

# Ethics Issues in Searching Trademarks and Offering Opinions

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## **Introduction**

There are a number of ethical issues to be aware of in searching trademarks for your clients and offering opinions on use and registration. These issues involve the potential recipients of the opinion, possible conflicts among your clients, and factors to consider in recommending and conducting investigations of possible obstacles to your client's proposed mark.

The sources of guidance on these issues include:

- The PTO Code of Professional Responsibility, beginning at 37 CFR §10.20, which includes Canons and Disciplinary Rules;
- New York State Code of Professional Responsibility, available on the New York State Bar Association website [www.nysba.org](http://www.nysba.org) (or the equivalent in other jurisdictions);
- ABA Model Rules of Professional Conduct, available on the American Bar Association's website at [www.abanet.org](http://www.abanet.org); and
- Case law.

Although there is some authority to guide attorneys in evaluating possible courses of action, there are rarely black letter law answers to ethical questions. Most often, the best we can do is consider the guidance we have in the context of the unique circumstances, and make a judgment call. Finally, there are experts on these issues who can advise a law firm when more input is needed.

## **I. Your Audience**

Although we usually think of a trademark opinion as being written exclusively for the client who will be making a decision as to whether to adopt a proposed mark, there are other potential parties who will see the opinion. For example, the opinion may be offered as evidence by your client to rebut willfulness or bad faith in defending an infringement suit. In addition, the client may want to share the opinion with potential investors or purchasers, or with licensees, or may ask you to provide information for an audit. What does this mean for the attorney-client privilege, and how can you prepare for such contingencies?

### **A. Rebuttal To Willful Infringement or Bad Faith**

If your client is being sued for infringement, the plaintiff may assert that the infringement was willful, which would potentially treble the damages in the case, or allow for damages based on your client's profits, as well as attorneys' fees. In such a case, your client may wish to rely on your previously given opinion that the mark it adopted would not likely be held to infringe the plaintiff's mark. *Mattel, Inc. v. Robarb's, Inc.*, 139 F. Supp 2d. 487, 495 (S.D.N.Y. 2001) (reliance on the advice of counsel is indication of good faith). A defendant's good faith in adopting the mark is also a factor that weighs against a finding of infringement. However, relying on such an opinion is usually a waiver of attorney-client privilege of the communications surrounding the opinion.

To make it more likely that the opinion would tend to show your client's good faith in adopting the mark, consider the following:

- The opinion should include analysis explaining the documentation relied on (the date and parameters of the search) and the conclusion reached. *Cf. Bear U.S.A. Inc. v. A.J. Sheepskin and Leather Outerwear, Inc.*, 909 F. Supp. 896, 907 (S.D.N.Y. 1995), in which the defendant sought to rely on an opinion letter from its attorney as evidence of good faith, but ended up on the losing end of a preliminary injunction. The court held that the letter could be “described, at best, as superficial, containing no analysis explaining the conclusion reached and no documentation of search material supposedly supporting the conclusion.”
- The opinion should be written by an impartial attorney, with no stake in the outcome of the litigation. *See Yamanouchi Pharm. Co. v. Danbury Pharmacal, Inc.*, 21 F. Supp 2d. 366 (S.D.N.Y. 1998) (willful infringement (in a patent case) found when the authoring attorney had a stake in the outcome of the litigation).
- The opinion may be considered more reliable if written rather than oral. *See Minnesota Mining & Mfg Co. v. Johnson & Johnson Orthopaedics, Inc.*, 976 F.2d 1559 (Fed. Cir. 1992) (oral opinions in patent cases disfavored because “they have to be proved perhaps years after the event, based upon testimony which may be affected by faded memories and the forces of contemporaneous litigation).
- Consider carefully your written suggestions of which references should be investigated. If you suggest investigating a reference and your client does not follow through, then there is a risk that this fact could weigh in favor of bad faith, even though the opinion advises that the mark is likely available. The jury in the Pfizer TROVAN case was apparently influenced by Pfizer’s lawyer’s opinion suggesting that the client investigate the reference to TROVAN for an microchip

animal locating device. Pfizer was planning on using the mark for antibiotics, so it did not investigate. A California jury found that Pfizer adopted the mark in bad faith and awarded the plaintiff \$135 million in punitive damages. *Pfizer Is Dealt A Trademark-Suit Defeat*, Wall St. J, Oct. 13, 1999, at A2. The district court later reversed the jury verdict on bad faith and vacated the punitive damages award, granting Pfizer a new trial. *Trovan Ltd. v. Pfizer, Inc.*, 2000 Westlaw 749149, \*25-28 (C.D. Cal. 2000). Ultimately, Pfizer prevailed on summary judgment when the court held that the goods were not related, and the Ninth Circuit affirmed. *Trovan Ltd. v. Pfizer, Inc.*, 2004 WL 1859900 (9<sup>th</sup> Cir. 2004).

## **B. Common Interest Agreement**

Your client may seek to share your legal opinion with a potential investor, a purchaser, or a licensee. Avoid waiving the attorney client privilege, which could be exploited later by a third party, by documenting that the disclosure is being made to someone with a “common legal interest,” and no waiver of the attorney-client privilege is being made. If litigation is ongoing, it is common to enter into a joint defense agreement, but there need not be an ongoing litigation to take advantage of the common interest privilege.

In drafting a common interest agreement, be sure to state the purpose and nature of the common interest, and describe the circumstances of any potential or impending litigation if possible. Also consider addressing the following issues:

- Does the agreement create an attorney-client relationship or fiduciary relationship between you and the other parties?

- Who controls further sharing of the information given by each client? Only the source, or one or more parties?

How can the client exit from the agreement?

Remember that the common interest rule is an extension of the attorney-client privilege, and thus the substance of the communication must be for giving or receiving legal counsel. Be sure to consider whether the common interests between the parties are entirely legal, or also commercial. *Gulf Island Leasing v. Bombardier Capital Inc.*, 215 F.R.D. 466, 472 (S.D.N.Y. 2003) (communications between the lender and seller regarding the seller's dispute with the borrower were not protected by the attorney-client privilege, because the substance of the discussions was primarily commercial, not legal).

### **C. Audit Letters**

In the case of audit letters, an attorney will usually identify the litigation, list the claims, and explain the procedural status, without offering any information on strategy, chances of success, or potential damages. The attorney will usually not share any opinion as to whether a finding of trademark infringement is likely. Because no attorney-client privileged information or attorney work-product is shared, there is no implication for these privileges.

### **II. What Should You Search? Knockout Searches v. Full Searches**

Whether a full search will be conducted depends on numerous factors and circumstances, of which the top two are time and money. Is the client in a hurry to get the mark on file? It is always possible to file and only later to do a search, provided your

client is informed of the risks. If a major obstacle is uncovered, the client can withdraw the application or abandon it.

Budget is also often a concern, so sometimes your client may choose to proceed without a full search. The client may also feel confident enough to forego a search if it has already been using the mark for some time, though of course this does not mean that a search might not uncover significant obstacles. Make sure to inform the client of such risk.

Even if a client has not yet used a mark, there is no legal requirement to conduct a full search before adopting a mark. *Streetwise Maps, Inc. v. Vandam, Inc.* 159 F.3d 739 (2d Cir. 1998) (failure to conduct a search does not, standing alone, prove that an infringer acted in bad faith).

Consider your wording in advising whether to proceed with a full search. In the event the client adopts the mark without conducting a full search, it may need to rely on the knockout search opinion to defend itself if accused of willful infringement.

- In *International Star Class Yacht Racing Assoc. v. Tommy Hilfiger*, 80 F.3d 749 (2d Cir. 1996), Tommy Hilfiger planned to use the mark STAR CLASS for apparel. The attorney conducted a database search limited to Class 25, which did not locate the STAR CLASS mark owned by International Star Class Yachting Association for its yachting activities and ancillary merchandise. The attorney for Hilfiger wrote a letter to the client that stated, “at this point, we would not necessarily rule out your use and registration of the mark subject to our usual disclaimers regarding the need to first obtain and review a full trademark search.” The Second Circuit initially held that the failure of Tommy Hilfiger to follow its

attorney's advice to conduct a full trademark search was evidence in support of finding bad faith. *Id.* at 754. However, on the second remand of the case, the district court interpreted the advice by the attorney to mean that based on the knockout search, the mark was available for use (as opposed to advice that a full search would be necessary to obtain a federal registration). The court also explicitly held that Hilfiger did not have a legal obligation to conduct a full search. The Second Circuit affirmed. Thus, Hilfiger was able to rely on the attorney's opinion based on the knockout search to avert a finding of bad faith and willful infringement. 1997 WL 108739, \*2 (S.D.N.Y. 1999), *aff'd*, 205 F.3d 1323 (2d Cir. 2000), *cert. denied*, 531 U.S. 873 (2000). Nonetheless, the suggestion to investigate created a negative inference that otherwise might not have arisen.

Rather than putting a lot of disclaimer language in an opinion, which could be open to interpretation later, as it was in the Hilfiger case, consider including a standard memo that explains how to interpret a search report, which is given to each client with every opinion. Such a standardized form is less likely to be interpreted by a court as specific advice to take further steps to clear the mark.

Also, for clients for whom you do a high volume of searching, consider a private attorney-client privileged seminar or training session in which teach the client the basics of understanding search reports, which may also minimize the need to put in lots of standard disclaimer language in each opinion, and will help your client understand that qualifying/hedging language that is often found in opinions regarding the level of risk presented by a reference.

If a preliminary knockout or a full search yields a potential obstacle, proceeding without thorough investigation can be risky, because a court could later find that your client had knowledge of the plaintiff's ownership of an identical mark for related goods, which could support a finding of bad faith.

- In *Sands, Taylor & Wood Co. v. Quaker Oats Co.*, 18 U.S.P.Q.2d 1457 (N.D. Ill. 1990), *aff'd in part and rev'd in part*, 978 F.2d 947 (7<sup>th</sup> Cir. 1992), *cert. denied*, 507 U.S. 1042 (1993), Gatorade wanted to adopt THIRST-AID as a trademark. The trademark search was conducted only a few days before the launch of major advertising, and when federal registrations for THIRST-AID came up in the search, the company had a low-level employee make a cursory investigation of use by calling the record owner and asking if the product under the mark could be purchased. In finding willful infringement and awarding over \$20 million in damages, the district court found that "the totality of evidence reveals a lack of good faith by defendant in its use of plaintiff's mark." Although the Seventh Circuit found evidence of bad faith in this case "marginal at best," it did not find the lower court's holding to be clearly erroneous, and therefore the bad faith determination was affirmed. 978 F.2d at 963.

Even if an investigation shows that a federally registered mark is not in use, you may want to consider whether the client could petition to cancel the registration before using the mark, and advise the client to leave itself enough time to pursue this tactic before a big launch under a new trademark. For a high profile client, which could attract some press attention if sued for infringement, filing the petition to cancel as soon as the ITU application is on file may be advisable. Also, this would prevent the owner from



attempting to resume use of the mark before the petition to cancel is filed. Any use of the mark by the registrant after the petition for cancellation is filed would not constitute evidence before the TTAB to rebut abandonment.

What if you contact a company that has a federal registration for which you cannot find any evidence of use, and it responds that it is using the mark and has no intention of abandoning it? At that point, going ahead and using the mark could be risky (depending on all the factors considered for likelihood of confusion). If your client is sued for infringement, the plaintiff could point to this contact, coupled with its ownership of the federal registration, as evidence that your client considered plaintiff's mark to be a significant obstacle, but went ahead and used the mark anyway, with full knowledge of the potential for likelihood of confusion, and therefore in bad faith. Thus, if the marks are very similar and the goods are related, or there are other important factors that would support a finding of likelihood on confusion, it makes sense to tell the client before contacting the registrant that if the registrant claims it is using the mark, the client should be prepared to walk away and choose another mark.

### **III. Conflicts**

How can you know when an existing client would probably object to a proposed mark that another client asks you to search? Also, you often do not know in advance that an existing client's mark will appear as a potential obstacle in a search for another client's mark. Note the relevant authority on conflicts between clients:

## **ABA MODEL RULE 1.7 CONFLICT OF INTEREST: CURRENT CLIENTS**

(a) Except as provided in paragraph (b), a lawyer shall not represent a client if the representation involves a concurrent conflict of interest. A concurrent conflict of interest exists if:

- (1) the representation of one client will be directly adverse to another client; or
- (2) there is a significant risk that the representation of one or more clients will be materially limited by the lawyer's responsibilities to another client, a former client or a third person or by a personal interest of the lawyer.

(b) Notwithstanding the existence of a concurrent conflict of interest under paragraph (a), a lawyer may represent a client if:

- (1) the lawyer reasonably believes that the lawyer will be able to provide competent and diligent representation to each affected client;
- (2) the representation is not prohibited by law;
- (3) the representation does not involve the assertion of a claim by one client against another client represented by the lawyer in the same litigation or other proceeding before a tribunal; and
- (4) each affected client gives informed consent, confirmed in writing.

Comment 8 is particularly applicable to the trademark search context:

### **Identifying Conflicts of Interest: Material Limitation**

[8] Even where there is no direct adverseness, a conflict of interest exists if there is a significant risk that a lawyer's ability to consider, recommend or carry out an appropriate course of action for the client will be materially limited as a result of the lawyer's other responsibilities or interests. For example, a lawyer asked to represent several individuals seeking to form a joint venture is likely to be materially limited in the lawyer's ability to recommend or advocate all possible positions that each might take because of the lawyer's duty of loyalty to the others. The conflict in effect forecloses alternatives that would otherwise be available to the client. The mere possibility of subsequent harm does not itself require disclosure and consent. The critical questions are the likelihood that a difference in interests will eventuate and, if it does, whether it will materially interfere with the lawyer's independent professional judgment in considering alternatives or foreclose courses of action that reasonably should be pursued on behalf of the client.

#### **A. Instructing A Search For A New Mark**

A client instructs you to search a mark. You already work closely with an existing client and question whether the existing client would be likely to object to the new client's proposed mark.

If you would advise your existing client to object to the new client's proposed mark, this could be a sufficient basis to conclude that you cannot render an opinion as to availability of the new mark.

**B. A Client's Mark Appearing In Another Client's Search**

You have searched a new mark for a client, and you then see an existing client's mark referenced in the search report. How do you evaluate if you can and should mention this mark in the opinion?

- The nature of a search report is to provide a large amount of data that meet certain criteria. Thus, simply because a mark appears in a search report does not mean that it is relevant and must be mentioned.
- If you think a mark owned by an existing client and which appears in the search is relevant, consider including the reference and explaining that you cannot offer any opinion as to the risk it presents, because it is owned by another client.
- If the mark would be a significant obstacle to the mark searched, you need to consider whether to refer your client to another firm that could offer an opinion on the reference.

**C. Investigations**

When can you investigate a trademark that is owned by another client? What kind of investigation can you conduct? This may well not be addressed in a firm's conflict policy.

- Some would argue that if a client's mark appears in a search, no research regarding the use status of that client's mark should be conducted, even through publicly available sources, such as the Internet. Others could question how noting

information obtained from a publicly available source could constitute a breach of any duty to the existing client.

- Note that lack of relevant results from an Internet search does not provide conclusive evidence that a mark is not in use, and often must be followed up with a more in depth investigation.
- If the client decides a further investigation is warranted, some would say you can provide your client with contact information for the investigators you would otherwise use, and the client can order the investigation and evaluate the results. However, consider if this crosses the line in your duty to the existing client.

#### **D. Avoiding Conflicts**

How can you avoid getting in trouble? It is easy to identify a conflict if your firm is listed as the filing correspondent of the problematic reference. Otherwise, you need to be proactive in identifying these conflicts.

- If you have numerous clients in the same industry whose marks are likely to appear in each other's search reports, it makes sense to maintain a list or chart of the clients and their related companies, which can be referenced by anyone on a team reviewing a search to make sure no improper comments are made in the search report. A searchable database of all of the firm's clients, which many firms have through their time-keeping software, is also helpful.
- Conduct conflict checks for new clients, and be clear in communicating with the new client as to when the attorney-client relationship has begun. Letters of engagement, which are otherwise required for many matters, as well as letters of disengagement, are helpful.

- Considering implementing screening procedures to exclude attorneys who may be conflicted from participating in work for the client. There are many procedural requirements to follow if you take this route, which are outside the scope of this material.
- If a conflict does arise, take steps immediately to resolve it, whether by seeking informed consent from the client to waive the conflict or withdrawing from the representation. Make sure to put everything in writing.

#### **IV. Investigations During A Dispute**

When instructing an investigation, it is important to distinguish between investigations of another party before the onset of a dispute or when the dispute is impending or existing. Note the relevant authority:

*TRANSACTIONS WITH PERSONS OTHER THAN CLIENTS*  
**ABA MODEL RULE 4.2 COMMUNICATION WITH PERSON  
REPRESENTED BY COUNSEL**

In representing a client, a lawyer shall not communicate about the subject of the representation with a person the lawyer knows to be represented by another lawyer in the matter, unless the lawyer has the consent of the other lawyer or is authorized to do so by law or a court order.

This rule applies to a lawyer’s contact with an opposing party when there is a pending litigation or even an existing dispute. However, in the typical search situation, there is no litigation pending and thus no “subject matter of the representation” for the target of the investigation. In such a situation, the attorney or attorney’s investigator is permitted to contact another trademark owner directly. Typically, the goals of an investigation are to determine whether the mark is in use, the goods or services, when such use began, and whether there is evidence of abandonment. If the client is evaluating the risk of adopting a somewhat similar mark, but the investigation determines that the

goods and services differ widely, you may be able to conclude that there is a low risk in adopting the mark for your client's proposed goods.

In contrast, if there is an existing dispute, and you know the other party is represented, you may not use an investigator or your client to do what you as an attorney would not be permitted to do. *Minao v. AC & R Advertising*, 148 F.R.D. 68, 82 (S.D.N.Y. 1993). However, there may be some room to maneuver. In *Gidatex S.r.L. v. Campaniello Imports*, 82 F. Supp 2d. 119 (S.D.N.Y. 1999), the court held that because the investigators only spoke to low-level employees and posed questions that would be posed by typical consumers, counsel did not take advantage of the represented party by speaking to it directly, and there was no ethical violation. *[more discussion of the case and what you can really do if there is a pending litigation]*

Regardless of the status of the dispute, an attorney may still search public records and the Internet, which can be done without making contact with the target of the investigation.

## **Conclusion**

Ethical questions often do not have clear-cut answers, and each case is unique. Although hard and fast rules are rare, if you find yourself facing an ethical issue in this area, consult the relevant authority and seek additional guidance to lead to a workable solution.

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