Pretext Investigations
Court Decisions and Ethics Opinions

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Court Decisions and Ethics Opinions
(roughly in chronological order)

Written by Robert Sacoff

A. The seminal case validating pretext investigations is *Apple Corps Ltd. v. International Collectors Society*, 15 F. Supp. 2d 456, 458 (D.N.J. 1998). There the court fashioned a *sui generis* exception to the anti-deception ethical rules when evidence obtained by pretext was necessary in an intellectual property case.

1. Owners of THE BEATLES trademarks, including Yoko Ono Lennon, sued a stamp producer to enjoin unauthorized reproductions of likenesses of the Beatles on stamps. A consent injunction was entered, but the plaintiffs later believed it was being violated.

2. Plaintiffs' counsel engaged investigators to make pretext contacts to see if defendants were violating the consent decree. The investigators asked for and recorded recommendations about which stamps to purchase, and about the acceptance of orders for infringing stamps. No questions were asked about instructions, practices or policies governing the stamps. The investigation revealed violations of the consent decree, and plaintiffs moved for contempt sanctions. Defendants cross-moved for sanctions on grounds that the investigators violated Rule 4.2, prohibited contact with persons known to be represented by counsel.

3. The court found no ethical violation. New Jersey law extended the protection of Rule 4.2 only to the company's litigation control group. The sales clerks did not fall within that group, so the *ex parte* communication was allowable.

4. With respect to the anti-deception provisions of Rule 8.4, the court gave no weight to the misrepresentations that were limited to the investigators' identity and their purpose in contacting defendant:

"RPC 4.2 cannot apply where lawyers and/or their investigators, seeking to learn about current corporate misconduct, act as member[s] of the general public to engage in ordinary business transactions with low-level employees of a represented corporation. To apply the rule to the investigation which took place here would serve merely to immunize corporations from liability for unlawful activity, while not effectuating any of the purposes behind the rule." 15 F. Supp. 2d at 474-75.

B. The New Jersey *Apple* Corps decision was followed in New York a year later in Gidatex *v. Campaniello Imports, Ltd*, 82 F. Supp. 2d 119, 119-20 (S.D.N.Y. 1999).

1. Plaintiff terminated defendant's license to sell plaintiff's SAPORITI ITALIA brand furniture. However, defendant continued to sell off its stock and to display the SAPORITI ITALIA trademark, while selling customers were sold different brands after they entered the store. Plaintiff's counsel hired private investigators to pose as interior designers and tape record incriminating conversations with defendant's sales staff.

2. Defendant filed a motion *in limine* to exclude the evidence on grounds that it was obtained unethically and illegally. The court denied the motion on three grounds:

a) the ethical prohibition of contacting adverse parties who are represented by counsel was inapplicable;

b) plaintiff's attorneys had not violated the ethics rules even if they did apply; and

c) exclusion of evidence was not the proper remedy in any event.

3. The court reasoned that the purpose of the anti-contact rule was to prevent circumvention of the attorney-client relationship. However, the investigators acted like members of the public and did nothing more (other than taping the conversations) than an ordinary consumer would have done in asking the sales staff

questions about their products. The sales clerks, low-level employees, would not have disclosed, or even have known, any information protected by the attorney client privilege.

4. The court noted the salutary purposes of pretext investigations in trademark infringement cases:

"These ethical rules should not govern situations where a party is legitimately investigating potential unfair business practices by use of an undercover [investigator] posing as a member of the general public engaging in ordinary business transactions with the target." 82 F. Supp. at 122.

C. However, in 2001, *Midwest Motor Sports, Inc. v. Arctic Cat Sales, Inc.*, 144 F. Supp. 2d 1147 (D.S.D.2001), *aff'd*, 347 F.3d 693 (8th Cir. 2003), came out the other way. It had bad facts for the pretext investigator, and is the leading federal court decision condemning such investigations and sanctioning the lawyers involved.

1. Defense counsel hired investigators to go to plaintiff's store, pose as consumers and record conversations. The investigator admitted in his deposition that his purpose was to elicit evidence to be used in the pending case, rather than to reveal evidence of how typical consumers would be treated. Id. at 1152. The court found that the audio-taping of the salesman without his knowledge violated Rule 4.2 since it was an act of trickery. Id. at 1159. Even if the salesman was not a represented party under Rule 4.2, the court found there was a professional conduct violation under Rule 4.3 (prohibiting misrepresenting intentions to an unrepresented party), since the investigators engaged the salesman in conversation without disclosing their purpose. Id. at 1158.

2. The court analyzed the anti-contact rule, Rule 4.2, by saying its purposes were to prevent getting adverse party statements by circumventing opposing counsel, to protect the attorney-client relationship, to prevent the inadvertent disclosure of privileged information, and to

facilitate settlement by channeling disputes through the attorneys.

3. The court rejected the contention that all corporate employees were within the anti-contact rule, recognized instead a spectrum of categories of employees for purposes of Rule 4.2. Since the salesman's statements would be imputed to the corporate plaintiff, the court found that salesman to be within the protection of Rule 4.2, distinguishing *Apple Corps*. and similar cases which restricted protection to the control group.

4. The court found that defendant's counsel, via their investigators, had violated the anti-contact rule of Rule 4.2, would have violated Rule 4.3 even if the salesman had been held to be unrepresented by counsel, and sanctioned counsel for deceptive conduct and interviews under false pretenses.

5. In 2002, the Colorado Supreme Court also ruled against lawyers acting under false pretenses in the *Pautler* case, *In re Pautler*, 47 P.3d 1175 (Colo. 2002), which was discussed earlier. There the Court strictly applied the anti-deception ethics rules to a lawyer, even when his ruse successfully defused a crime scene and prevented further casualties. As noted above, the Court concluded "that licensed attorneys in our state may not deceive or lie or misrepresent, regardless of their reasons for doing so." Id. at 1176.

a) The Colorado rejection of any "exigent circumstance" exception to the anti-deception rules was reaffirmed as recently as September, 2015, in the Colorado Bar Association's Formal Opinion 127 – Use of Social Media for Investigative Purposes. The opinion holds, essentially, that "No exception in the Rules permits a lawyer to employ deception or subterfuge to gain access to restricted information through social media," such as entering the restricted portions of someone's Social Media page by posing under a false identity.

D. However, in the same year, 2002, the U.S. District Court

for the Southern District of New York again came down in favor of the pretext investigation in *A.V. By Versace, Inc. v. Gianni Versace, S.p.A.,* **2002 WL 2012618** (S.D.N.Y. Sept. 3, 2002)

1. "The Court rejects Alfredo Versace's complaint that the use of a private investigator has caused an unfair invasion of his privacy. . . . Gianni Versace's investigator used a false name and approached L'Abbligiamento posing as a buyer in the fashion industry.. . .The investigator's actions conformed with those of a business person in the fashion industry, and Alfredo Versace makes no allegation that the private investigator gained access to any non-public part of L'Abbligiamento. . . . Further, courts in the Southern District of New York have frequently admitted evidence, including secretly recorded conversations, gathered by investigators posing as consumers in trademark disputes. See, e.g., *Gidatex, S.r.L. v. Campaniello Imports, Ltd.,* 82 F. Supp. 2d 119, 123-24 (S.D.N.Y. 1999)(permitting introduction of secretly recorded conversations between private investigators and sales people for the defendant in a trademark infringement trial); *Nikon, Inc. v. Ikon Corp.,* 803 F. Supp. 910, 921-22 (S.D.N.Y. 1992), *aff'd*, 987 F.2d 91, 95-96 (2d Cir. 1993))(allowing introduction of investigators' interviews with non-party sales clerks to demonstrate 'passing off' and actual confusion among consumers between Ikon and Nikon cameras); see also *Louis Vuitton S.A. v. Spencer Handbags Corp.,* 597 F. Supp. 1186, 1188 (E.D.N.Y. 1984), *aff'd*, 765 F.2d 966 (2d Cir. 1985)(affirming permanent injunction issued after considering secretly recorded videotape of defendants' principals meeting with undercover investigator hired by plaintiff to discuss counterfeiting scheme)."

E. *Hill v. Shell Oil Co*., 209 F. Supp. 2d 876 (N.D. Ill. 2002).

1. This was a civil rights pretext "tester" case, not a trademark or copyright case, but in it, the court tried to reconcile *Gidatex, Apple Corps* and the district court opinion in *Midwest Motor Sports* in the context of investigating racial discrimination. Plaintiffs conducted

undercover investigations of gas station attendants to show patterns of racially discriminatory practices. They secretly videotaped gas station attendants' reactions or non-reactions to African American customers, and exchanges about whether pre-paying before pumping was required. Defendants moved for a protective order under Rules 4.2 and 4.3 on the grounds that the investigators made improper and deceptive contact with parties represented by counsel.

2. The court found the employees to be represented by counsel, making Rule 4.2 applicable but Rule 4.3 inapplicable. However, the court found that the testers did not make improper contact:

"Lawyers (and investigators) cannot trick protected employees into doing things or saying things they otherwise would not do or say. They probably can employ persons to play the role of customers seeking services on the same basis as the general public. They can videotape protected employees going about their activities in what those employees believe is the normal course." 209 F. Supp. at 880.

3. The court thus found that videotape recordings of the employees' ordinary course of conduct in dealing with customers was proper under Rule 4.2. The court reserved for trial, however, the admissibility of any substantive conversations, held outside the normal business transaction, between the investigators and the employees.

F. *Oregon's 2000 Gatti* Decision and its 2003 *Revision of Rule DR 1-102(D)*

1. In 2000, the Oregon Supreme Court came down against pretext investigations in *In Re Gatti*, 8 P.3d 966 (Or. 2000). Mr. Gatti, a lawyer, used false identities to investigate an allegedly unlawful insurance scheme. The State Disciplinary Commission found that he had violated the anti-deception rules of ethics, and sanctioned him with a public reprimand. The case went all the way up to the Oregon Supreme Court, which

affirmed, holding there was no "investigatory exception" to the State ethics rules; a lawyer had used several false identities to investigate alleged an unlawful insurance scheme. See Richmond, *Deceptive Lawyering*, 74 U. Cincinnati L. Rev. 577, 591 (2005).

2. However, in 2003, Oregon revised its anti-deception rule to make a "covert activity" exception when suspected illegal activity is suspected, to reverse the result in *In Re Gatti*. *See Dishonesty and Misrepresentation: Participation in Covert Investigations*, Or. Eth. Op. 2003-173, 2003 WL 22397289, at *2 (Or. St. Bar Ass'n 2003). The revised Rule provides:

a) Notwithstanding DR 1-102(A)(1), (A)(3) and (A)(4) and DR 7-102(A)(5), it shall not be professional misconduct for a lawyer to advise clients or others about or to supervise lawful covert activity in the investigation of violations of civil or criminal law or constitutional rights, provided the lawyer's conduct is otherwise in compliance with these disciplinary rules. "Covert activity," as used in this rule, means an effort to obtain information on unlawful activity through the use of misrepresentations or other subterfuge. "Covert activity" may be commenced by a lawyer or involve a lawyer as an advisor or supervisor only when the lawyer in good faith believes there is a reasonable possibility that unlawful activity has taken place, is taking place or will take place in the foreseeable future.

G. In 2004, the District of Columbia Legal Ethics Committee applied its basic anti-deceptive-conduct Rule 8.4 to government lawyers acting as intelligence officers.

1. The Committee concluded: "Lawyers employed by government agencies who act in a non-representational official capacity in a manner they reasonably believe to be authorized by law do not violate Rule 8.4 if, in the course of their employment, they make misrepresentations that are reasonably intended to further the conduct of their official duties."

2. The Committee has not addressed the rule's application to private attorneys conducting pretext investigations in civil matters. Doing so would probably entail a spirited argument on both sides of the issue.

H. *Design Tex Group, Inc. v. U.S. Vinyl Mfg. Corp.*, 2005 WL 357125 (S.D.N.Y. Feb. 14, 2005)

1. Court followed *Gidatex* and denied a motion to exclude evidence on the ground that it was obtained in violation of ethical rules.

2. ". . .[I]n response to what purported to be an ordinary purchasing inquiry made by an investigator working for plaintiffs, a U.S. Vinyl employee sent a sample book that included the allegedly [copyright] infringing pattern to a New York City address."

3. "Defendants argue that this action should not be attributed to the company because it was carried out by a low-level employee who had not received an instruction not to mail out the sample book in question. In the absence of any evidence that the employee was actually disobeying a company directive, there is no case law supporting this proposition."

4. "Also rejected is defendants' argument that this evidence should be excluded because plaintiffs' actions violated ethical rules. It is not 'an end-run around the attorney/client privilege' if investigators merely 'recorded the normal business routine' rather than interviewing employees or tricking them 'into making statements they otherwise would not have made."

I. *Chloe v. Designersimports.com USA, Inc.*, 2009 WL 1227927 (S.D.N.Y. Apr. 30, 2009)

1. This case involved the sale of counterfeit CHLOE handbags by defendant. Plaintiff’s private investigator called defendant to order a bag, and sent a check in under a pseudonym. She also made a couple follow up calls to defendant’s sales clerks under her pseudonym

to find out when the bag would be delivered. Defendant complained about the investigator's fraud and duplicity.

2. The court rejected the duplicity challenge, stating that courts in the Southern District of New York have frequently admitted evidence gathered by investigators posing as consumers in trademark disputes, citing *Versace* and *Gidatex*.

3. The court cited and revalidated the broad statement from *Apple Corps*.:

"The prevailing understanding in the legal profession is that a public or private lawyer's use of an undercover investigator to detect ongoing violations of the law is not ethically proscribed, especially where it would be difficult to discover the violations by other means. [*Apple Corps*.], 15 F. Supp. 2d 456, 475 (D.N.J. 1998). Indeed it is difficult to imagine that any trademark investigator would announce her true identity and purpose when dealing with a suspected seller of counterfeit goods."

J. NYCLA Committee On Professional Ethics Formal Opinion No. 737 (May 23, 2007) also directly addressed the pretext investigations.

1. Entitled "Non-government lawyer use of investigator who employs dissemblance". Interestingly, the opinion does not address whether the lawyer himself or herself is ever permitted to make "dissembling statements" directly !

2. "Dissemblance" is not prohibited if narrow conditions are satisfied:

a) Either

(1) The investigation concerns either a civil rights or intellectual property violation which the lawyer in good faith believes is taking place or will take place, or

(2) The dissemblance is expressly authorized by law; and

b) The evidence sought is not reasonably and readily available through other lawful means; and

c) The lawyer's and investigator's conduct do not otherwise violate The New York Lawyer's Code of Professional Responsibility or other applicable law; and

d) The dissemblance does not unlawfully or unethically violate the rights of third parties.

K. Alabama Ethics Opinion No. RO-2007-05 came down on the side of allowing pretext investigations insofar as members of the general public would make inquries.

1. "During pre-litigation investigation of suspected infringers of intellectual property rights, a lawyer may employ private investigators to pose as customers under the pretext of seeking services of the suspected infringers on the same basis or in the same manner as a member of the general public."

L. The Wisconsin Supreme Court came down on the side of the lawyer conducting the pretext investigation. *Office of Lawyer Regulation v. Stephen P. Hurley*, No. 2007AP478-D (Wis. Sup. Ct. 2009)

1. Attorney Hurley was defending a client, Sussman, who was being prosecuted for child pornography. Hurley's defense theory was that the minor, "S.B.", who was allegedly exposed to the pornography by Sussman, was independently viewing and collecting the same pornography on his own.

2. Hurley wanted to get S.B.'s computer to see if it contained exculpatory evidence, namely, the pornography in question. He hired a private investigator who obtained S.B.'s computer through deceit, saying he was conducting a survey concerning

computer usage and would provide a free new computer in return for turnover of S.B.'s existing computer.

3. Hurley instructed the investigator not to contact S.B. unless his mother was present, and to give S.B. an opportunity to remove anything he wanted to from the computer. The computers were swapped, and a forensic computer specialist found pornography on S.B.'s computer.

4. The District Attorney filed a disciplinary complaint against Hurley, alleging misconduct involving making a false statement to a third party, and engaging in conduct involving fraud, dishonesty, deceit or misrepresentation.

5. In the hearing, testimony indicated a widespread belief among the Wisconsin bar that Hurley's conduct was permissible, and common practice among prosecutors. The Wisconsin Supreme Court upheld dismissal of the complaint against Hurley, stating that no Wisconsin statute or rule drew the distinction between prosecutors and private practitioners urged by the District Attorney. The Court also noted Hurley's ethical obligation to zealously defend his client's liberty and essentially gave him the benefit of the doubt.

6. Maybe the real lesson of this case is, you will do well to make sure the target's mom is there.

M. ABA Formal Opinion 95-396 (1995).

1. Rule 4.2 attaches when you know the other party is represented by counsel in the matter, whether as a potential adversary, witness, or as an interested party.

2. Representation of a company does not necessarily bar communications with all employees of that organization, but does extend to employees whose actions and statements can be imputed to the company.