UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

Dareltech, LLC,

Plaintiff,

-against-

Xiaomi Inc., Beijing Xiaomi Technology Co., LTD., Xiaomi USA, Inc. and Xiaomi Technology, Inc.,

Defendants.

ORDER DENYING MOTION TO DISQUALIFY COUNSEL

18 Civ. 8729 (AKH)

ALVIN K. HELLERSTEIN, U.S.D.J.:

In this action for patent infringement, defendants Xiaomi Inc., Beijing Xiaomi Technology Co., LTD., Xiaomi USA, Inc. and Xiaomi Technology, Inc. ("Xiaomi" or "defendants") move to disqualify Pierce Bainbridge Beck Price & Hecht LLP ("Pierce Bainbridge"), counsel for plaintiff Dareltech, LLC ("Dareltech" or "plaintiff"), from representing Dareltech in this matter, and to preclude Dareltech from using any information procured by unethical means. This motion presents the question of whether interviewing and recording company representatives at a promotional exhibition without disclosing affiliation in a pending litigation matter constitutes a violation of professional ethics, and if so, whether it is sufficient to disqualify counsel. Xiaomi also charges plaintiff with violating New York Rules of Professional Conduct ("Rule") 3.4(e), which prohibits lawyers from threatening criminal charges to gain advantage in civil litigation, and Rule 8.4, which prohibits conduct involving dishonesty and misrepresentation.

For the reasons that follow, I find that, in gathering information at the event, Dareltech's counsel acted inconsistently with professional ethics, and that Dareltech is precluded from using the collected information in further proceedings. Nevertheless, Dareltech counsel's conduct does not require disqualification at this time, and Xiaomi's motion is denied.

Background

The facts outlined below are taken from the parties' affidavits and submissions. Although the parties contest certain issues and present others with a particular gloss, the core circumstances underlying Xiaomi's allegations of unethical conduct are not in dispute.

Dareltech commenced this action against Xiaomi on September 24, 2018, alleging in its complaint that various Xiaomi selfie sticks[1] infringe its patents. Plaintiff became aware of Xiaomi's representation by Jones Day no later than November 2018, following a call between counsel discussing the case. During the conversation, counsel for Xiaomi took the position that this Court lacks personal jurisdiction over Xiaomi. Xiaomi has maintained this position and anticipates filing a motion to dismiss on this basis. Consistent with this posture, Xiaomi has represented that it does not have any United States-based subsidiaries. ECF 37-3, at 3.

On December 7, 2018, David Hecht ("Hecht"), a Pierce Bainbridge attorney, and Talia Cohen ("Cohen"), an investigator working at the direction of Hecht, attended a temporary

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[1] Loosely defined, a selfie stick is an extendable rod with a handle at one end and a mechanism to attach a mobile phone to the other. The device enables users to take self portraits from otherwise infeasible positions.

Xiaomi promotional event in Manhattan. Hecht and Cohen spoke with Xiaomi personnel and recorded the conversations on mobile phones. Xiaomi has identified Aaron Yang, an Operational and Project Manager and "managerial employee" among the recorded individuals. According to Xiaomi, Hecht and Cohen also recorded Longfei Zhang and Peter Zheng, who are employees of In Vizible, an event planning firm contracted by Xiaomi to manage the event.

The recordings do not show either Hecht or Cohen taking video. The perspective of the recordings is generally consistent with an individual holding a cell phone at mid-chest or waist height. Several of the shots are also poorly framed, inconsistent with holding a cell phone prominently in front of one's body. At no point in any of the videos do either Hecht or Cohen disclose that they are recording their conversations. The Xiaomi personnel have stated that they were unaware that they were being recorded.

Hecht registered for the event under his own name, but neither he nor Cohen disclosed their affiliation with Pierce Bainbridge or their representation of Dareltech in currently pending litigation against Xiaomi. In the video, Cohen identifies herself as "Victoria Carlton," and she directs the attention of one of the Xiaomi personnel to a Facebook page corroborating her alias. Dareltech subsequently disclosed sections of recordings, and later, the entire recordings, to Xiaomi.

In one recording, an individual states that he was "with Xiaomi" at its "N.A. division," which is based in Midtown and that it is "kind of like a secret operation." On December 14, 2018, Vincent Yan, the Director of North American Business at Xiaomi, Inc., stated in a declaration that "Xiaomi does not maintain any offices in the State of New York" nor

does Xiaomi "have any registered agents, sales agents, or employees located in New York." ECF 37-3, at 3.

In a December 22, 2018 email to Xiaomi counsel, Hecht wrote that, "[i]t is now clear that your client likely perjured himself when he submitted a declaration with false statements," apparently referring to Yan's December 14, 2018 declaration. ECF 26-1, at 6. In the email, Hecht explicitly refers to "Xiaomi's admissions." *Id.* In the same email, Hecht presented an increased settlement demand, consistent with Hecht's earlier December 9, 2018 email, which promised that his prior settlement demand would expire on December 14, 2018, and that a higher demand would replace it. In Dareltech's January 18, 2019 amended complaint, it added the allegation that Xiaomi's employees have described its alleged Manhattan business as a "secret operation." ECF 9 ¶ 9.

Discussion

"The disqualification of an attorney in order to forestall violation of ethical principles is a matter committed to the sound discretion of the district court." *Cresswell v. Sullivan & Cromwell,* 922 F.2d 60, 72–73 (2d Cir. 1990). "The authority of federal courts to disqualify attorneys derives from their inherent power to 'preserve the integrity of the adversary process.'" *Hempstead Video, Inc. v. Inc. Vill. of Valley Stream,* 409 F.3d 127, 132 (2d Cir. 2005) (quoting *Bd. of Educ. v. Nyquist*, 590 F.2d 1241, 1246 (2d Cir. 1979)). In evaluating motions for disqualification, a court utilizes a "restrained approach that focuses primarily on preserving the integrity of the trial process." *Armstrong v. McAlpin*, 625 F.2d 433, 444 (2d Cir. 1980), *rev'd on other grounds*, 449 U.S. 1106 (1981). In making this determination, courts balance "'a client's

right freely to choose his counsel' against 'the need to maintain the highest standards of the profession.'" *Hempstead Video*, 409 F.3d at 132.

"[T]he party seeking disqualification must meet a 'heavy burden of proof in order to prevail.'" *Amusement Indus., Inc. v. Stern*, 657 F. Supp. 2d 458, 460 (S.D.N.Y. 2009) (quoting *Gormin v. Hubregsen*, No. 08-cv-7674 (PGG), 2009 WL 508269, at *2 (S.D.N.Y. Feb. 27, 2009)). "[D]isqualification is warranted only if an attorney's conduct tends to taint the underlying trial." *GSI Commerce Solutions, Inc. v. BabyCenter, L.L.C.*, 618 F.3d 204, 209 (2d Cir. 2010).

"Although courts look to state disciplinary rules when considering motions for disqualification, such rules need not be rigidly applied, as they merely provide general guidance and not every violation of a disciplinary rule will necessarily lead to disqualification." *Amusement Indus., Inc.*, 657 F. Supp. 2d at 460 (internal citations and quotation marks omitted).

Rule 4.2 provides that, in the course of a representation, "a lawyer shall not communicate or cause another to communicate about the subject of the representation with a party the lawyer knows to be represented by another lawyer in the matter, unless the lawyer has the prior consent of the other lawyer or is authorized to do so by law." N.Y. Rules of Professional Conduct, Rule 4.2. "The general thrust of the rule is to prevent situations in which a represented party may be taken advantage of by adverse counsel; the presence of the party's attorney theoretically neutralizes the contact." *Niesig v. Team I*, 76 N.Y.2d 363, 370 (1990) (quoting *Wright v Group Health Hosp.*, 103 Wash 2d 192, 197 (1982)).

Similarly, Rule 4.3 governs communication with unrepresented parties. It provides that:

> In communicating 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.

N.Y. Rules of Professional Conduct, Rule 4.3.

In *Niesig*, the New York Court of Appeals addressed the question of whether plaintiff's counsel in a personal injury suit could privately interview the corporate defendant's employees who witnessed the accident. 76 N.Y.2d at 374. The court rejected a blanket rule correlating a corporate party with all of its employees and adopted a definition of "party" that "include[s] corporate employees whose acts or omissions in the matter under inquiry are binding on the corporation (in effect, the corporation's 'alter egos') or imputed to the corporation for purposes of its liability, or employees implementing the advice of counsel." *Id.* The court held that [a]ll other employees may be interviewed informally." *Id.* The *Niesig* court cautioned that "while we have not been called upon to consider questions relating to the actual conduct of such interviews, it is of course assumed that attorneys *would make their identity and interest known to interviewees* and comport themselves ethically. *Id.* (emphasis added).

Rule 8.4 prohibits lawyers from engaging "in conduct involving dishonesty, fraud, deceit or misrepresentation." N.Y. Rules of Professional Conduct, Rule 8.4. At least two New York City Committee on Professional Ethics opinions extend this prohibition to secret recordings, finding that they "smack of trickery." N.Y. City Op. 1980-95 (June 2, 1982); N.Y. City Op. 2003-02, 2004 WL 837933, at *1 (Apr. 9, 2004). Rule 3.4 precludes a lawyer from

"present[ing], participat[ing] in presenting, or threaten[ing] to present criminal charges solely to obtain an advantage in a civil matter." N.Y. Rules of Professional Conduct, Rule 3.4.

A. Interviews with Represented Parties

Dareltech does not deny that the interviews took place, nor can it credibly argue that, following the November 2018 call with Xiaomi counsel, it lacked knowledge that Xiaomi was a represented party. Instead, Dareltech takes the position that the conversations did not concern the subject matter of the representation. This argument is unpersuasive. In the recordings, Xiaomi personnel respond to specific questions, discussing the availability of products and the scope of Xiaomi's operations in New York. While the conversations did not appear to address the patents and products at issue in this case, the inquiry on available products left open the possibility that these products would be discussed. Further, inquiries on the Xiaomi's operations are directly relevant to Xiaomi's anticipated personal jurisdiction motion.

Dareltech further argues that Hecht was not acting in his professional capacity but as a member of the general public attending the Xiaomi event, placing him outside of the scope of Rule 4.2. This argument, and Dareltech's citation to *Apple Corps Ltd. v. Int'l Collectors Soc.* is unpersuasive for the same reasons that I conclude that the discussions do not fall outside the scope of the representation. 15 F. Supp. 2d 456, 474–75 (D.N.J. 1998) ("RPC 4.2 cannot apply where lawyers and/or their investigators, seeking to learn about current corporate misconduct, act as members of the general public to engage in ordinary business transactions with low-level employees of a represented corporation."). Here, Hecht and Cohen went beyond general attendance or commercial transactions and asked specific, targeted questions related to the scope

of Xiaomi's business operations in New York and responsive to proving jurisdiction in this forum. This line of questioning is reminiscent of that in a deposition. I thus decline to conclude that Hecht was acting outside of his capacity as a lawyer.

Xiaomi has represented that at least one of Xiaomi employees served in a managerial role. The targeted questions, focused on the issue of jurisdiction, were appropriate for and targeted to a managerial-level employee with knowledge of Xiaomi's corporate operations in New York and were beyond the scope of a low-level employee. Moreover, Dareltech's invocation of "admissions" and its incorporation of the statements into its complaint suggest an attempt to rely on statements by Xiaomi personnel as binding admissions.

At least some of the individuals interviewed were third party contractors hired to run the promotional event. Neither Hecht nor Cohen disclosed their affiliation with Dareltech. This lack of disclosure is problematic for the same reasons previously identified. "[A] lawyer who represents a civil litigant may properly communicate with an independent contractor who is employed by the adverse corporate party without consent of opposing counsel if the independent contractor is not represented in the matter. N.Y.S. Bar Ass'n Ethics Op. 735 (Jan. 12, 2001). Nevertheless, Op. 735 relied significantly on the analysis articulated in *Nieseg*, which, as discussed, took disclosure of both representation, interest, and affiliation as premises. As a result, this guidance does not validate Dareltech's conduct. Thus, I similarly conclude that Dareltech counsel's failure to disclose its representation is also inconsistent with Rule 4.3.

B. Alleged Acts of Misrepresentation in Violation of Rule 8.4

In addition to violations of Rules 4.2 and 4.3, Xiaomi also charges that the recordings were secret and made without the knowledge of the Xiaomi-affiliated personnel at the event, in violation of Rule 8.4. Dareltech responds that the recordings were made openly on mobile phones.

As an initial matter, while Xiaomi has labeled the recording both "secret" and "surreptitious," but those terms are ambiguous. The operative question is instead whether Dareltech counsel recorded the conversation "without disclosing that the conversation was being [recorded]." N.Y. City Op. 2003-02, 2004 WL 837933, at *1 (Apr. 9, 2004). This language also tracks the language of the ABA. *See* ABA Formal Op. 01-422.

Here, Dareltech counsel do not claim that they actually disclosed to the Xiaomi personnel that they were recording the conversations. Instead, they argue that because Hecht and Cohen's "mobile phones were displayed in the open and they were overtly recording the conversations," the Xiaomi personnel had constructive notice of the recording. ECF 39, at 3.

While I would not hold that the unambiguous and overt capture of video on a mobile phone could never constitute disclosure for the purposes of the professional responsibility rules, mobile phones are ubiquitous, and the open display of one is not tantamount to disclosure of recording. Such a broad rule would all but ignore guidance against undisclosed recordings.

Examining the specific circumstances of the recordings here, I find that the recordings were undisclosed. Contrary to Dareltech's arguments, none of the three recordings capture either Hecht or Cohen in the process of recording. As a result, they do not in themselves show that the recording was open. The angles and positions of the recordings are consistent with

that of an individual holding a cell phone at mid-chest height or waist height, and not at shoulder or eye level, suitable for optimal framing and conspicuous recording. Consistent with their subsequent statements, none of the individuals in the recordings appear aware of or otherwise acknowledge the recordings.

While Hecht registered for the event using his real name, Cohen used an alias, corroborating it with a Facebook page. This misrepresentation further confirms that the neither the recordings nor Dareltech counsel's attempts to elicit information were overt. Although Cohen is not an attorney, she was present at the event as Hecht's agent. I conclude that the capture of video constitutes misrepresentation inconsistent with Rule 8.4. As a result, Dareltech is precluded from further use of information obtained at the promotional event in any subsequent proceedings.

C. Alleged Threats of Criminal Prosecution in Violation of Rule 3.4

Xiaomi also alleges that Pierce Bainbridge attorney David Hecht sought to leverage perjury charges against Xiaomi based on statements made by a Xiaomi employee, in violation of Rule 3.4. Although Hecht stated that "your client likely perjured himself when he submitted a declaration with false statements," Hecht did not threaten prosecution. ECF 26-1, at 7. Xiaomi charges that the only possible explanation for the for the increase in Dareltech's settlement demand between its December 9, 2018 email (at which time Dareltech was already in possession of the pop-up event disclosures) and its December 14, 2018 email was the submission of Yan's allegedly perjuring December 14, 2018 declaration. The timing of this increased settlement demand, while raising questions, is nevertheless consistent with Hecht's earlier

December 9, 2018 email. I conclude that Hecht did not violate Rule 3.4, and that Xiaomi's arguments to the contrary are without merit.

D. Disqualification and Further Use of the Recording

Xiaomi argues that it has been prejudiced by Dareltech counsel's unethical conduct, and that disqualification is thus warranted. Although I have concluded that Dareltech counsel's conduct was inconsistent with the rules, Xiaomi has not shown that this conduct will taint any subsequent trial proceedings. Disqualification is thus not warranted at this juncture.

Xiaomi's citation to *Meachum v. Outdoor World Corp.*, 654 N.Y.S.2d 240, 254 (Sup. Ct. 1996), does not require otherwise. *Meachum* concerned a motion for class certification and thus addressed a different set of considerations. *Id.* Moreover, the *Meachum* court also considered a prior relationship between certain plaintiffs and proposed class counsel, an issue that contributed to the court's conclusion. *Id.* Similarly, the lawyer at issue in *Papanicolaou v. Chase Manhattan Bank, N.A.*, obtained privileged information related to litigation strategy and disparaged plaintiff's counsel to plaintiff, conduct alleged to "upset the equilibrium of the relationship" between plaintiff's and his lawyer. 720 F. Supp. 1080, 1087 (S.D.N.Y. 1989). These considerations are not present here.

Xiaomi has further argued that Dareltech should be precluded from using any evidence obtained in violation of professional responsibility standards. To the extent that Dareltech may seek to bind Xiaomi to "admissions" by personnel at the event, these statements constitute the very "alter ego" pronouncements precluded by *Neisig*. For this reason, Dareltech may not further rely on any information gained at the Xiaomi promotional event event.

Dareltech shall not engage in any further ex parte contacts with Xiaomi personnel without notice to Xiaomi or permission from this Court.

E. Attorneys' Fees

Dareltech has countered in its papers that Xiaomi's "sideshow motion . . . has so blatantly distorted the underlying facts" as to entitle it to attorney's fees." Having found that counsel for Dareltech acted inconsistently with professional ethics, I determine that that Dareltech's charges that Xiaomi has "play[ed] fast and loose with the facts," "misrepresented the record," and submitted its motion in bad faith to be without merit. I conclude that the facts and law cited by defendants make its motion nonfrivolous and inconsistent with the behavior in *Sassower v. Field*, 973 F.2d 75, 81 (2d Cir. 1992), cited by Dareltech. Having denied the motion to disqualify counsel, I also decline to award attorneys' fees to Xiaomi.

Conclusion

For the reasons stated, Xiaomi's motion to disqualify counsel is denied. Dareltech shall make no further use of information obtained at the pop-up event. The clerk is instructed to terminate the motion (ECF 24).

SO ORDERED.

Dated: April 4, 2019
New York, New York

ALVIN K. HELLERSTEIN
United States District Judge