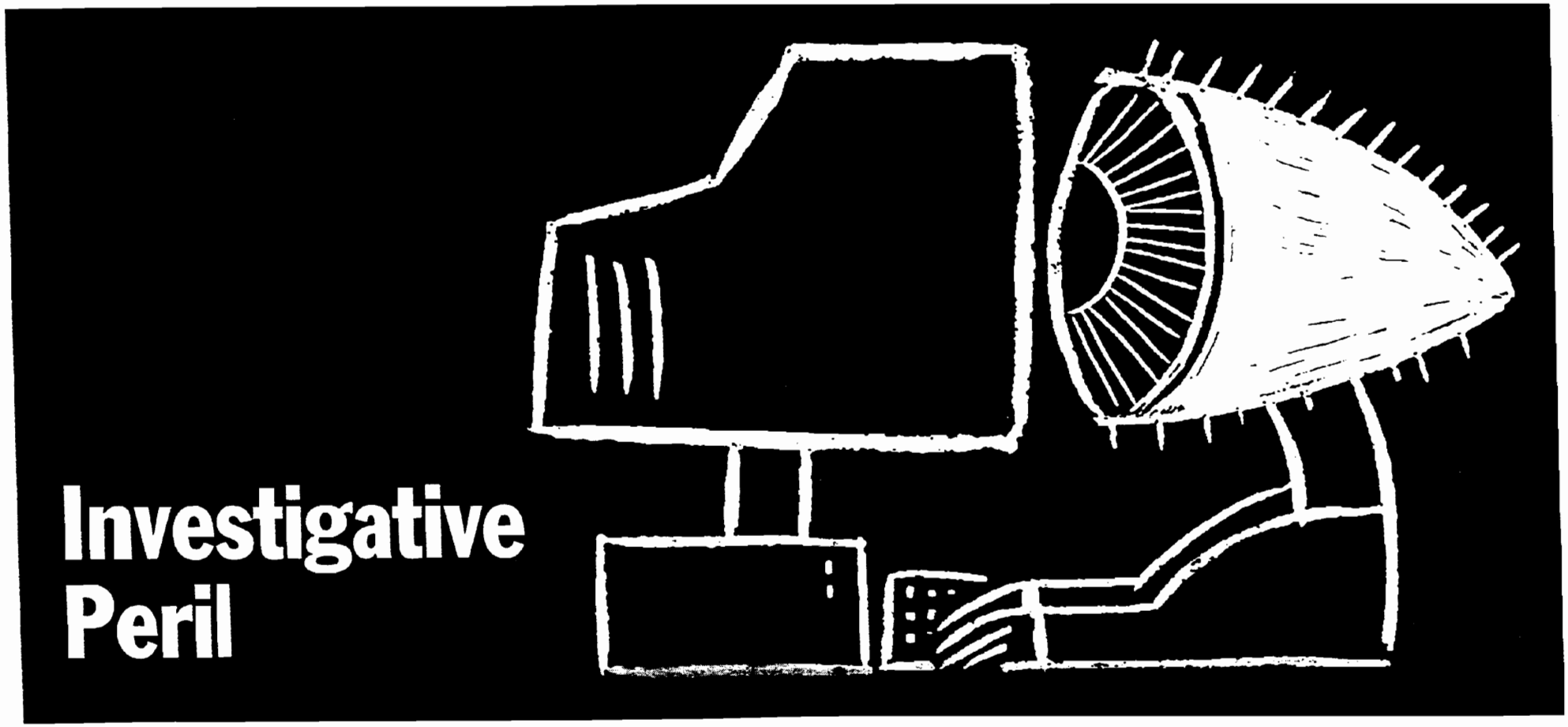

Investigative Peril

By Antonio R. Sarabia II

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Most of us remember the late-1990s phenomenon of Internet companies saying that brick-and-mortar business rules (and laws) did not apply to them. Remarkably, a service industry, closely tied to attorneys, is still living in that era, believing that neither requisite business skills (such as professional training) nor licensing laws should hamper them. These throwbacks to the last century are unlicensed Internet investigators.

The proliferation of trademark and copyright infringements on the Web has grabbed the attention of both intellectual property owners and Internet professionals. Some in the latter group have concluded correctly that trademark and copyright owners need cost-effective ways to scour the Internet for infringements. A dozen companies offer Internet monitoring to identify infringements. Although they use a variety of labels, such as "brand monitoring," "infringement monitoring" and "copyright protection service," they all provide services with three key traits: (a) they find transactions that damage intellectual property rights; (b) they report infringements to the customer; and (c) the customer may use this information as evidence. Most states require a private investigator's license for services that use these three elements. California Business and Professions Code Section 7521(a), 7520.

Compare these services to the legal definition of a private investigation. For example, California Business and Professions Code Section 7521 states, "A private investigator ... is a person ... who ... makes any investigation for the purpose of obtaining information with reference to: (b) The identity ... conduct ... transactions ... of any person; (d) The cause or responsibility for ... damage ... to property; (e) Securing evidence to be used before any court. ... The typical unlicensed Internet investigator finds infringements ("conduct" or "transactions"), determines who the infringer is ("identity"), locates damage to intellectual property ("The cause or responsibility for ... damage ... to property"); and provides its client with facts ("securing evidence"). Performing these services without an investigator's license is a crime in most states (for example, California Business and Professions Code ((7520 and 7523(b)).

What makes the situation all the more surprising is that these unlicensed Internet investigators are not operating on the fringes of the Internet. Not only do they operate in the open, but they also have prominent entertainment industry and law firm clients that would make most investigators green with envy. The work of an unlicensed Internet investigator is the foundation for one of the most publicized (and largest) cases of the year. This case, *Viacom v. Google*, centers around possible copyright infringement on YouTube.

The parallel to the late 1990s only grows stronger when one considers the money involved. Unlicensed online investigators are raising millions (and, in some cases, tens of millions) of dollars from venture capitalists. Even these substantial investments were dwarfed by the recent sale of a company with an unlicensed Internet investigative division for half a billion dollars.

In most states, one can verify within a few minutes whether an investigator is licensed. The large companies and prominent law firms who have engaged unlicensed investigators, some now with hundreds of billable hours of casework based on their investigations, have not bothered to invest the few minutes necessary to see whether their investigator is operating legally. The results of this omission can be serious.

Using an unlicensed investigator can have a devastating impact on a civil case. Parties and attorneys can be sanctioned. Attorneys are expected to check the bona fides of their team. In *Security Farms v. International Brotherhood of Teamsters*, 124 F.3d 999 (9th Cir. 1997), Rule 11 sanctions against an attorney were affirmed on four grounds, including the fact that the investigator was unlicensed (the attorney was criticized for a "blind reliance" on the investigator). Imagine trying to explain to a judge that, although your firm spent hundreds of hours on a case, no one spent a few minutes to see whether the key investigator was licensed. The potential ramifications could be huge.

The evidence obtained by the illegal investigation could be thrown out by a judge, crippling a case.

A negligence claim could be stated against both the intellectual property owner and its attorneys based on the use of an unlicensed Internet investigator.

"The fact that Pruitt was a licensed detective agency is one fact to be considered in determining whether the lawyers and Sears were negligent in their choice." *Noble v. Sears, Roebuck & Co.*, 33 Cal.App.3d 654 (1973) (allowing claim).

A computer fraud claim against an intellectual property owner could be based on the use of an unlicensed investigator to find infringement on the Internet. *Theofel v Farey-Jones*, 359 F.3d 1066 (9th Cir. 2004), certiorari denied, held that a civil claim for computer fraud (under 18 U.S.C. Section 1030) could be stated against a party and its attorney where a subpoena was wrongfully used to obtain information about e-mails. Most states also have computer fraud statutes that would provide an independent basis for claims against an intellectual property owner using an illegal Internet investigator. For example, California Penal Code Section 502.

A defendant could file a third-party complaint against the investigator for negligence. The burden of proof would be low. Once it is established that the investigator operated without a license in violation of the law, it would be negligence per se.

Most dangerous to the intellectual-property plaintiff is a doctrine found in most U.S. jurisdictions: the tort of another theory of attorney-fee recovery. Under this doctrine, one who has to file or defend an action because of the tort of a third party is entitled to recover attorney fees

expended from that third party. Restatement (Second) of Torts (914(2)) (1979). "Under California law, it is a well-established principle that attorney fees incurred through instituting or defending an action as a direct result of the tort of another are recoverable damages." *Sindell v. Gibson*, 54 Cal.App.4th 1457 (1997).

If an intellectual property case were filed against a defendant based on the work of an unlicensed Internet investigator, the defendant could sue the Internet investigator for its fees incurred in (a) defending the case and (b) filing a counterclaim against the intellectual property owner for negligent supervision of investigator and computer fraud. The defendant would have to prove only that it was sued by the intellectual-property owner because of the investigator's tortuous conduct (investigation without a license) and that the fees expended were foreseeable, necessary and reasonable. This proof would be easy in cases built on the unlicensed investigator's work.

The intellectual-property owner could find itself in a situation in which its evidence is thrown out and its investigator is on the hook for the defendant's fees. Even if the intellectual-property owner dismisses its claims, the defendant could continue with its counterclaims against the intellectual-property owner. The intellectual-property owner's investigator would be bankrolling a lawsuit against the intellectual-property owner. Because many of these illegal Internet investigators are profitable and have significant capital, this possibility is more than just a bad dream.

Both clients and attorneys need to beware of this dangerous hangover from the 1990s: the well-heeled, unlicensed Internet investigator.

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