



Cincinnati Law Library News

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The "Attorneys' Eyes Only" Designation and Other Disclosure Restrictions in Trade Secrets Litigation

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Plaintiffs asserting misappropriation of trade secrets claims face a "Catch-22" dilemma. Plaintiffs must disclose trade secrets during the litigation discovery process while simultaneously protecting those trade secrets from further unlawful dissemination and use. To balance the burden of proof and consequences of additional disclosure, three tiers of restricted disclosure have evolved to protect oral and written information revealed during the discovery process in trade secret cases. This article first identifies the three tiers of protection that lawyers often use in protective orders in trade secret cases. Next, the article explains competing policy and ethical considerations that are at play during discovery in trade secret litigation. Finally, the article analyzes recent cases that address the competing interests and the dearth of authority relating to the ethical dilemma of an attorney bound by a protective order while at the same time obligated to consult with and keep his clients informed during the litigation.

The Three Tiers of Restricted Disclosure Used in Trade Secret Litigation

In trade secret litigation, levels of protection have been adopted to balance access to discovery and trial materials against the misuse of documents and information containing trade secrets produced in discovery. Absent any protective order, documents produced in litigation may be used for any purpose, including direct competition. Thus, protective orders are essential in trade secret litigation.^[1]

The lowest protection of trade secrets is the designation of information as "confidential." Under such designation, "confidential" information can only be used in that particular litigation,

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New Library PCs, Technology Changes

David Whelan, Law Librarian

Technology is an integral part of the practice of law and the Law Library is no stranger to its demands. We recently upgraded all of our members-only PCs (6) to current hardware, with more RAM and faster processors (Dell Dimension 3100s). We have also made some additional customizations to help you use our resources more easily, including:

- adding a button that will open the Microsoft Word Legal Users Manual on the Word toolbar;
- Adding a link directly to our collection of editable forms on the taskbar;
- Making the Desktop a Web page, with

links to our own databases as well as many free resources, like court rules

- Added WordPerfect 12, for easier access for lawyers who don't use Word

We hope these enhancements will make our PCs more enjoyable to use and allow you to be more efficient.



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but may be shared with and reviewed by the parties and all employees of the parties, witnesses, experts, legal counsel, and anyone else involved in the litigation process. Such persons should be required to acknowledge the obligation to maintain the information on a confidential basis. Breach of this obligation may result in court imposed penalties, including contempt of court.

Courts designate the intermediate tier of protection as "attorneys and client representative." Under this category, counsel has access to all the opponent's trade secret information, but only one or a few client representatives, agreed to by the client and the litigation opponent, may receive access to such information. The limited client representative must acknowledge the obligation to refrain from disclosure to any other client employee and abide by the prohibition from use outside the litigation. Enforcement of the restriction may include the court's contempt powers.

The most restrictive designation is the limitation of information *only* to legal counsel under the "attorneys' eyes only" designation. Under this restriction, documents produced and information disclosed are *only* shared with the parties' legal counsel, including legal staff, and under certain restrictions, outside experts. None of the specific information can be revealed to anyone associated with the client or the client itself. However, the party seeking this designation bears the burden of proving that each document labeled as "attorneys' eyes only" is sensitive enough to warrant such a restriction.^[2] Courts strictly adhere to this requirement and have threatened sanctions against the parties that label documents "attorneys' eyes only" arbitrarily or

without "an adequate factual basis."^[3]

Striking a Balance Between Open Access to Courts, Protection of Trade Secrets, and Ethical Obligations

Each of the three levels of disclosure also necessarily requires that any pleadings containing the designated information filed with a court must be filed under seal. As a result, each approach impedes the public's access to court records. Further, two of the three levels affect an attorney's ability to communicate with a client, thereby affecting certain ethical obligations. Thus, any lawyer in a trade secret case must consider and learn to balance these competing considerations: the public policy of open access to court records, the protection against a competitor's improper use of trade secret information revealed during litigation, and the ethical considerations affecting the attorney's obligations to consult with clients.

The Public Policy on Open Access to Court Records in Trade Secret Cases

The decision to allow protective orders with restricted disclosure, including filing court records under seal thereby rendering such records unavailable for public access, is within the discretion of the court.^[4] However, a court's discretion is limited by the longstanding legal tradition of the "presumptive right of the public to inspect and copy judicial documents and files."^[5] Accordingly, courts must only seal court records when specific interests outweigh the presumption of public access.^[6] Only the "most compelling reasons can justify non-disclosure of judicial records."^[7]

The right of public access is not absolute, and courts may prevent public access to files from becoming "a vehicle for improper purposes."^[8] The balance of the public right of access and the need to protect against improper use must be made "in light of the relevant facts and circumstances of the particular case."^[9] In fact, courts in every federal circuit have concluded that the denial of access to judicial records may be necessary to protect trade secrets.^[10]

The Balance of Full Disclosure and Protection of Trade Secrets in Litigation

Discovery in litigation involves the procedural concepts set forth in Rule 26(b)(1) of the Federal Rules of Civil Procedure, which provides that a party "may obtain discovery regarding any matter, not privileged, that is relevant to the claim or the defense of any party." Further, the court may order discovery on any material that "appears reasonably calculated to lead to the discovery of admissible evidence."^[11]

The law of trade secrets is a product of state, not federal, law.^[12] State and federal courts look to the Uniform Trade Secret Act, which has been adopted, with modifications, by at least forty-four states. As a matter of substantive law, a trade secret must necessarily be secret, and secrecy includes the lack of public knowledge or general knowledge.^[13]

The Uniform Trade Secret Act ("UTSA") does not require absolute secrecy, only that the material not be readily ascertainable by people who could obtain economic value from the information.^[14] The filing of documents and information in a court proceeding is probative, but not dispositive, as to whether the information continues to possess trade secret status.^[15] For example, the federal district court for the Eastern District of Michigan held, "[w]here information sought in discovery is relevant to the issues involved in the litigation, discovery will *not* be denied merely because trade secrets of the opposing party will be disclosed."^[16]

When presented with a protective order, the court must first decide that the information needs to be protected and the trade secrets sealed. Then the court determines the appropriate level of restriction and which information, filed with the court, should be sealed. The

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court also balances the opposing party's and the public's right of access against the risk of harm from improper use. The stakes can be high. As stated in *Adventist Health Systems/Sunbelt Health Care Corporation v. Trude*:

Once the information is furnished it *cannot be recalled*. . . The injury suffered by petitioners, assuming their adversaries have no right to this disclosure under the Civil Rules, will be complete upon compliance with the order and such injury could not thereafter be rectified in subsequent proceedings in this case.^[17]

The ABA Ethics Rules Related to "Attorneys' Eyes Only" Designation

There are few, if any, applicable ethics rules regarding the circumstances under which information may be disclosed only to attorneys, and not revealed to clients or revealed only to limited representatives of a client. While the ethical rules can vary from state to state, most provisions are similar to the 1995 ABA Code of Professional Responsibility. Under the Code of Professional Responsibility, Disciplinary Rule 1.4 states as follows:

- i. A lawyer should keep a client reasonably informed about the status of a matter and properly comply with reasonable requests for information.
- ii. A lawyer should explain a matter to the extent reasonably necessary to permit the client to make the informed decisions regarding their representations.

These disciplinary rules have one common element: communication between the client and legal counsel. Comment 4 to Rule 1.4, however, provides: "rules or court orders governing litigation may provide information supplied to a lawyer not be disclosed to the client."^[18] Rule

3.4(c) directs compliance with such rules or orders.

A search for case law discussing any ethical concern on restricting disclosure of trade secrets to the attorney's own client revealed a complete absence of any such analysis. This lack of published guidance is alarming considering the importance the Code of Professional Responsibility places on attorneys' duty to maintain communication with clients. How can an attorney "keep a client reasonably informed about the status of a matter" when the attorney is bound by an "attorneys' eyes only" designation? The "attorneys' eyes only" restriction may also undermine the trust between the attorney and the client. If the attorney cannot share pertinent information with the client, then the client may not feel comfortable sharing everything he or she knows with the attorney. In short, the need for open lines of communication between attorneys and clients is an important factor in an effective judicial system. Rule 1.4 of the Code of Professional Responsibility seems to agree with this notion. Therefore, attorneys, clients, and courts should, in the future, work to address the ethical dilemmas posed by the "attorneys' eyes only" designation.

Trade Secret Cases Involving One or More of the Tiered Levels of Protection.

Although courts widely enforce "attorneys' eyes only" provisions, courts should still balance the application of the various levels of restrictive orders with the attorneys' need to communicate fully and effectively with their clients. Consequently, merely having trade secrets at issue in a case does not automatically require an "attorneys' eyes only" protective order. Many courts have found that the first level of "confidential" is sufficient to safeguard against leaking confidential or proprietary information. Within a particular dispute, each of the three levels of protection may be used for different types of information and

documents, depending on the nature of the trade secrets and the risk of harm.

The First Tier or "Confidential" Designation

In 2001, the United States District Court for the Southern District of Indiana determined that a "confidential" restriction was sufficient and would not limit access to the trade secret information to only "counsel of record and authorized staff."^[19] Although the court agreed that plaintiff's trade secrets warranted protection, it held that such protection did not justify an "attorneys' eyes only" designation.^[20] Instead the court required that anyone who viewed the information abide by the confidentiality agreement and only use the information in the current litigation.^[21]

The Second or Middle Tier of "Attorneys' Eyes Only and Client Representative" Designation

One method some courts have used to preserve the attorney's ability to communicate relevant information effectively to the client, even if highly confidential, is to allow the client to designate an employee or representative to receive the confidential information. This limitation gives the client's attorney and one or a few client representatives complete access to all the trade secret information.

The United States District Court for the District of Connecticut modified an existing protective order by adding this middle level of confidentiality.^[22] Level two "restrict[ed] disclosure of documents marked as such to outside counsel, outside experts, and *three designated employees of each company*."^[23] Although the court allowed and adopted the more limited disclosure of "attorneys' eyes only," the court, by also imposing the less restrictive middle level, demonstrated that the client's need

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Using Your Law Library Online Catalog Account

Julie Koehne, Assistant Law Librarian

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for *certain* highly confidential documents outweighed the opposing party's desire to keep it entirely confidential from the opposing party.

Likewise, in a Delaware state court case, the defendants requested a protective order to prevent disclosure of various engineering reports, designs, trade secrets, and technology secrets to the opposing party.^[24] The court granted defendants their protective order, but refused to limit disclosure to "attorneys' eyes only."^[25] The order stipulated that outside counsel and its legal staff, *one* employee of each party, and in-house counsel for each party could have access to the documents produced.^[26]

Similarly, in the patent infringement action of *Avery Dennison Corp. v. Minnesota Mining & Manufacturing Co.*, the parties disputed whether one in-house attorney or a team of in-house attorneys should have access to the highest level of confidential information.^[27] The plaintiff wanted to restrict the highly confidential information to just one in-house attorney for fear that the attorney, as an employee of the defendant, would misuse its trade secrets.^[28] On the other hand, the defendant claimed that restricting access to all but one in-house attorney would deprive it of "effective and efficient representation."^[29] The United States District Court for the District of Delaware agreed with the defendant, and held that restricting the top tier information to one in-house counsel was not necessary and that the safeguards set forth in Rule 26(c) of the Federal Rules of Civil Procedure could provide the needed protection.^[30]

A common example of multiple levels of protection is found in *Blanchard & Co. v. Barrick Gold Corp.*^[31] There, the plaintiff requested a singular denomination of the lower level of "confidential," while the defendant moved for a two-tier designation ("confidential" and "attorneys' eyes

only").^[32] The court agreed with the defendant and granted a two-tier protective order because of the nature of the parties' competitive relationship.^[33] However, while the defendant wanted to restrict access to the "confidential" information to only four of the plaintiff's employees, the court held that such limitation was "extreme and unwarranted" for any information subject to the lower level "confidential" designation.^[34] The district court held that as to documents and information revealed under the lower "confidential" tier, the opposing party should retain the power to decide which of its employees would analyze the documents produced.^[35]

Use of the Third Level and Most Restrictive "Attorneys' Eyes Only" Designation

Courts allow the use of the highest level of "attorneys' eyes only" restrictions without discussion of the ethical dilemma and generally focus only on the effect on the parties and not on the public's inability to access the documents.

In *Ventrassist Pty Ltd. v. Heartware, Inc.*, the United States District Court for the Southern District of Florida rejected the defendant's argument that *any* discovery would "damage" the defendant because the plaintiff and defendant were competitors in ventricular heart devices, thereby giving plaintiff a "competitive advantage" in the industry.^[36] The court held the concern was "illusory" because of the protective order under which the defendant could restrict dissemination of discovery materials under the "confidential" or "attorneys' eyes only" designation.

In *Seaga Manufacturing, Inc. vs. Fortune Resources Enterprises, Inc.*, the information that defendant sought to protect from disclosure was customer lists.^[37] The Illinois federal district court allowed

plaintiff's counsel to examine the defendant's customer list to determine any match between the defendant's customer list and the plaintiff's customer list. Plaintiff's counsel then gave notice of customer names on both the plaintiff and defendant customer lists. Thereafter, employees of both the plaintiff and the defendant could examine the list of the matched customer names.

In that same case, the plaintiff objected to the defendant's "attorneys' eyes only" designation of the defendant's manufacturing drawings. The plaintiff argued that its employee needed to review the drawings to help determine the origin of the defendant's design for a particular cold beverage merchandiser and change machine. The defendant objected because the manufacturing drawings were costly to develop and would give the plaintiff and competitor unfair advantage if it copied the drawings. The magistrate judge removed the "attorneys' eyes only" designation to allow the plaintiff's employee to review the documents at the office of plaintiff's counsel, but no copies could be created and the documents could not be removed from plaintiff's counsel's office. The employee examining the documents was also obligated to treat the information in the drawings as confidential pursuant to the terms of the protective order precluding any disclosure.^[38]

In *ICG Communications vs. Allegiance Telecom*, the "attorneys' eyes only" designation was imposed on all customer files.^[39] Plaintiff, ICG Communications, was a telecommunications provider involved in a Chapter 11 reorganization. The plaintiff sent its profitable customers a letter that it would continue to serve them, but notified its unprofitable customers it would terminate services. Allegiance Telecom, a competitor, forwarded the unprofitable customers' notice to the plaintiff's profitable customers to

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encourage those profitable customers to switch services. At issue in discovery were various customers' lists of both parties. The court held that privacy concerns, including those imposed under the Federal Telecommunications Act, established good cause for a protective order limiting the production of the customer lists to "attorneys' eyes only."

The "attorneys' eyes only" designation was also authorized in another dispute over access to customer lists. In *Asch/Grossbardt, Inc. vs. Asher Jewelry Company*, the plaintiff filed a copyright claim against a competitor.^[40] The competitor counterclaimed for trademark infringement. The defendant sought the plaintiff's customer list in discovery. The district court held that the customer list was relevant to the issues of actual confusion and the likelihood of confusion. The court further recognized that when the parties are direct competitors, disclosure of customer lists potentially results in economic loss to the disclosing party, which must be balanced against the opposing parties' need for the information. The court concluded that "there was ample precedent" for limiting disclosure only to attorneys and experts and ordered access to the customer list limited to plaintiff's counsel on a "attorneys' eyes only" basis. The Court also restricted the number of copies that could be circulated among plaintiff's counsel.

"Attorneys' eyes only" information may be made available only to *independent* outside counsel. Outside counsel serving dual roles, such as corporate secretary and/or board member for a corporation, may be denied access to attorneys' eyes only materials. In *Norbrook Laboratories LTD. vs. G.C. Hanford Manufacturing Company*, the New York federal district judge denied a lawyer retained as outside counsel

access to discovery materials.^[41] The lawyer also served as corporate secretary and a board member for the corporation. The judge concluded that the lawyer's multiple roles "present[ed] an unacceptable opportunity for the inadvertent disclosure of confidential information."^[42] Even accepting the lawyer's assurance that he would maintain the information absolutely confidential, the court concluded that "it cannot endorse a situation that places [the lawyer's] ethical obligations as an attorney in direct competition with his fiduciary duty to Hanford."^[43] The judge also recognized that "it is very difficult for the human mind to compartmentalize and selectively suppress information once learned, no matter how well intentioned the effort may be to do so."^[44]

Even though the rationale for the attorneys' eyes only designation is legitimate, the use of the attorneys' eyes only designation should be made in good faith and with limitation. In *Team Play, Inc. v. Boyer Sky Boy Productions, Inc.*, a party marked more than 4,000 out of 6,000 documents as "highly confidential attorneys' eyes only," thereby restricting opposing counsel from sharing the documents with the client.^[45] The court ordered the removal of the designation but only after it ordered that the opposing party must sign a sworn affidavit confirming his non-involvement in the competing industry and lack of intention to re-enter the field.

CONCLUSION

Clients seeking to protect sensitive documents during the course of litigation may use any combination of the three tier designations provided by the court's discretion: (1) confidentiality, (2) attorney plus client representative(s), and (3) "attorneys' eyes only." These protections raise concerns regarding the "public's right to know" (i.e. public access to court documents) and the ethical obligations that

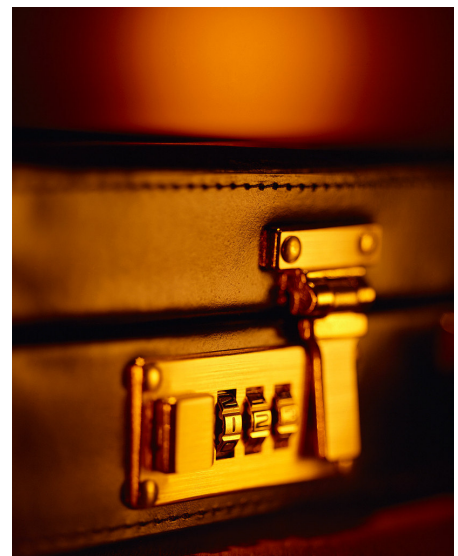
attorneys owe their clients. Although these issues have not yet been fully discussed by the courts, they are valid concerns. In the age of widespread patent and trade secret litigation, undoubtedly, the issue of public access and ethical dilemmas will come to the forefront of such litigation.

Denise McClelland is a member of Frost Brown Todd LLC in its Lexington, Kentucky office. Ms. McClelland has over 20 years of commercial litigation experience, including frequent matters concerning trade secrets, unfair competition, non-compete agreements, and fiduciary duties.

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Footnotes available at

<http://www.fbtlaw.com/news/publications/detail.aspx?pub=1312>



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