

Pretext Investigations in U.S. Trademark Infringement Cases

October 11, 2007

Sponsoring Committee: Anticounterfeiting & Enforcement Committee (ACEC)

Resolution

WHEREAS, in trademark infringement and counterfeiting cases, pretext investigations are commonly used and evidence gathered through such investigations generally has been accepted by U.S. Courts;

WHEREAS, certain types of pretext investigations have been permissible by U.S. Courts and when such investigations involve lawyers, they are generally regulated by state rules governing lawyers' conduct;

WHEREAS, pretext investigations are crucial to establishing infringement or counterfeiting through enabling investigators to gather evidence not otherwise discoverable as the alleged infringer or counterfeiter would not cooperate;

WHEREAS, pretext investigations in trademark infringement cases serve an important policy objective, i.e., preventing consumer confusion or deception and protecting consumers against fraud and, in some counterfeiting cases, against health and safety risks;

WHEREAS, INTA is concerned about the proposed S.B. 328 ("the Bill"), currently being considered by the California legislature, which if made law will effectively prohibit all private uses of pretext investigations, including trademark pretext investigations.

BE IT RESOLVED, that the International Trademark Association:

1. Endorses ethical and legal pretexting as an essential tool in investigating and combating trademark infringement and counterfeiting;
2. Urges governments not to prohibit private uses of pretext investigations in respect of potential trademark infringement and counterfeiting; and
3. Where such private pretext investigations are prohibited, urges governments to make an exception for pretext investigations for trademark infringement and counterfeiting.

Background

In trademark infringement and counterfeiting cases, pretext investigations are commonly used and evidence gathered through such investigations generally has been accepted. When such

investigations involve lawyers, they are generally regulated by state rules governing lawyers' conduct.

Pretext investigations in trademark cases occur generally when trademark owners and lawyers hire investigators to pose as consumers, purchasers, or counterfeiters to ascertain how the alleged infringer or counterfeiter presents himself to the consuming public or to ascertain the source of infringing or counterfeiting goods. These investigative techniques are a reliable and efficient way to collect information on use or non-use of a trademark, gather information about trademark counterfeiting or infringement, ascertain information about an alleged infringer or counterfeiter, or learn information about a suspect's representations to the public.

Pretext investigations may occur at any time including before or after litigation has started. They may be crucial to establishing infringement or counterfeiting. They may be used to gather evidence not otherwise discoverable, because the alleged infringer or counterfeiter would not cooperate.

In the course of such investigations, investigators may explicitly or implicitly misrepresent who they are, may misstate the purpose of their visit, questions or interviews, and may secretly tape record, photograph or videotape others during the visits (to the extent such secret recording is permitted by law).

Examples of such pretext investigations are:

- A brand owner suspects that its products are infringed upon or counterfeited and therefore hires private investigators to visit some stores or showrooms, speak to salespeople, determine who the owner of the store is and ascertain the scope of the infringing or counterfeit activity;
- Before or after commencing an action against an infringer or counterfeiter, a brand owner hires private investigators to take pictures of a store window displaying infringing or counterfeit goods, to buy infringing or counterfeit goods and to speak with sales representatives in order to assess how they present the products to consumers;
- Before or after commencing an action against an Internet infringer or counterfeiter, a brand owner hires private investigators to contact the online seller, exchange communication with the seller and purchase infringing or counterfeit goods to ultimately identify the seller and ascertain his or her domicile; or
- After commencing an action against an infringer or counterfeiter, discovery is difficult and a brand owner has difficulties getting the requested documentation. The brand owner, therefore, hires an investigator to visit defendant's stores, speak to defendant's salespeople and record conversations with defendant's low-level employees in order to gather evidence as to defendant's representations to consumers regarding the infringing or counterfeit goods.

U.S. Case Law Supports the Use of Certain Pretext Investigations

In the United States, certain types of pretext investigations have been allowed by courts. However, it is generally unethical for a non-government lawyer to use or supervise an investigator who will give a false impression about something or use deception. In addition, lawyers may not engage in conduct involving dishonesty, fraud, deceit or misrepresentation.

New York courts have approved pretext investigations where investigators posed as consumers or purchasers to buy infringing or counterfeited goods and record conversations to prove the representation that alleged infringers and counterfeiters made to the public. The leading New York case is *Gidatex v. Campaniello Imports, Ltd.*, 82 F. Supp. 2d 119 (S.D.N.Y. 1999). In this case, the court found permissible an investigator posing as an interior designer to obtain information from sales clerks. The court found the investigations ethical because the investigators contacted low-level employees without access to privileged information and that the investigator posed as an ordinary consumer. In addition, the court found that enforcement of trademark laws to prevent consumer confusion is an important policy objective and found pretext investigations provide an effective enforcement mechanism for detecting and proving anticompetitive activity, which might otherwise escape discovery or proof. See also *Apple Corps Ltd. v. International Collectors Soc'y*, 15 F. Supp. 2d 456, 475 (D.N.J. 1998) (rejecting challenge to evidence collected by investigator in trademark and copyright case because "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").

The most cited case against pretext investigations is *Midwest Motor Sports v. Arctic Cat Sales, Inc.*, 347 F.3d 693 (8th Cir. 2003). In that case, the court appeared particularly troubled by the ethical issues raised by the investigators' communications with managerial employees and by the secret recording of the conversations, which the court held was unethical under South Dakota law. In some respects, this case is thus consistent with the rulings in *Gidatex* and *Apple Corps*, although, to the extent the *Midwest Motor Sports* decision more broadly criticizes all use of deception by investigators, the decision has been characterized as an "aberration" in this area of law. David H. Bernstein and D. Peter Harvey, "Ethics and Privilege in the Digital Age," 93 Trademark Reporter 1240, 1254 (2003).

In another famous case, *In re Gatti*, 330 Or. 517, 8 P3d 966 (2000), it was ruled that no exception to the ethics rules will be created in favor of pretexting by judicial decree, and the practice will always render a lawyer vulnerable to sanction even if the client is not to be penalized by virtue of the lawyer's actions. The *Gatti* legacy seems to suggest that the attorney is in jeopardy whether or not the client's case is prejudiced. This should be of particular concern when in-house counsel directs "pretexting" since, often, in-house counsel is not admitted in the state in which he works, and this disregard of state ethics rules can be used as leverage to argue that in-house counsel should be required to be admitted in the state in which he works.

In general, pretext investigations are allowed provided that investigators are seeking only information that a member of the public or an ordinary consumer could obtain from a low-level employee in contrast to a corporate executive or a member of a litigation control group. This general rule has been confirmed recently by the New York County Bar Association's Opinion 737. The opinion provides that non-government employees may ethically supervise pretext investigations where either the investigation is of a violation of intellectual property or civil rights and the lawyer believes in good faith that such a violation is taking place, or will take place imminently or the pretexting is expressly authorized by law. In addition, the evidence sought

must not reasonably be available by lawful means.

S.B. 328

The California legislature is currently considering S.B. 328 (“the Bill”), which would prohibit the use of “pretexting” in order to obtain personal information about any individual - though law enforcement officials would be exempted. Specifically, the Bill would prohibit any person from obtaining or attempting to obtain, or causing or attempting to cause the disclosure of personal information about a customer or employee contained in the records of a business through specified methods, such as by making false, fictitious, or fraudulent statements or representations.

While the Bill would protect one’s privacy against investigators who engage in questionable techniques to gather personal information about individuals, the Bill, as currently drafted, is overly broad and may have the effect of banning all private uses of pretext investigations, including trademark pretext investigations that are widely used and that have been allowed by courts throughout the country.

The Bill was referred to the Assembly Banking and Finance (“B&F”) as well as the Assembly Judiciary. The Bill was pulled from the B&F hearing on June 27 and made a 2-year bill.

Conclusion

The Bill as currently drafted would prohibit pretext investigations which are commonly used in trademark counterfeiting and infringement investigations. The courts have addressed such investigations, and they are generally regulated by ethics rules when lawyers are involved. There is no need for additional regulation.

The ACEC recommends that INTA should express concern about the scope of the statute and, at a minimum, request an exception for pretext investigations in trademark cases. Such an exception would not only be in the interest of INTA members but also of the general public, because trademark pretext investigations serve an important policy objective, i.e., preventing consumer confusion or deception and protect consumers against fraud and, in some counterfeiting cases, against health and safety risks.