

MINTZ
GROUP

Getting Greater Value from IP Infringement Investigations

Kelsey Froehlich and Vincent de Vos



In the current economic environment, law firms and other professional services providers are under increased pressure from clients to reduce costs, increase efficiency and deliver more value. For law firms that handle intellectual property litigation, one way to meet these increased expectations is by making more strategic use of the investigations supporting that litigation.

Often, an investigation into a party infringing a client's IP rights is treated as merely a tactical exercise to gather the evidence needed to prove the infringement. As crucial as that evidence is for litigation, IP investigations also often yield a much larger trove of information that can be leveraged beyond the courtroom to disrupt or end the infringement, or to help inform effective and efficient litigation strategy.

Identifying the adversary's pain points

In addition to establishing the basic facts of the infringement, a successful IP investigation is likely to identify strategic pressure points where litigation or enforcement may be most disruptive to the adversary, or where authorities could be enlisted to make seizures or arrests. For example, in one investigation in which we worked, a counterfeit children's clothing line was found to originate from factories that did not adhere to the safety standards required in the country of sale. Once we alerted local authorities to our findings, they were happy to pursue the matter—at little cost to the brand owner.

When the infringer is not simply an underground ring but also conducts some otherwise legitimate business, an IP investigation may expose additional avenues to pursue. A company willing to infringe on the intellectual property of others may be lax, if not unscrupulous, in areas such as workplace safety or environmental protection. Similarly, a business that is circumventing anti-counterfeiting measures in transporting illegal goods may also be open to bribery and corruption, which the investigation may uncover. Putting the infringers on the radar of multiple government agencies can bring to bear additional resources and increase the opportunities to put an

end to the infringing activity. This principle extends to the suppliers, facilities, or distribution networks crucial to the infringer's operations, any of which may be conducting business in a way that presents an opportunity for enforcement action.

An adversary's financial vulnerabilities also can provide opportunities for upending the infringement. Infringement activities often depend on byzantine cash flows and complex arrangements with funding sources, as well as reliance on specific markets or clients. Disrupting these arrangements can effectively disable an infringer's operations, while identifying their main customers can provide opportunities for inflicting reputational damage on those customers through "naming and shaming"—a particularly effective tactic in the age of social media.

Understanding the adversary's motivations

IP investigations can also provide important insight into the infringer's priorities, resources and motivations—powerful tools for understanding how litigation may play out. An opportunistic squatter, for example, is likely to slink away as soon as it encounters resistance. Surprisingly, such opportunists can, on occasion, also divulge useful information during an investigation, provided that they are approached in a skilled and unthreatening manner.

At the other end of the spectrum, however, is a company that contends it has a legitimate claim to produce the contested goods, or a producer of "legal fakes" whose explicit business strategy is to sow consumer confusion from a similar trademark registered in a different country. A target such as this will be invested in continuing the infringement and may well put up a fight. In either case, a more nuanced understanding of the infringer's position—and the depth of the resources on which they can draw—can help tailor litigation strategy.

A deeper understanding of an adversary's motivational vulnerabilities can also be helpful. For instance, some infringers might be highly averse to publicity and reputational damage. Others might be more concerned with potential legal repercussions or financial loss. Understanding these motivations can guide the tactical approach to negotiations or legal actions, effectively increasing the chances of a successful resolution.

Following the adversary's complex structures across borders

In order to take action against an infringer, it is essential to know the identities of the relevant entities, which may be hidden under layers of obfuscation. Investigations are crucial to getting behind complex corporate structures and pinpointing the key actors to pursue. Take, for instance, a Swiss-registered company owning a Swiss trademark. On face value, it might seem that the trademark's use could be restricted to Switzerland. However, a thorough investigation might reveal that the directors of this company are linked to companies registered in Vietnam, with the Swiss company acting primarily as a holding entity. The Vietnamese companies, by invoking their Swiss holding company, can then market their products in Asia as "originating" in Europe—with the attendant increase in reputation. That increase in reputation can be especially important for certain product categories, such as pharmaceuticals.

The adversary may have established a network of shell companies across various jurisdictions to hide the actual operating entity. Investigations can unravel these complex structures, identifying the precise registered entity to target and the most effective jurisdiction in which to do so.

Choosing the right jurisdiction for enforcement or litigation is a crucial strategic decision. The ideal venue is one where the enforcement action would have a significant impact on the adversary's operations and where the courts are supportive and effective in dealing with IP infringement cases. In some cases, it may be effective to launch simultaneous actions in several jurisdictions, particularly if the adversary operates across borders. This approach can put additional

pressure on the adversary and potentially disrupt their operations more effectively. A detailed investigation can identify the range of possible venues for pursuing the adversary.

A roadmap for improving IP security

Finally, an IP investigation can help a client identify systemic vulnerabilities to its intellectual property, and possible remediations. For example, one investigation we conducted into a trade-secret leak determined that an employee with access to those secrets confided them to a friend—who happened to be a substantial investor in a competitor. In the wake of such a breach, a company should reevaluate its procedures for controlling access to its IP, training regarding the handling of confidential information and the strength of its confidentiality agreements. Similarly, when a client's goods are surfacing in unauthorized places, a thorough investigation will map the diversion networks and out-of-contract sales fueling the gray market. This allows the client to work backward to the source of the leaked goods and take the appropriate corrective action. For example, we have uncovered numerous cases of expired consumer goods reentering the gray market through unscrupulous employees of destruction agents. Armed with this knowledge, the client can then not only end its relationship with the agent responsible but review the due diligence processes it uses when selecting destruction agents to see if strengthening is needed.

IP litigation is the heavy artillery in the fight against IP infringement. More holistic and strategic use of the information uncovered during the investigations undertaken to support that litigation can allow that fight to be fought more efficiently and resolved faster, and highlight steps the client can take to reduce future incursions.



KELSEY FROEHLICH
Partner and Practice Head of IP
London
kfroehlich@mintzgroup.com



VINCENT DE VOS
Director
Worthing
vdevos@mintzgroup.com



ABOUT MINTZ GROUP

For corporations, investors and the legal, financial and talent advisors who need actionable facts to assess risks, protect reputations and win disputes, Mintz Group is the partner of choice for due diligence, investigations and background screening anywhere in the world. Since 1994, Mintz Group has developed a uniquely transparent and practical approach to fact gathering before hires and transactions, during disputes and after allegations. We provide impartial facts that are comprehensively researched, properly sourced and stand up to the toughest scrutiny in the boardroom or the courtroom. To learn more, please visit [mintzgroup.com](https://www.mintzgroup.com).