

ORDERS TO PROTECT TRADE SECRET OR OTHER CONFIDENTIAL RESEARCH, DEVELOPMENT OR COMMERCIAL INFORMATION

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A. INTRODUCTION

Court orders protecting trade secrets and other confidential information are a critical aspect of intellectual property litigation in the United States. One purpose of a protective order is to limit the dissemination of trade secret information and its competitive use. This paper briefly touches on the principles governing protective orders in the U.S. and summarizes some of the practical points litigants should consider in preparing one.

B. PROTECTIVE ORDERS—BACKGROUND

Parties to U.S. federal civil litigation may obtain from an opposing party during the discovery process any information that is relevant to the subject matter of a pending action, provided that it is not subject to a privilege.¹ Indeed, the information sought “need not be admissible at the trial if the discovery appears reasonably calculated to lead to the discovery of admissible evidence.”² Because there is a potential for abuse under the liberal discovery rules, a protective order is a vehicle used to protect against the improper disclosure of trade secrets.

Rule 26(c) of the Federal Rules of Civil Procedure permits a party to a litigation, or anyone from whom discovery is sought during the litigation, to seek a “protective order” from the court requesting protection from the discovery process. Rule 26(c) includes a non-exhaustive list of eight applicable protective order categories. In intellectual property litigation, by far the most common protective order is the one in the words of Rule 26(c)(7) that protects against the disclosure of “trade secret or other confidential research, development, or commercial information.”

The litigating parties usually agree early in the case (i.e., at the outset of the discovery process) upon the form of a protective order that will govern the treatment of their respective trade secrets. Counsel for the parties negotiates its terms, just like they would negotiate a contract. It is standard procedure that this agreed-upon protective order, often referred to as a “stipulated” protective order, is jointly submitted to the court for endorsement by the judge and entry into the case. If the judge signs the protective order, it becomes an order of the court.³

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¹ The most commonly encountered privilege is the attorney-client privilege.

² See Fed. R. Civ. Pro. 26(b)(1).

³ Rule 26 includes a requirement that there be “good cause” for the entry of the protective order. See *Citizens First Nat’l Bank of Princeton v. Cincinnati Ins. Co.*, 178 F.3d 943, 945 (7th Cir. 1999) (the court’s obligation to

The protective order will define, for example, what constitutes confidential information, who can have access to the information, and other restrictions on the use of the information. Access may be limited to a few persons, such as outside trial counsel, in-house counsel, and experts. Depending on the nature of the information, differing levels of confidentiality may be assigned to different kinds of information. More sensitive information is often given a higher level of protection than less sensitive information. The level of confidentiality assigned will determine who can have access and how the information shall be treated.

Even though the parties usually agree upon the terms of a stipulated protective order at the start of the discovery process, disagreements can arise. The parties may argue about access. One party may object, for example, to the disclosure of its confidential information to the opposing party's in-house legal counsel or engineers, claiming that such disclosure may result in improper use. The opposing party may argue that disclosure to these persons is necessary in order to assist outside trial counsel in the litigation.⁴ If the parties disagree, their disputes may be brought to the judge for resolution.⁵

If during the litigation there is a protective order violation, the judge has great discretion to punish a party, including dismissal of the violating party's case. Protective orders intended to protect confidential information set out important obligations. The violation of a protective order, such as the disclosure of protected confidential information to an unqualified person, is a serious offense, and the courts have fashioned various sanctions depending on the nature of the violation.

C. CONSIDERATIONS IN THE PREPARATION OF A PROTECTIVE ORDER

We turn now to some of the practical points concerning protective orders, as well as specific provisions which are often included.

1. Preference of the Judge or Court Where the Case is Pending

At times, the court where the case is pending will have a preferred form of protective order. In some forums, like the U.S. International Trade Commission, the trial judge has a form of protective order which is entered at the outset of every case.⁶ When such a form exists, it is best to start from the judge's form and to then show why additional or different terms should be included. Some judges may refuse to enter a stipulated protective order that is not in their preferred form or may even decide to enter their own version in lieu of the stipulated one agreed upon by the parties.

(..continued)

adequately protect the public interest requires that it not merely rubber stamp the parties' stipulated protective order). This good cause requirement should not be overlooked.

⁴ The technical complexities of patent litigation often make it desirable to have a party's engineers assist the outside attorneys review confidential technical information and prepare that party's case.

⁵ Rule 26(c) requires the person opposing discovery to first attempt to confer in good faith with the other party in an effort to resolve the dispute without involving the judge. If not resolved, the person opposing discovery may file a motion for a protective order. The parties usually will be given an opportunity to file briefs and the judge may even hear oral argument.

⁶ See <<http://www.usitc.gov/sec/apo/adminiapo201.pdf>> (March 1995).

2. Who May Have Access to the Trade Secret or Other Confidential Information?

There exists in the U.S. a tension between the protection of trade secret information and the public's interest in open court proceedings.⁷ The Supreme Court recognized this tension, stating, "[i]t is clear that the courts of this country recognize a general right to inspect and copy public documents, including judicial records and documents," but "[i]t is uncontested ... that the right to inspect and copy judicial records is not absolute."⁸ The Supreme Court further acknowledged that "courts have refused to permit their files to serve ... as sources of business information that might harm a litigant's competitive standing."⁹ Instead, it endorsed leaving the decision on access to "the sound discretion of the trial court, a discretion to be exercised in light of the relevant facts and circumstances of the particular case."¹⁰

Because the purpose of a protective order is to limit dissemination of information and its competitive use, the receiving party usually is defined, with the protective order specifying categories of persons or actually naming the persons who may have access. But disputes concerning access often arise, as noted below.

(a) In-House Counsel Access

Disclosure to in-house counsel can be a contentious issue because of the presumed greater involvement that they have in business decisions and their location at a competitor party's offices. Standard U.S. International Trade Commission protective orders typically do not permit disclosure to in-house counsel.¹¹ Corporate counsel groups have pointed out that in-house counsel are subject to the same ethical standards as other attorneys, that many companies rely upon in-house counsel to handle litigation or to play a significant role on a litigation team, and that they have a major role in settlement considerations. There may, however, be a greater risk of disclosure when a competitor's documents are located in a corporate legal department as compared to being located at an outside law firm representing that party. Some protective orders thus will identify the in-house counsel who may have access to the protected confidential information. The order will allow them to discuss the confidential information with outside counsel, but will not permit them to keep documents containing another party's protected information on the competitor party's premises.

Because in-house counsel are bound by professional and ethical responsibilities, many times sufficient safeguards can be implemented without denying in-house counsel access to confidential information. In one patent case, both plaintiff (patentee) and defendant (alleged infringer) agreed that the protective order should have two levels of confidentiality.¹² The lower

⁷ See generally, Editorial, "The Balancing Act of Court Confidentiality Agreements," 76 JUDICATURE 280 (1993); Conlon et al., "Behind Closed Doors: Confidential Settlements and Sealed Court Records," 76 JUDICATURE 303 (1993).

⁸ *Nixon v. Warner Communications*, 435 U.S. 589, 597 (1978).

⁹ *Id.* at 598.

¹⁰ *Id.* at 599.

¹¹ See <<http://www.usitc.gov/sec/apo/adminiapo201.pdf>> (March 1995).

¹² See *Avery Dennison Corp. v. Minnesota Mining & Mfg. Co.*, 2001 WL 1339402 (D. Del. 2001).

level would be accessible by in-house counsel and two identified non-attorney employees. The higher level would not be accessible by non-attorney employees. Plaintiff, however, also sought a higher third level of confidentiality for the following information: (i) pending patent applications; (ii) documents disclosing research and development activities; (iii) financial documents from which one party could derive information that would assist in competitive bid submissions; and (iv) evidence of current manufacturing methods and tools, including videotapes and pictures taken during plant inspections. Plaintiff argued that this kind of sensitive information should only be accessed by defendant's outside counsel and one in-house representative. Defendant in turn argued that denying in-house counsel access to this information would hinder an efficient and effective representation. Ultimately, the court held that a protective order denying in-house counsel the right to examine the confidential documents was not needed to effectively safeguard the parties' interests.

There are times, however, when such a protective order is needed. Access to confidential information produced during discovery may be denied to those in-house counsel who are involved in "competitive decisionmaking."¹³ That is, the greater the extent to which in-house counsel participate in corporate decisions affecting contracts, marketing, employment, pricing, product design, and the like, the more serious the risk to confidentiality. The risk is more serious because there is a greater likelihood that confidential information will be deliberately or inadvertently disclosed where competitive decisionmakers have access to that confidential information. When faced with this issue, courts have determined that the key consideration in weighing whether to issue the protective order is "whether the attorney in question is in a position that creates a high risk of inadvertent disclosure." The answer to this inquiry then turns on whether the attorney was involved in "competitive decisionmaking" such that the attorney would have difficulty separating the knowledge gained from reviewing confidential information.

The following passage demonstrates the conflicting interests faced by courts in determining when protective orders for trade secrets may be appropriate:

On the one hand, parties seeking discovery are entitled to all information "reasonably calculated to lead to the discovery of admissible evidence," an intentionally broad mandate. On the other hand, responding parties are entitled to protection from "undue burden" in discovery, including protection from misuse of trade secrets by competitors.¹⁴

Weighing these interests in "a balancing test," this court determined that a protective order was properly issued, denying plaintiff's in-house counsel access to confidential information, as he was involved in "competitive decisionmaking." The court found that if plaintiff's in-house counsel obtained knowledge of defendant's trade secrets, he would be in the impossible position of having to refuse his employer legal advice on many contract, employment, and competitive marketing decisions so that he did not risk improperly or indirectly

¹³ See, e.g., The United States International Trade Commission's Application for Disclosure of Business Proprietary Information <<http://www.usitc.gov/sec/apo/apocbi.pdf>> (March 1995).

¹⁴ *Brown Bag Software v. Symantec Corp.*, 960 F.2d 1465, 1470 (9th Cir. 1992).

revealing the defendant's trade secrets.¹⁵

(b) Patent Prosecution Counsel

Similar concerns arise when patent litigation counsel also prosecuted the patent in the case. If litigation counsel has access to a competitor party's confidential information during the litigation concerning product design, he or she may later use (inadvertently or not) that information to assist in writing patent applications to cover the competitor's products. To prevent this, protective orders usually include language to the effect that "all information disclosed in this litigation may be used solely for the purposes of this litigation and for no other purpose."

Generally, the advice rendered by counsel during the prosecution of patents will be "intensely competitive."¹⁶ As one court stated, "[n]o matter how much good faith [counsel] might exercise, it is unrealistic to expect that his knowledge of [the opposing party's] secret technology would not or could not influence the nature of his advice to [his client]."¹⁷ In this situation, courts have often weighed in favor of the party seeking a protective order and held that attorneys privy to confidential information must not participate in the prosecution of the subject technology during the pendency of the case and for a specified period after conclusion of the litigation.¹⁸

Given the developed case law on the subject, it is not uncommon to include a provision in a stipulated protective order covering the attorneys who were involved in prosecuting the patent in the case: "Any [attorney representing the patentee who prosecuted the patent-in-suit] who receives confidential information shall not be involved in patent prosecution activities on behalf of [patentee] related to the broad subject matter of the patent-in-suit during the pendency of the action and for two years following the conclusion of the action, including appeals."

(c) Third Party (E.g., Experts) Access to Trade Secret Information

In the case of disclosures going beyond outside counsel and their firms, it is common to require third party recipients, such as experts, to agree in writing, before disclosure, that he or she has read the protective order, understands it, agrees to be bound by it, and agrees to be subject to the jurisdiction of the court which entered the order. To avoid unwanted disclosures,

¹⁵ There are many cases involving competitive decisionmaking. See e.g., *Amgen, Inc. v. Elanex Pharmaceuticals, Inc.*, 160 F.R.D. 134, 139 (W.D. Wash. 1994) (in-house counsel granted access to confidential information and no protective order required); *Intel Corp. v. Via Technologies, Inc.*, 198 F.R.D. 525, 531-32 (N.D. Cal. 2000) (protective order proper because plaintiff's in-house counsel's access to defendant's confidential information in order to advise the plaintiff and manage outside counsel insufficient reason to grant access).

¹⁶ *Mikohn Gaming Corp. v. Acres Gaming Inc.*, 50 U.S.P.Q.2d 1783, 1785 (D. Nev. 1998) (quoting *U.S. Steel Corp. v. United States*, 730 F.2d 1465, 1468 (Fed. Cir. 1984)).

¹⁷ *Id.* at 1786.

¹⁸ See, e.g., *Motorola, Inc. v. Interdigital Tech. Corp.*, 194 U.S. Dist. LEXIS 20714 (D. Del. 1999); *Interactive Coupon Marketing Group, Inc. v. H.O.T. Coupons, LLC*, 1999 WL 618969 (N.D. Ill. 1999); see also *In re Papst Licensing, GmbH Patent Litigation*, 2000 U.S. Dist. LEXIS 6374 (E.D. La. May 4, 2000) (barring plaintiff's outside counsel for one year because patent prosecution is "an intensely competitive decisionmaking activity").

protective orders also often require that third party experts be designated before disclosure, and the producing party be given a period of time, for example, ten days, to object to producing any confidential information to that expert. Of course, there must be good cause for any objection.

3. Confidentiality Designations

Each document copy made by or delivered to the receiving party during the discovery process should be marked to indicate that it is subject to the provisions of the protective order. One common method is to designate documents “Confidential.” Standard practice is to mark each page and for the marking to indicate the basis of the confidentiality, for example, “Confidential, Pursuant to Protective Order,” or with a legend:

CONFIDENTIAL INFORMATION -- SUBJECT TO PROTECTIVE ORDER
Civil Action No. 04-CV-0001
U.S. District Court for the Southern District of New York

While production of material without claiming confidentiality ordinarily might be considered a waiver of confidentiality, protective orders often provide a procedure for giving later notice when the producing party inadvertently failed to give notice at the time of production. Typically, the protection runs from the time of notice and the receiving party has no liability for use or disclosure before notice was given.

Protective orders also should address the receiving party’s obligation to maintain the designation of the information as “Confidential.” For example, when a confidential document becomes an exhibit or is included in an appendix to a motion filed with a court brief, or confidential information is mentioned in a brief, the person using that document or information should have the duty to maintain the confidentiality and to mark and treat the document or information accordingly.

4. Filing Under Seal

The Clerk’s Office of a court is an office of public records. While such offices almost always have control systems, they are primarily designed to avoid loss of files, but not to secure their secrecy. Thus, a sealed file is out of the ordinary and may be at risk of unsealing and disclosure.

One way to minimize the risk of inadvertent disclosure of confidential information from the Clerk’s Office is to not file it there. The judge may permit documents containing confidential information to be submitted only to the judge’s chambers. Not all documents must be filed in the Clerk’s Office. Trial exhibits often never reach the Clerk’s Office and are returned to the attorneys after trial and appeal. It may also be possible to arrange for the filing of a motion in the Clerk’s Office, but submit the confidential exhibits only to the judge.

When documents are filed under seal, one custom method is to file them in a sealed envelope so that they stay sealed, and thus will not be made available to the public. The protective order should include the method of sealing and require a legend on the envelope:

CONFIDENTIAL INFORMATION -- SUBJECT TO PROTECTIVE ORDER
THIS ENVELOPE FILED BY [PARTY NAME] IS NOT TO BE OPENED, NOR ARE
THE CONTENTS THEREOF TO BE DISPLAYED OR OTHERWISE REVEALED, EXPECT
BY COURT ORDER OR BY AGREEMENT OF THE PARTIES

Civil Action No. 04-CV-0001

U.S. District Court for the Southern District of New York

Local federal court rules often address the method to seal, and these rules of course must be reviewed and followed. Parties should also investigate how the judge on the case will react to the sealing of court-filed papers, as some judges lean toward keeping all filed documents open for public inspection.

5. Multiple Levels and Categories of Protection

In many cases, different *levels* of protection are appropriate.¹⁹ For example, all non-public information might be treated as Confidential at the base level, accessible to all persons subject to the protective order. More critical information, such as trade secrets in dispute, and other technical and business information, would be designated as “Attorneys’ Eyes Only” or “Super-Confidential” and accessible only to a limited group which usually excludes parties and their employees. In other cases, different *categories* of information are designated on a need to know basis, with accountants and economists permitted access only to financial information, and technical experts and advisors having access only to technical information.

In some cases, key technical information -- such as manufacturing processes and formulae -- have been treated as “Super-Super-Confidential,” accessible to only a few people and subject to special controls on copying and storage.

6. Special Consideration for Information in Electronic Format

Courts have also addressed the appropriate protection for the production of computer source code.²⁰ In one case involving computer software companies, the plaintiff sought to have defendant produce its source code via electronic media protected by cryptography, while defendant requested that the exchange occur in printed form. The court found plaintiff’s representation that its encryption scheme was “essentially unbreakable” did not provide adequate assurance to defendant that its sensitive information would be protected from intentional or inadvertent access by non-parties. The court thus held that producing the source code in printed form was not unreasonable.

7. Exceptions

Protective orders often include exceptions to the requirement that the receiving party not disclose or use information, similar to those in confidential disclosure agreements. For example,

¹⁹ See *Avery Dennison Corp. v. Minnesota Mining & Mfg. Co.*, 2001 WL 1339402 (D. Del. 2001), discussed *supra*, section C.2.(a).

²⁰ See *Adobe Sys. Inc. v. Macromedia, Inc.*, 2001 WL 1414843 (D. Del. 2001).

information which is already known to the receiving party or otherwise obtained without violating the terms of the protective order is usually excepted from protection. The order may require, however, that the receiving party notify the producing party or obtain consent from the judge before relying on such an exception.

8. *Limits on Use*

A typical limitation in a protective order is that the confidential information which is received may only be used in the present litigation and may not be used for any other business purpose. Sometimes, however, that may be too restrictive, at least from the receiving party's point of view. For example, when the protective order is entered in a patent litigation, future litigation involving related patents may be possible, either in the United States or in foreign countries.

In a case that was about to be dismissed at plaintiff's request, defendant obtained permission from the judge to obtain additional discovery to be used in later litigation, as a condition of dismissal. Some courts have held that information properly obtained in discovery in the U.S. may be used in foreign litigation.²¹ Beware, however, of the risk that a foreign court will not protect the information.

9. *Provisions Effective at the End of the Case*

The terms of a protective order, including the requirement of confidentiality, continue after the case is over. But what about the confidential information in an opponent's possession? Protective orders often provide for the return or destruction of documents containing confidential information at the end of the case. It is dangerous to provide only for the return of documents, which may include the notes of the receiving party's attorneys, and may require tedious and expensive sorting. Also, a protective order with such a provision might be considered to impose an obligation to retain all copies made during the case for return to the producing party. While destruction is preferable, it can also impose a heavy burden of sorting and of destruction itself, if shredding is required. Sometimes it is easier to send the documents back to the producing party's attorney. Undeniably, it is best to have a choice.

Before agreeing to return or destroy all confidential documents, however, consider whether there may be a future need for them. Should the producing party be required to keep a set? One court said "no" but permitted a defendant to complete discovery and retain the proceeds as a condition of granting plaintiff's motion for dismissal.²²

The protective order should also include a provision that the order will remain in force after the conclusion of the litigation and that the court will retain jurisdiction after the end of the case to

²¹ See, e.g., *Johnson Foils, Inc. v. Huyck Corp.*, 61 F.R.D. 405, 409-10, 180 USPQ 243, 246 (N.D.N.Y. 1973) ("[U]nless the discovering party is exploiting the instant litigation solely to assist in other litigation before a foreign forum, federal courts do allow full use of the information in other forums.").

²² See *W.L. Gore & Associates, Inc. v. OAK Materials Group, Inc.*, 424 F. Supp. 700, 709-10 (D. Del. 1976).

decide disputes arising under the protective order.

D. SANCTIONS FOR VIOLATION OF A PROTECTIVE ORDER

A district court has great discretion when deciding how to enforce violations of its orders. To provide safeguards for the protection of confidential information, the court may exercise its discretion to impose sanctions when an entity violates a protective order.²³

Courts can invoke fines or provide some other form of sanction as punishment. An assessment of attorneys' fees is a common sanction, but other sanctions may also be assessed in addition to or in lieu of attorneys' fees. A much more extreme, and rare sanction, is a dismissal of the case, or a sanction that is tantamount to dismissal.

The Second Circuit Court of Appeals affirmed a district court's dismissal of a plaintiff's case with prejudice as a sanction for a protective order violation.²⁴ The district court found, by clear and convincing evidence, that the plaintiff had violated the clear and unambiguous provisions of the protective order. As a result, the district court held plaintiff in civil contempt for the violation, dismissing plaintiff's case with prejudice.

Although "[d]ismissal with prejudice for discovery failures is a harsh sanction that is to be used only in extreme situations," it may be appropriate if "(a) the court finds willfulness, bad faith, or fault ... and (b) the court gives notice ... that violation of the court's order will result in a dismissal of the case with prejudice."²⁵ While courts are required to determine whether a sanction less drastic than dismissal would suffice, the court in this case found the violation to be willful, and that the protective order expressly provided that a violation could result in dismissal. Thus, the plaintiff was on notice, and the court concluded that "[n]o monetary sanction could cause [plaintiff] to submit to the lawful mandates" of the court.

One judge sanctioned a party in a patent case for violating a protective order by removing one of the litigating attorneys from the case, even though a patent claim construction hearing was scheduled days later.²⁶ In this case the attorney was found to have disclosed information obtained from a confidential deposition to an attorney for a competitor. In addition to removal, the attorney was ordered to pay attorney fees for hearings held on the issue.²⁷

²³ The Court of Appeals for the Federal Circuit even held that a district court's failure to find a violation of a protective order was an abuse of the district court's discretion. See *Eagle Comtronics, Inc. v. Arrow Comm. Labs., Inc.*, 305 F.3d 1303 (Fed. Cir. 2002). In that case, the Federal Circuit reversed the district court's finding that there was no protective order violation, remanding the case for the imposition of an appropriate sanction.

²⁴ See *Blum v. Schlegel*, 108 F.3d 1369 (2nd Cir. 1997).

²⁵ *Simmons v. Abruzzo*, 49 F.3d 83, 88 (2nd Cir. 1995).

²⁶ "Attorney Booted from IP Case," *The National Law Journal* (October 19, 1998).

²⁷ Monetary fines are one of the more common sanctions for protective order violations. See e.g., *Greiner v. Champlin*, 152 F.3d 787, 789-90 (8th Cir. 1998) (affirming the district court's use of its inherent power to award attorneys' fees where an attorney violated a protective order which required the sealing of all documents that referenced or referred to a confidential report).

E. CONCLUSION

A protective order is an essential tool used to protect trade secret and other confidential information in U.S. intellectual property litigation. It provides an efficient mechanism in which litigants can fairly and efficiently exchange information to one another, imparting safeguards to protect confidential information. To ensure adequate protection, it is essential to carefully consider early in the case what kinds of protection will be necessary, both during the litigation and after it is concluded.