

***Keeping Client (Trade) Secrets***  
**A Primer on Protective Orders**  
**by Karen M.R. Weber**

Routinely a client company requests counsel to protect documents when the discovery process threatens to disclose the company's trade secrets or other confidential, proprietary information. The importance of the protective order is often underestimated given that many protective orders have nothing to do with the substance at the heart of the subject litigation. The underestimation is compounded by the age of document maintenance systems, which makes it easy to create a "standard" protective order without much thought regarding the necessary terms. However, the importance of the documents to the client, and a recent trend that shows increasing interest by watchdog groups in unsealing protected documents, justifies the expense of time and resources in assuring that the terms of the protective order provide as much protection to the client company as can be afforded. Without protection, documents produced in discovery are subject to disclosure to the general public, including any competitors of the client.

"Pretrial discovery that is exchanged between the parties is not a public component of a civil trial." *The Sedona Guidelines: Best Practices Addressing Protective Orders, Confidentiality & Public Access in Civil Cases*, 2005 (citing *Seattle Times Co. v. Rhinehart*, 467 U.S. 20, 33 (1984) ("pretrial depositions and interrogatories are not public components of a civil trial. . . and, in general, they are conducted in private as a matter of modern practice.")). There is no presumed right that affords a third party access to documents exchanged in the course of discovery. However, the federal rules, absent a stipulation or agreement or a court order, do not forbid a party from voluntarily disclosing the documents to another.

The general public does have a qualified right to access court records. Discovery materials filed with the court for non-discovery purposes (*i.e.*, attached to a dispositive motion) become part of the court record. A narrowly drafted protective order setting forth procedures for filing discovery documents that become part of the court record will protect such documents, though there is no guarantee.

The focus of this article is to address the type of documents properly the subject of a protective order, issues created by protective orders and terms that should be included to address those concerns, and a recent trend wherein third parties seek access to a client company's protected documents filed with the court.

### **Documents Subject to Protection**

A wide range of documents are afforded protection under Federal Rule of Civil Procedure 26(c)(7). A court may make "any order which justice requires to protect a party or person from annoyance, embarrassment, oppression, or undue burden or expense, including . . . that a trade secret or other confidential research, development, or commercial information not be revealed or be revealed only in a designated way." Fed. R. Civ. Pro. 26(c)(7). Black's Law Dictionary, Sixth Edition, defines a "trade secret," in part, as "protected from misappropriation, [ ] any formula, pattern, device of compilation of information that is used in one's business, and which gives person an opportunity to obtain an advantage over competitors who do not know or use it." Many jurisdictions have defined what constitutes a "trade secret," relying on definitions set forth in statutes such as the Freedom of Information Act.

"Confidential information" is not a clearly defined term. Confidential information can include settlement agreements, financial information, and product design and testing documents,

etc. As discussed below, when (if) the court does conduct a judicial assessment of the information or specific documents for which protection is sought, the court will engage in a balancing of factors to determine if there is “good cause” to protect the documents.”

Necessarily, for a document to be considered a trade secret or confidential, it cannot be available in the public domain e.g. disclosed on a web page. If the documents or information has been produced in prior litigation absent an assertion of confidentiality, the documents and information is likely no longer confidential.

### **Good Cause Finding**

Rule 26(c) specifically requires a showing of “good cause” before a court can enter the protective order. The burden of showing good cause is on the party seeking the protection, even if there was initial protection of the documents under a court-approved, stipulated protective order.

As a matter of routine, courts sign “blanket” protective orders to which the parties have agreed. Out of practical necessity, the court rarely conducts a hearing to examine the material the subject of the protective order, often out of practical necessity. Though the court may not make a judicial assessment of good cause as to those documents exchanged during discovery, circumstances may arise where a party moves to file the documents under seal or where a newly added party or third party, who did not have an opportunity to oppose the entry of the protective order in the first instance, moves to vacate the protective order.

When a business is the party seeking protection, it will have to show that disclosure would cause significant harm to its financial and competitive positions. The disclosure must work a “clearly defined and serious injury” to its business or demonstrate “specific evidence of

the harm that would result.” See, e.g., *Hobley v. Burge*, 225 F.R.D. 221, 224 (N.D. Ill. 2004); *Jennings v. Family Management*, 201 F.R.D. 272, 275 (D.D.C. 2001); *Foltz v. State Farm Mut. Aut. Ins. Co.*, 331 F.3d 1122, 1130 (9th Cir. 2003); *U.S. v. Garrett*, 571 F.2d 1323 1326 n. 3 (5th Cir. 1978). If the court is satisfied, it will then balance the interests of the public with those of the business.

The Third Circuit has established seven factors the court must consider when determining “good cause”. In *Shingara v. Skiles*, 420 F.3d 301, 306 (3rd Cir. 2005), a media entity intervened and asked the court to vacate an agreed protective order entered into by the parties that designated as confidential all information produced during the course of the action. *Id.* at 303. In determining whether good cause existed, the court balanced the interests of the public and the parties. *Id.* at 306. The following is a list of seven non-exclusive factors considered by the court:

- 1) whether the disclosure will violate any privacy interests; 2) whether the information is being sought for a legitimate purpose or for an improper purpose; 3) whether disclosure of the information will cause a party embarrassment; 4) whether confidentiality is being sought over information important to public health and safety; 5) whether the sharing of information among litigants will promote fairness and efficiency; 6) whether a party benefiting from the order of confidentiality is a public entity or official; and 7) whether the case involves issues important to the public.

*Id.* (citing *Pansy v. Borough of Strousburg*, 23 F.3d 772, 783–84 (3d Cir. 1994)).

## **Terms of a Protective Order**

- **Confidential Materials**

The first issue that must be addressed is the scope of the protective order - what documents does it seek to protect. Unless all documents potentially discoverable are known and very limited, a “blanket” protective order is appropriate. In most cases, specifically enumerating or carefully describing the documents the subject of the protective order will certainly delay the entry of the protective order and increase the number of disputes. Moreover, inclusion of certain documents as part of a list of protected documents does not automatically protect such documents in the event a dispute later arises as to the confidential nature of the documents. The court must still conduct a “good cause” analysis and reach a finding. However, if the parties are unable to agree to the terms of a protective order, and judicial intervention is necessitated, the court will conduct a “good cause” analysis. In that rare case, enumeration of the documents by specific category or description may help prevent access to those documents in the event a third party later seeks to intervene in the action.

Blanket orders may define a “Confidential Document” as a document that is “subject to protection under Fed. R. Civ. Pro. 26(c),” as a “trade secret or other confidential research, development, or commercial information” or as “confidential and proprietary information produced in discovery that is not generally known and which the protecting party would not normally reveal to third parties or require third parties to maintain in confidence,” for example. Additionally, deposition testimony, and exhibits thereto, should be treated as confidential under the terms of the protective order.

- **Persons Entitled to Review**

The protective order should also extend authority to those entities entitled to review the protected documents. Authorization should certainly extend to counsel for the parties (and counsel's staff) and experts. In terms of identification of attorneys permitted access, the protective order is either a sharing or non sharing protective order. A sharing protective order permits counsel to share the protected documents with attorneys beyond those on record and in that attorney's office. If opposing counsel insists on a sharing protective order, the extent of the sharing can still be limited by qualifying which lawyers are permitted access—those with active cases verses claims, those that have cases concerning identical accident facts or that concern identical model year products, for example. Depending on the corporate structure of the client company and its involvement in the litigation, in-house counsel or other in-house decision makers should also be given authorization. The protective order should also include both consulting and retained experts as those who should also be authorized to review the protected documents.

Any person authorized to review protected documents that subsequently reviews those documents must be required to review the protective order and agree, in writing, to be bound by its terms. A draft agreement should be attached to the protective order to afford consistency and avoid confusion as to the nature of the agreement. The party that shared the documents should be required to maintain a log of those individuals. Inevitably, disputes will arise with respect to a requirement that the log of individuals be shared with opposing counsel in the course of litigation. As an alternative, counsel could ask that the log be shared at the conclusion of litigation.

- **Challenge to Confidentiality**

Without a “good cause” finding, the designation of a document as confidential is temporary. A protective order drafted on behalf of the producing party should therefore set forth that all designated documents remain confidential absent a challenge as to the confidential nature of the document. Further, the time in which a party has to object to the designation should be limited by a stated number of days to challenge the designation. In the event of an objection, procedures requiring written notice and a notation that failure to object constitutes a waiver should be included. In turn, the non-producing party may seek to impose a short timeline by which the producing party must respond to the objection. Frequently these terms are the subject of much negotiation.

- **Sealing of Documents**

If a protected document is to be filed with the court, it should be filed under seal pursuant to local rules. Routinely, courts grant stipulated protective orders that automatically seal such documents, permitting them to be filed with the court without further order. Such provisions are created to avoid the necessity of establishing “good cause” to protect the document made part of the public domain. It should be noted, however, the enforceability of such provisions have been questioned by the circuit courts. *See, e.g., Leucadia, Inc. v. Applied Extrusion Techs., Inc.*, 998 F.2d 157, 166 (3rd Cir. 1993); *Procter & Gamble Co. v. Bankers Trust Co.*, 78 F.3d 219, 227 (6th Cir. 1996).

- **Handling of Documents at Conclusion of Litigation**

To destroy or return, that is the question. A protective order should include provisions for the destruction or return of protected documents at the conclusion of the litigation, whether by

dismissal, settlement or trial. The volume of documents the subject of the protective order, the reputation of opposing counsel, the nature of the protected documents, and the extent of other litigation should all be considered when determining the best option. It is essential that the documents be returned or destroyed to prevent the documents from being used in other subsequent litigation. It is also necessary to set forth the continuing nature of the jurisdiction of the court, as well as the availability of penalties for failure to comply with the order.

### **Third Party Access**

Recent case law suggests a growing interest by third-party watchdog groups and the media in obtaining access to protected documents. These third parties may file a motion to intervene and obtain documents that have been filed with the court under seal during the course of the litigation. As a result of this practice, protective orders have been vacated. The court may treat documents filed under seal differently if attached to a discovery motion as opposed to a dispositive motion.

If a third party (such as a media entity) intervenes such an entity can force the court to determine whether good cause for the protection of the documents existed in the first place. This risk is especially high in cases involving significant media attention. The following is a recent case that illustrates the issue.

In *Phillips v. General Motors Corporation*, 307 F.3d 1206 (9th Cir. 2002) a newspaper intervened in a settled products liability case against General Motors ("GM"), seeking access to information produced by GM as to the total number and aggregate dollar amount of settlements in prior cases involving pickup truck fuel-fed fires.

In the underlying action, both sides agreed to a "share" protective order that allowed the parties to share all information covered under the order with other litigants in similar cases, but not the general public. *Id.* at 1209. In discovery, an issue arose as to the amount GM paid in previous settlements involving the same model vehicle and type of incident. The plaintiffs then filed a motion to compel GM to produce this settlement information either in the form of individual or aggregate settlement numbers. *Id.* The magistrate judge partially granted the plaintiffs' motion and directed GM to produce the total number and aggregate dollar amount of all settlements involving the same model vehicle and type of incident. At GM's request, the magistrate judge ordered this discovery to proceed pursuant to the share protective order and subject to further review and determination by the district judge as to whether the information produced should be subject to his Order. *Id.*

Pursuant to the magistrate judge's order, GM produced under seal the total number and aggregate dollar amount of its previous settlements involving the same model vehicle and type of incident. *Id.* GM also included an average settlement award calculation with these materials. Plaintiffs then filed a discovery sanctions motion against GM contending that GM violated the magistrate judge's order by additionally including the calculation of the "average" settlement award, which was not requested. Plaintiffs attached a copy of the settlement information to their motion as Exhibit 8. The case ultimately settled before the court had an opportunity to rule on the discovery-sanctions motion. *Id.*

Following dismissal of the case, the Los Angeles Times ("The LA Times") moved to intervene, and requested that the district court unseal the settlement information provided by GM, contained within exhibit 8 of plaintiff's motion for discovery sanctions. *Id.* The LA Times presented three reasons why the lower court should release the confidential settlement

information: "(1) this information did not deserve a protective order; (2) the LA Times has a common law right of access to exhibit 8; and (3) the newspaper had a First Amendment right to these materials." *Id.* at 1209–10. The district court then ordered the release of the documents on the grounds that "(1) it was not covered under the share protective order stipulated by the parties and (2) it independently did not deserve a protective order. Furthermore, the court found the common law right of access permitted the Los Angeles Times to receive the information contained in Exhibit 8" *Id.* at 1210. The district court did not address the First Amendment Issue.

General Motors appealed raising the following three issues in its appeal:

(1) whether the magistrate judge committed legal error when it ordered GM to produce the settlement information even under a protective order; (2) whether the lower court erred by lifting the protective order; and (3) whether the lower court erred by deciding the Los Angeles Times had a common law right of access to Exhibit 8. *Id.*

The 9th Circuit found that GM had waived its right to appeal the first issue because it did not object to the magistrate's ruling within ten days as required by Federal Rule of Civil Procedure 72(a).

The Ninth Circuit then addressed the district court's decision to lift the protective order. Generally, the public can gain access to litigation documents and information produced during discovery unless the party opposing disclosure establishes "good cause" for a protective order. *Id.* The party seeking the protective order bears the burden of showing specific prejudice or harm will result if no protective order is granted. *Id.* If particularized harm will result from

disclosure of the information to the public, then the court must balance the public and private interests to decide whether a protective order is necessary. *Id.* at 1211.

The Ninth Circuit determined that in this case, the magistrate judge never conducted a "good cause" analysis. Instead, the magistrate decided to put the settlement information into the existing share protective order, previously stipulated by the parties, on an interim basis subject to further review and determination by the district judge. The district judge, in turn, then found that the protective order was not appropriate. *Id.* However, the Ninth Circuit also found that the district court also failed to engage in the appropriate "good cause" analysis, instead holding that based upon Federal Rule of Civil Procedure 26(c)(7), "*only* trade secrets or other confidential research, development, or commercial information could be protected from disclosure under Rule 26(c)." *Id.* In a letter to the parties the district court stated it had "reviewed the file for materials that might be trade secrets, proprietary matters, research, development or other commercial information that should be protected under Rule 26(c)." *Id.* The district court apparently believed that only specific types of information could be protected via a protective order. *Id.*

The Ninth Circuit found that the law gives district courts broad discretion to grant protective orders for many types of information, including, but not limited to, trade secrets or other confidential information, or commercial information. The trial court is in the best position to balance the competing interests of the parties affected by discovery. *Id.* Courts have previously granted protective orders to protect confidential settlement agreements. *Id.* at 1212.

The Court of Appeals ultimately found that:

If the district court decision was based on a failure to recognize  
that lower courts have the authority to grant protective orders for

confidential settlement agreements, it was erroneous, and the district court must determine whether good cause exists. If the lower court did not make this legal error, then it needs to identify and discuss the factors it considered in its "good cause" examination to allow appellate review of the exercise of its discretion. The decision to lift the protective order is remanded and the lower court is instructed to conduct a "good cause" analysis consistent with the principles laid out in this opinion.

*Id.*

The Ninth Circuit then addressed the common law right of access claim. If upon conducting a "good cause" analysis the district court were to find that a protective order was not appropriate, then the LA Times would have access to the information and the district court would have no need to analyze the common law right of access issue. *Id.* The Ninth Circuit nevertheless addressed the issue of whether the presumption of access to documents filed with the court applied to Exhibit 8.

The issue is "whether the strong presumption of access applies to materials filed with the court under seal pursuant to a valid protective order." *Id.* at 1213. The Ninth Circuit decided that the federal common law right of access does not apply to documents filed under seal. If a court grants a protective order for information produced during discovery, it has determined that "good cause" exists to protect this information from being disclosed to the public by balancing the needs for discovery against the need for confidentiality. The Ninth Circuit found that it made little sense to render a protective order useless due to the fact that a party attached a sealed document to a "nondispositive sanctions motion" filed with the court. *Id.* The Ninth Circuit

therefore concluded that "when a party attaches a sealed discovery document to a nondispositive motion, the usual presumption of the public's right of access is rebutted, so that the party seeking disclosure must present sufficiently compelling reasons why the sealed discovery document should be released." *Id.*

## **Conclusion**

When drafting a protective order, it is essential to anticipate the various issues that will arise during the course of litigation. As illustrated in this article, a protective order should limit access to the protected documents and set forth procedures to object to a presumption of confidentiality, to outline handling of documents by the courts and to provide for the return or destruction of the documents at the conclusion of the litigation. Such measures will act to assure that the documents remain protected in litigation as between the parties and the general public.

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