

## INFORMATION SHARING AND TRADE SECRETS

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### I. INTRODUCTION

Whether in a products liability action or a commercial case involving trade secrets, defendants routinely seek protective orders and confidentiality agreements to prevent collaborative use of information by plaintiffs. As a group, defendants appear to believe that there is a need to keep information generated in litigation from reaching beyond the involved parties. However, collaboration between similarly situated plaintiffs can save time, money, and effort. Courts, scholars, and legislators have recognized that providing for information sharing accommodates plaintiff's compelling needs and causes manufacturers little or no harm.<sup>1</sup> In sum, by promoting full and fair access by all parties to relevant information, collaboration advances the policies underlying modern discovery.<sup>2</sup>

### II. WHAT ARE PROTECTIVE ORDERS AND CONFIDENTIALITY AGREEMENTS?

Both protective orders and confidentiality agreements designate the sensitivity of material and the degree of permissible dissemination beyond a specific group of persons. Confidentiality orders normally permit the use of the information for present litigation but preclude the distribution of the information to third persons. There are three broad categories of protective orders or confidentiality agreements: "narrow" orders cover specific, identified information; "umbrella" orders designate all discovery as protected; and "blanket" orders permit the parties to designate those documents they believe contain confidential information.<sup>3</sup> These orders and agreements may be generated in three ways: (1) the parties may negotiate and consent to the terms of a private confidentiality agreement; (2) the parties may present the negotiated confidentiality agreement to the court for approval; or (3) a party may file a motion with the court requesting a protective order. Often, defendants seek to use these orders in an effort to claim that specific documents requested during discovery contain "trade secrets," and are therefore protected under Federal Rule of Civil Procedure 26(c)7.

### III. WHAT IS A TRADE SECRET?

The term *trade secret* was first used in common law tort actions in which liability was imposed for the misappropriation of business information. Our courts have sampled from those cases and the Restatement of Torts to determine whether requested discovery materials warrant special protection as trade secrets or as information that is sufficiently confidential and commercially sensitive. United States v. IBM<sup>4</sup> set forth the following six factors to be considered in determining whether entry of a protective order is appropriate:

- (1) The extent to which the information is known outside of the company;

- (2) The extent to which the information is known by employees and by independent contractors involved with the company;
- (3) The extent of the measures taken by the company to guard the secrecy of the information;
- (4) The value of the information to the company and to its competitors;
- (5) The amount of effort or money expended in developing the information; and
- (6) The ease or difficulty with which the information could be properly acquired or duplicated by others.

A movant who seeks a protective order is required to show how each of these factors relates to specific documents or to each distinguishable category of documents. U.S. courts have interpreted the term *trade secret* narrowly and have denied confidentiality protection without hesitation to documents that they do not believe fall within that narrow range. Most opinions reject the claim of "trade secret" as justification for limiting the availability of discovery materials for collaboration in products cases. Indeed, many courts have allowed sharing of discovery materials among counsel in similar cases, even of information properly deemed "trade secrets," provided disclosure of that information is limited to that reasonably necessary to advance the litigation.<sup>5</sup> Normally, defendants argue that confidentiality agreements and protective orders are necessary to preclude the use of materials in collateral actions. This argument is insufficient, since collaboration promotes the public policy of saving judicial time and resources. Although protective orders are more likely to be issued in business litigation than in products cases, the same rules apply; the burden is on the claimant to prove that there is good cause to protect the information sought by the plaintiff in discovery.

#### IV. RULE 26(c)

The body of Rule 26(c) states the general rule that a court is permitted to enter a protective order "to protect a party or person from annoyance, embarrassment, oppression, or undue burden or expense."<sup>6</sup> Rule 26(c)(7) permits a protective order to be entered for "trade secret or other confidential research, development, or commercial information," provided that the movant shows good cause why such information should be protected. The Advisory Notes accompanying Rule 26(c)(7), however, state that "[t]he courts have not given trade secrets automatic and complete immunity against disclosure, but have in each case weighed their claim to privacy against the need for disclosure. Frequently, they have been afforded a limited protection."<sup>7</sup> Once the material has been shown to be confidential, courts next require that the proponent demonstrate good cause for entering a protective order.

#### V. GOOD CAUSE FOR A RULE 26(c) MOTION

The determination whether a movant has shown "good cause" and met the other standards of Rule 26 is left to the discretion of the trial court.<sup>8</sup> In order to show good cause sufficient to justify the issuance of a protective order under Rule 26(c)(7), Defendants must show that disclosure of any trade secret or commercially sensitive information will place Defendants at a "competitive disadvantage."<sup>9</sup> Defendants must demonstrate to the Court that:

- (1) The information is highly confidential commercial information or a trade secret;
- (2) Disclosure of the information will cause damage to Defendants; and
- (3) The injury associated with the disclosure outweighs the need for access

Also, the Court should consider the age of the information and the extent to which information is already in the hands of public, when deciding whether to issue a protective order.<sup>10</sup> Additionally, in *Glenmede Trust Co. v. Thompson*,<sup>11</sup> the Third Circuit set out a list of seven factors to be applied to determine whether good cause exists:

- (1) Whether disclosure will violate any privacy interests;
- (2) Whether the information is 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 sought over information important to public health and safety;
- (5) Whether sharing information among the litigants will promote fairness and efficiency;
- (6) Whether a party who would benefit from the order of confidentiality is a public entity or official; and
- (7) Whether the case involves issues important to the public.

The Third Circuit further notes that the determination of good cause should involve a balancing of public and private interests. Likewise, the Tenth and Eleventh Circuits also incorporate the idea that a judicial determination of "good cause" should involve a balancing of public and private interests. In addition, the Seventh Circuit referred to the Third Circuit factors in recent case law, and similarly analyzed the question by balancing a variety of factors, including the public and private interests, the potential harm to the party seeking the protective order, whether the information was

important to the public health, and whether the party benefiting from the imposition of confidentiality was a public official.<sup>12</sup>

## VI. AVAILABILITY OF INFORMATION FROM OTHER SOURCES

In the event that the Plaintiff is faced with the hurdle of a protective order, Plaintiff's counsel should do everything within their power to find out if there is relevant information that can be obtained outside of discovery. For example, Plaintiff's counsel should seek to discover if material is available from a similar case in which a protective order was not issued. Some good sources for this type of information are the Association of Trial Lawyers of America<sup>13</sup> and the Attorneys Information Exchange Group<sup>14</sup>, as well as numerous other groups that keep data on file regarding similar incidents. The court's power to enter a protective order under Rule 26(c) does not extend to documents obtained outside the discovery process.<sup>15</sup> Therefore, this information, when available, is "free game" for plaintiff's counsel.

## VII. CONCLUSION

As Frances J. Hare, Jr. and James L. Gilbert point out in Confidentiality Orders, the defendant's proposal to preclude the plaintiff from sharing discovery information with litigants in similar cases is in direct conflict with Federal Rule of Civil Procedure 1.<sup>16</sup> Authorities almost uniformly recognize that sharing information benefits not only the plaintiff but also the defendant and the court system itself. The Supreme Court has held that litigants should be able to obtain "the fullest possible knowledge of the issues and facts before trial."<sup>17</sup> Hopefully, motions filed by defendants that attempt to restrict the dissemination of information obtained during discovery will face ever increasing opposition. Any trend toward the acceptability of the entry of protective orders will cause an increase in disputes regarding discovery, with resulting unnecessary delay and expense. It is up to Plaintiff's counsel to take an active role in defeating the efforts of Defense counsel to make the issuance of protective orders commonplace.

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<sup>1</sup> Hare et al., *Full Disclosure: Combating Stonewalling And Other Discovery Abuses* (1994) Chapter 8; see also F. Hare, J. Gilbert & W. Remine, *Confidentiality Orders* (Wiley 1988).

<sup>2</sup> Hare et al., *Full Disclosure: Combating Stonewalling And Other Discovery Abuses* (1994) Chapter 8.

<sup>3</sup> E. Weiss & D. Slifkin, *Enforceability of Rule 26(c) Confidentiality Orders and Agreements*, 49 Fed'n. Ins. & Corp. Counsel. Q. 115 (1999).

<sup>4</sup> See *United States v. IBM*, 67 F.R.D. 40, 46-47 (S.D. N.Y. 1975).

<sup>5</sup> Hare, et al., *Full Disclosure: Combating Stonewalling and Other Discovery Abuses*, (1994), Appendix 2 at 349-371.

<sup>6</sup> Fed. R. Civ. P.26(c).

<sup>7</sup> Fed. R. Civ. P.26(c)(7), Advisory Committee Notes, 1970 Amendments; see also *Federal Open Market Committee of the Federal Reserve System v. Merrill*, 443 U.S. 340, 363 n.24 (1979) (stating "orders forbidding any disclosure of trade secrets or confidential commercial information are rare") (citations omitted).

<sup>8</sup> *Herbert v. Lando*, 441 U.S. 153, 177, 99 S.Ct. 1635, 60 L.Ed.2d 115 (1979).

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<sup>9</sup> See *Parsons v. General Motors Corp.*, 85 F.R.D. 724, 726 (N.D.Ga. 1980); see also *Martin Marietta Corp. v. Dalton*, 974 F. Supp. 37 (D.D.C. 1997) (responding to a Freedom of Information Act request, this Court disclosed information because movant failed to show that disclosure of costs and pricing data and proprietary management strategies would "cause substantial harm to the competitive position of the submitting source").

<sup>10</sup> See *United States v. I.B.M.*, 67 F.R.D. 39, 40 (S.D.N.Y. 1975).

<sup>11</sup> *Glenmede Trust Co. v. Thompson*, 56 F.3d 476 (3d Cir. 1995).

<sup>12</sup> See *Citizens First National Bank v. Cincinnati Ins. Co.*, 178 F.3d 943, 946 (7<sup>th</sup> Cir. 1999); E. Weiss & D. Slifkin, *Enforceability of Rule 26(c) Confidentiality Orders and Agreements*, 49 Fed'n. Ins. & Corp. Counsel. Q. 115 (1999).

<sup>13</sup> The Exchange, ATLA, 1050 31<sup>st</sup> St., N.W., Washington, DC 20007-4499, (800) 424-2725 or (202) 965-3500; fax (202) 337-0977.

<sup>14</sup> AIEG, 601 Beacon Parkway West, Suite 104, Birmingham, AL 35209, (205) 803-4000.

<sup>15</sup> See F. Hare, Jr. & J. Gilbert, *Resisting Confidentiality Orders*, TRIAL, October 1990, pg. 52.

<sup>16</sup> Confidentiality Orders; see also, e.g., *Wilson v. American Motors Corp.*, 759 F.2d 1568 (11<sup>th</sup> Cir. 1985); *Deford v. Schmid Prods. Co.*, 120 F.R.D. 648, 654 (D. Md. 1987); *Ward v. Ford Motor Co.*, 93 F.R.D. 579, 580 (D. Colo. 1982); *Parsons v. General Motors Corp.*, 85 F.R.D. 724, 726 (N.D. Ga. 1980); *Johnson Foils, Inc v. Huyck Corp.*, 61 F.R.D. 405, 409 (N.D.N.Y. 1973).

<sup>17</sup> *Hickman v. Taylor*, 329 U.S. 495, 501, 67 S.Ct. 374, 91 L.Ed. 451 (1947).