INVESTIGATIONS GONE WILD — THE RISKS AND REWARDS IN THE USE OF INVESTIGATORS

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Use of Investigators - The Business Case

A. Trademark Usage
B. Franchise Operations
C. Dealings with Third Parties
D. Use by Franchisees
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Use of Investigators - Ethical Considerations

ABA Model Rule 4.1: Truthfulness in Statements to Others

In the course of representing a client a lawyer shall not knowingly:

(a) make a false statement of material fact or law to a third person; or

(b) fail to disclose a material fact to a third person when disclosure is necessary to avoid assisting a criminal or fraudulent act by a client, unless disclosure is prohibited by Rule 1.6.
Use of Investigators - Ethical Considerations

ABA Model Rule 8.4: Misconduct

It is professional misconduct for a lawyer to:

(a) violate or attempt to violate the Rules of Professional Conduct, knowingly assist or induce another to do so, or do so through the acts of another;

... 

(c) engage in conduct involving dishonesty, fraud, deceit or misrepresentation;
Use of Investigators - Ethical Considerations

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 court order.
ABA Model Rule 4.3: Dealing with Unrepresented Persons

In dealing on behalf of a client with a person who is not represented by counsel, a lawyer shall not state or imply that the lawyer is disinterested. When the lawyer knows or reasonably should know that the unrepresented person misunderstands the lawyer's role in the matter, the lawyer shall make reasonable efforts to correct the misunderstanding. The lawyer shall not give legal advice to an unrepresented person, other than the advice to secure counsel, if the lawyer knows or reasonably should know that the interests of such a person are or have a reasonable possibility of being in conflict with the interests of the client.
ABA Model Rule 5.3: Responsibilities Regarding Nonlawyer Assistance

With respect to a non lawyer employed or retained by or associated with a lawyer:

(a) a lawyer having direct supervisory authority over the nonlawyer shall make reasonable efforts to ensure that the person’s conduct is compatible with the professional obligations of the lawyers; and

(c) a lawyer shall be responsible for conduct of such a person that would be a violation of the Rules of Professional Conduct if engaged in by a lawyer if:

(1) the lawyer orders or, with the knowledge of the specific conduct, ratifies the conduct involved.
Use of Investigators - Legal Considerations

• Your client is: KrumbyKing Donuts
Use of Investigators - Legal Considerations

• Issues with competitor

DELIGHTFUL DONUTS

• Issues with Franchisees
• Issues with Potential Infringers
Hypo 1 — Recording Conduct Occurring During Investigation

- Krumby King, a North Carolina company, believes one of its vendors “Carolina Dough” located in South Carolina, is selling Krumby King’s proprietary mix to unrelated customers.
- Krumby King retains law firm that hires PI.
- PI calls Carolina Dough headquarters claiming to be a buyer for a local doughnut shop in Texas and speaks with a Carolina Dough salesperson.
- PI asks to purchase the same mix that Krumby King uses.
- The salesperson agrees to do so and provides the PI with a quote over the phone.
Use of Investigators - Legal Considerations

**Hypo 1 (continued)**

- PI records conversation.
- Krumby King files lawsuit in NC for breach of contract against Carolina Dough along with other violations.
- Krumby King seeks to admit the recording into evidence.
- Carolina Dough seeks to exclude recording claiming that it was obtained through a violation of the Code of Professional Conduct.
- Will the recording be excluded?
Use of Investigators - Legal Considerations

• Problematic


_In re Cecil Duff Nolan, Jr.,_ 419 S.C. 169, 796 N.E. 2d 841 (2012)

• Not Problematic


Hypo 2 — Acquisition of Trademark Rights

• Krumby King’s marketing department wants to add a throne at each store where customers can eat their doughnuts. They want to call it the “Doughnut Throne”.

• Law firm conducts trademark search and advises Krumby King that a small mom and pop doughnut chain “Royal Donuts” has already registered the mark “Doughnut Throne” but initial research shows they rarely use it and their business is not doing well.

• Krumby King and Royal Donuts have had prior trademark disputes and Royal Donuts always felt they were bullied by Krumby King because they were not as sophisticated and couldn’t afford counsel. Krumby King knows Royal Donuts would never sell the mark to KK.

• KK retains law firm to hire PI.
Hypo 2 (continued)

• PI has a meeting with Royal Donuts owners where PI claims to be the representative of a new comedy show that is a parody of Game of Thrones called “Game of Doughs”. PI offers a generous amount to purchase the Doughnut Throne trademark from Royal Donuts using a separate company called “TV Humor, LLC”.

• TV Humor purchases the trademark and assigns it to Krumby King.

• Royal Donuts learns of Krumby King’s use and files a lawsuit seeking to rescind the agreement.

• Will Royal Donuts succeed in rescinding the agreement?
Use of Investigators - Legal Considerations

Hypo 3 — Contacting Employees of a Represented Party

• Krumby King enters into a license agreement with a candle company “Clever Candles” to sell Krumby King scented limited edition collectible candles exclusively to the “Krumby King Fan Club”.

• Krumby King Fan Club members can purchase the candles exclusively through the Krumby King Fan App.

• Krumby King discovers that Clever Candles has been selling the exclusive candles to anyone that calls Clever Candles customer service phone number and asks to purchase them.
Hypo 3 (continued)

- After filing suit, the parties enter into a consent order enjoining Clever Candles from selling any Krumby King Candles other than to Krumby King Fan Club members through the App.

- Krumby King retains law firm to hire PI who calls Clever Candles customer sales line and attempts to purchase one of the exclusive candles.

- The PI is able to purchase the candle from the 1-800 call center representative.

- Krumby King files a motion for contempt and Clever Candles seeks to exclude evidence of the PI’s purchase claiming it was a result of improper ex parte contact with a represented party.
Use of Investigators - Legal Considerations


with Midwest Motor Sports, Inc. v. Arctic Cat Sales, Inc. 144 F. Supp. 1147 (D.S.D. 2001), aff’d, 347 F. 3d 693 (8th Cir. 2003)

Hypo 4 — Extent of the Pretext

• Krumby King prides itself on selling fresh doughnuts made daily.
• Delightful Donuts has recently launched a campaign claiming their donuts are “Fresher than the King”
• Krumby King suspects this is not the case and retains law firm to hire PI to pose as a health inspector and go to a Delightful Donuts shop.
• The PI meets the DD shop’s assistant manager and requests to be taken to the back of the house to inspect the bakery.
Hypo 4 (continued)

• The PI looks around and takes a photo of a sign instructing employees that doughnuts have a 5 day shelf life. The PI asks the assistant manager about this, and he confirms that their doughnuts are sold for 5 days and then removed.

• Krumby King uses this evidence to file a false advertising suit against Delightful Donuts.

• Delightful Donuts seeks to exclude the PI’s evidence.
Use of Investigators - Legal Considerations

• Not problematic
  A member of consuming public. See, e.g., Apple Corps Ltd.

• Problematic
Use of Investigators - Legal Considerations

**Hypo 5 — Purpose of the Pretext**

- Krumby King is sued by a putative class action plaintiff who is represented by a notorious class action plaintiff’s attorney, Classy O’Nasty.
- Krumby King hires a PI and tells him to find some dirt on Classy that can be used as leverage.
- PI calls several of Classy’s former clients and claims to be Classy’s paralegal following up on their case.
- PI asks the former clients how the firm could improve its service and to go through a step by step of the case.
Hypo 5 (continued)

- PI learns that Classy solicited each of the former clients and paid them upfront to serve as the lead plaintiff in their case. PI secretly records each call.

- Classy gets a call from one of his former clients informing him of the conversation with the alleged paralegal and Classy soon discovers the details of the investigation.

- Classy moves for sanctions against Krumby King due to the investigator’s tactics.

- Krumby King claims the acts were justified as it was attempting to protect the plaintiff and the integrity of the justice system. Krumby King also claims it never told the PI specifically what to do.
Use of Investigators - Legal Considerations

Permissible

• Alleged conduct perpetrated against a party – Gidatex
• Violation of court order – Apple Corps Ltd.

Not Permissible

• Compromising information


• Misuse of personal information

Best Practices

• Thoroughly vet the investigator as to experience, credentials, license. Consider using former members of federal and state law enforcement agencies (credibility).

• Local ethics rules, disciplinary rulings and opinions, and case law should be closely scrutinized before embarking on a pretext investigation.

• The investigator should be reminded that he is the agent of the retaining client/firm and that his actions can be imputed to the client/firm. Maintain a written record of the instructions to the investigator.

• Verifying and documenting normal business practices and transactions in the ordinary course of business with members of the general public is usually permitted. Complex ruses are not advisable.
Best Practices (continued)

• A picture is worth a thousand words. Make sure investigator understands purpose of photo or video, has the proper technology to focus and zoom.

• Purchases should also have as much detail as possible – itemized receipt, method of payment, photographs and video showing purchase.

• Investigations are not just for litigation. May be used as part of routine compliance process. Consider secret shoppers.

• “Investigator Quarterback.”

• Franchisees as brand enforcers.
Questions?