bottle is one thing. Speaking with a medical imaging technician on the name of their new machine employing hybrid tomography technologies is another. There are of course other complications. Is your firm set up to get calls back into the office? Can someone send your firm a fax or email or forward you a product sample by regular mail without knowing that they are communicating with a law firm? Can one of your office staff deal with a confrontational or combative personality? It seems logical that if you show interest in a product that the seller would be forthcoming with answers to all of your questions, but it is not always the case. Do you really want to go onto a Web site of a pornographer who might be manipulating copyrighted images and leave your personal credit card information or your home mailing address? And most importantly, if you are an attorney and ask someone on your staff to conduct an investigation on your behalf, is any of their activity ethical from a legal standpoint? (See *ABA Model Rule of Professional Conduct*

5.3) Will you be able to be or use someone in your firm as a fact witness? (*See ABA Model Code DR 5-102*).

If you choose to hire an IP investigator they will have the necessary infrastructure in place to do their job effectively and still maintain confidentiality. Additionally, they should have a network equipped to meet the varying demands that arise in clearing a trademark internationally or locating witnesses worldwide in support of patent litigation. Translation services, escrow arrangements, on-ground support, access to subscription databases are all tools of the trade and should be in place. News clipping services, three letter agency contacts, and the capacity to monitor the Internet proactively are all nice value-adds in choosing an investigator.

An important benefit in hiring IP investigative specialists is that they are just that -- specialists. They are trained and practiced at gathering evidence, fact finding and making difficult calls to IP owners and /or infringers (such as the sole proprietor operating from home who has filed an ITU trademark application). Another bonus is that investigators can act as a buffer for you from the more extreme and dangerous personalities that traffic in the misuse of intellectual property. Finally, an investigator can be used as an effective fact witness in either a trial, deposition or in an affidavit, or can be called upon for expert testimony.

One key element to a successful investigation is information exchange. Sharing as much of what you know about the subject company, product or service you need information on is essential to supplying your investigator with the intelligence he or she will need to in turn help you. For example, a quick check list for supplying an investigator trying to determine issues involving a trademark investigation might include a trademark search report, the business name, telephone number, address, state or country of operation of the subject company, an associated Internet domain name or email address, the names of any company principals, an advertisement featuring the mark, logo, company or principal in question, or a news article referencing the mark or company.

An investigator's success rate is pretty much commensurate with the element of surprise. If the party is contacted twice by different entities within a short period of time then it creates interest in the mark or product (if they are legitimately selling something), or it allows the subject company to get their story straight (if they are an infringer or cybersquatter). If you have contacted the party in any way whatsoever, then provide your investigator with that information.

If your company's initial concern of an infringement or conflict is not an actual trademark or trademark application, then providing the origin of your concern is most helpful. When did you become aware that someone was infringing your mark? How did you get that information? Was it in a magazine article? Which issue? Did you see it on the Internet? If so, did you download or print a copy of the Web page? Did a client who saw a product in a store or on a sign pass along this information? Did the client make note of the address?

Web sites change, magazines are issued at different time intervals and cover a variety of readership demographics. Products are sold in mom and pop stores as well as in nationwide chains. A seemingly innocuous detail in your file might provide enormous assistance to your investigator. Fill them in. It will better prepare your investigator prior to contact and will keep them from reporting information you already know.

In the U.S., it is very helpful to know of any assignment history listed with a Federal trademark. It is always indicated on the TESS filing with the USPTO, but the assignment history is not provided. If you have this information, and can pass it along to your investigator, then it will save time and money for everyone. If you don't know the assignment history, then let your investigator know that as well, they should have the resources to pull it. The same would apply on registrations in other countries.

A specific list of what you hope to achieve from the outset of an investigation will help your investigator manage your expectations on what is possible, will focus their efforts on what they can obtain, and shape how they approach the subject company. Are you clearing a mark? If so, are you trying to determine geographic scope or do you simply want to know if the product is on a shelf some place? Did you receive a demand letter? If so, is this an issue of first use, or do you want to know more about the company that sent the letter? Is your patent being infringed? Is this a copyright violation? Do you want due diligence done on a licensing agreement? Or when it comes down to it, do you just want a hard address so you can sue them. A discreet investigation is conducted in one or two phone calls (if the sources are reliable). Numerous follow-up calls under pretext will most often be met with diminishing returns, so getting all the facts up front increases your investigator's chances of delivering the goods.

There are many investigative firms listed in the most recent International Trademark Association (INTA<sup>®</sup>) Membership Directory. These companies either specialize in IP investigations or present this work as one of their service offerings. Additionally, there are several search companies, IP consultancy firms, companies that offer valuations, and watch firms listed in the INTA<sup>®</sup> directory. You should be able to find any of these companies on-line.

One final ingredient to success in using IP investigative specialists is trust. Before hiring an investigator, get references. It will make it easier for you to trust them, acknowledge that they are skilled and allow them to do their job. Investigators bring complimentary resources to your expertise and share your objectives in overcoming the various obstacles of protecting intellectual property.