



AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION

2001 JEFFERSON DAVIS HIGHWAY ■ SUITE 203 ■ ARLINGTON, Virginia 22202

May 14, 2006

Richard Braman
Executive Director
The Sedona Conference

Dear Mr. Braman:

The American Intellectual Property Law Association (AIPLA) appreciates the opportunity to offer more substantive comments on the "Revised April 2005 Public Comment Draft" of *The Sedona Guidelines: Best Practices Addressing Protective Orders, Confidentiality & Public Access in Civil Cases* (the "Draft Guidelines"). This letter augments the initial concerns we expressed to you and the Editors-in-Chief in our letters of March 10, 2006.

AIPLA is a national bar association whose 16,000 members are primarily lawyers in private and corporate practice, in government service, and in the academic community. AIPLA represents a wide and diverse spectrum of individuals, companies, and institutions involved directly or indirectly in the practice of patent, trademark, copyright and unfair competition law, as well as other fields of law affecting intellectual property. Our members represent both patent owners and users of intellectual property. They also represent both small and large clients and they represent both plaintiffs and defendants.

AIPLA has reviewed the draft Sedona Guidelines, and has solicited comments from its members. Although a complete study of all of the issues presented by the Draft Guidelines would take much more time, at this point AIPLA has the following overall positions on the Draft Guidelines.

AIPLA appreciates the effort expended by the Sedona Conference Working Group 2 in formulating the Draft Guidelines. We do not believe, however, that there is any demonstrated need for the Draft Guidelines. Our practitioners routinely handle cases involving a very large number of confidential documents, and yet they do not report any significant difficulties with the present system of handling confidential documents and information. The flexibility offered by the current system can and does offer tailored solutions to the complex situations and competing interests posed by many cases involving intellectual property. Specifically, current law allows information filed with the court to be sealed on a showing of "good cause" pursuant to Rule 26. If a non-party to the litigation wants access to the information, in most cases the burden will remain with the proponent of sealing to justify its continued confidentiality, because it was originally sealed by stipulation.¹ In cases where the court originally made a fact-based determination of good cause, the normal rule is that the third party must make a showing of compelling need for access.² These rules can be adjusted when the nature of the case justifies placing a heavier burden on the proponent of secrecy and a lesser burden on the third party (for example, when matters of public health or safety are involved).³

¹ See, e.g. *San Jose Mercury News, Inc. v. U.S. District Court*, 187 F.3d 1096, 1103 (9th Cir. 1999).

² *Phillips v. General Motors Corp.*, 289 F.3d 1117, 1124 (9th Cir. 2002).

³ See *Hammock v. Hoffman La Roche, Inc.*, 142 N.J. 356, 379, 662 A.2d 546, 558 (N.J. 1995) and *Danco Laboratories, Ltd. v. Chemical Works of Gedeon Richter, Ltd.*, 274 A.D. 2d 1, 711 N.Y.S. 2d 419 (N.Y. App. 2000).

We are not aware of any empirical evidence that these standards – or the various state and federal laws or rules regulating the sealing of confidential information – are not working. Moreover, AIPLA is concerned that the Draft Guidelines call for a profound change in current law, by placing a new and unjustifiably high burden (“compelling circumstances”) on a litigant that wishes to protect its trade secrets.⁴ The Draft Guidelines appear to be biased in favor of public dissemination of information that is valuable precisely because it is confidential – including trade secrets and other business confidential information – and that is at the core of intellectual property rights and disputes.

There is a key public policy underlying our comments. This is that intellectual property rights are important enough to be recognized in the United States Constitution and by a variety of federal and state laws.⁵ The purpose of these rights is to encourage useful innovation by allowing innovators to reap the benefits of their labors for a limited time⁶. In our information-based economy, trade secret laws are particularly important. Studies show that the vast majority of information assets in this country are protected exclusively as trade secrets.⁷ Trade secrets have been recognized by the U.S. Supreme Court as protectable property rights.⁸ Congress has deemed misappropriation of secret business information so important that it imposed substantial criminal penalties through the Economic Espionage Act of 1996.⁹ And it is widely recognized that this extremely valuable property right is also fragile, because it can be damaged or destroyed by unauthorized disclosure or use.¹⁰

Many private commercial disputes require that the parties submit trade secret information to the court. Such evidence comes in a variety of forms, ranging from computer source code, to secret formulas, designs or manufacturing processes, to information about undisclosed business plans or financial information. Although the Draft Guidelines state that parties to litigation should expect that their information might be disclosed, the implied assumption that all litigants voluntarily accept this risk is not grounded in fact. Defendants who are sued typically have no choice but to submit to the procedures of the court. They are entitled to a process that recognizes and protects the integrity of their property, including their trade secrets. And the public is also entitled to a court system that respects such important rights.

Resolving disputes involving trade secrets, therefore, involves a careful balancing of the public’s interest in protecting intellectual property, and the right of each of the parties to a fair hearing, against the public’s interest in access to dispute-related information. Courts have traditionally taken great care to avoid unnecessarily exposing a private party’s legitimate trade

⁴ The cases cited in the Draft Guidelines to justify this change all appear to deal with class action fraud or criminal matters, where the public has an obvious and special interest. AIPLA believes that it is inappropriate to generalize from those exceptional situations to create a general rule that would presumptively apply in all cases.

⁵ State protection is provided primarily through the Uniform Trade Secrets Act (which requires that courts “preserve the secrecy of an alleged trade secret by reasonable means”), and by common law as described in the Restatement (Third) of Unfair Competition §§ 39-45.

⁶ In the case of trade secrets, the length of protection is only bounded by the owner’s ability to keep the information confidential.

⁷ Cohen, W.M., R.R. Nelson, and J.P. Walsh, “Protecting Their Intellectual Assets; Appropriability Conditions and Why U.S. Manufacturing Firms Patent (or Not)”, NBER Working Paper 7552 (2000).

⁸ *Ruckelshaus v. Monsanto Co.*, 467 U.S. 986, 1002 (1984).

⁹ 18 U.S.C. §§ 1831-1839.

¹⁰ *See, e.g., Wearly v. FTC*, 462 F.Supp. 589, 603 (D.N.J. 1978), *vacated on other grounds* 616 F.2d 662 (3d Cir. 1980): trade secrets are “a peculiar form of property that can vanish by evanescence, sublimation or osmosis. It is in that class of personality, like the heirloom, the original manuscript of ‘Look Homeward, Angel’, the Mona Lisa, the Venus de Milo, and other like items for which equity historically has provided the suitable remedy of specific reparation.”

secrets. They also have not been constrained by rigid rules in fashioning an approach that balances the competing policies and interests presented under the facts of a particular case.

Disputes involving intellectual property often have associated with them enormous amounts of highly technical data that require specialized knowledge to comprehend. This means that in many cases the determination of whether, for example, a particular document, interrogatory answer, or deposition excerpt deserves confidential protection may involve a significant investment of time simply to understand the technology and develop an accurate perspective placing it in proper context. Current protective order practice has evolved to avoid the crushing burden that an item-by-item confidentiality adjudication would impose on both the courts and private litigants. This burden is avoided in initial discovery through the use of “blanket” protective orders, which permit the exchange of thousands or millions of documents between counsel, without the need for argument about the trade secret status of specific documents.¹¹ And there is good reason to provide strong protection to trade secrets submitted in connection with substantive motions. Many summary judgment motions, for example, must be supported with hundreds or even thousands of pages of exhibits, much of this being extremely confidential. The cost of demonstrating document-by-document (as opposed to categorical¹²) support for sealing, and especially the cost of redaction of individual documents, would dramatically increase the already burdensome expense of civil litigation.¹³

This problem of litigation expense has been exacerbated by the recent dramatic increase in electronic discovery. As your organization is aware from its work on this issue, the cost of electronic discovery is the number one concern of inside counsel at U.S. corporations. We were therefore surprised to find that the Draft Guidelines do not address, in some empirical way, the added burdens involved in document-by-document analysis and redaction.

AIPLA recognizes that in certain cases involving matters of special public interests such as health and safety or the conduct of public officials, sealing of information filed with the courts is a matter deserving especially close scrutiny and the imposition of high standards on the proponent of secrecy. However, the courts have over time developed methods for protecting intellectual property rights while providing a fair forum for resolving disputes and taking into account the public's right to transparency in the litigation arena. AIPLA believes that great care should be taken in making major changes to current practice, such as those proposed in the Draft Guidelines, at least where legitimate trade secrets are concerned.

AIPLA also understands that courts face difficulties in handling and storing documents filed under seal, and that this burden is increased with electronic case filings, where documents may be stored in a completely different format than the rest of the case record. Nonetheless, this is not a compelling reason for a broad restriction on confidential filings in court cases. We believe that the burden of handling sealed documents would be eclipsed by the increased burden on the courts resulting from the Draft Guidelines. This increased burden will take the form of numerous determinations of confidentiality on an item-by-item basis, as well as more motions to compel discovery when clients resist producing their confidential documents in the first instance.

¹¹ See, e.g., *Leucadia Inc. v. Applied Extrusion Technologies, Inc.*, 998 F.2d 157, 166 (3d Cir. 1993).

¹² For an example of “declassification” by category of documents, see *Joint Stock Society v. UDV North America, Inc.*, 104 F.Supp.2d 390, 397 (D.Del. 2000).

¹³ The monitoring requirements of Principle 1, Best Practice 6 would also add significant cost in complex cases, and this consequence, like the cost of across-the-board redaction, should be examined in some empirical way, so that these costs can be measured against their perceived benefit. It also bears noting that many if not most trade secrets continue to derive value from secrecy indefinitely, while BP6 seems to assume that all trade secrets have a limited life.

The focus of the Draft Guidelines is to provide the public with greater access to litigation-related information. Public access is presumed to be in the public interest and the burden of justifying continued confidentiality is shifted to the party seeking to maintain it, under a “compelling circumstances” test, rather than the “good cause” standard of existing rules. While this may be appropriate for some types of civil litigation, in almost all instances it is not so for disputes involving intellectual property. Insofar as the Draft Guidelines are applicable to such disputes, they appear to discount or completely disregard not only the valuable and vulnerable rights of trade secret holders, but also the public interest in protecting intellectual property. Moreover, in a great many cases involving trade secrets, the beneficiary of ‘public access’ would not be the public at large, but rather a relatively small group of competitors.

If the Draft Guidelines are adopted in cases involving trade secrets, they may actually discourage enforcement of intellectual property rights, and less enforcement would encourage more violations. Disputes over whether confidential documents should be produced in the first instance are likely to increase because of client uncertainty over whether commercially valuable records and testimony can be maintained confidential later in the case. Current practice gives some assurance that information produced as confidential during discovery will remain confidential. This, in turn, allows clients to be more forthcoming in providing full discovery, and gives lawyers a good reason to encourage their clients to cooperate, mitigating the costs and burdens of litigation for litigants and courts.

It would be profoundly ironic for the law to explicitly protect trade secrets while the courts discourage suits for their misappropriation by threatening even wider dissemination of the trade secret information to the general public, thereby putting at risk the right that is supposed to be protected. And the same dangers are present in other forms of commercial and intellectual property litigation. Although patents involve public disclosure of the invention contained in the patent, patent litigation often requires the selective disclosure of other information that is still confidential and valuable to its owner. Such information typically includes related but unpublished technical data (including invention records and patent applications), as well as financial and market share data underlying damage calculations and research into next generation or still undeveloped products. Discovery also may include the trade secrets of non-parties. It is no exaggeration to state that in a significant number of patent cases, a patent infringer may gain more by publicly disseminating its competitor’s information than it would lose in an adverse judgment.

It is little comfort to trade secret owners that they will be permitted to attempt to show that their confidential information should not be made public under a new “compelling circumstances” standard. The risks of public dissemination may be so great that disputes over confidentiality may be shifted to resisting discovery in the first instance. This would greatly increase the burden on courts due to increased motion practice related to discovery, and it would slow down what is already often a very slow process.

Access to the courts is a necessary component of our system of intellectual property law. In many cases, there is no other practical way to enforce these rights. Moreover, in the intellectual property arena, there usually are advantages to be gained by one party or the other from the threat that information may not remain confidential, thereby destroying its value. These parties are unlikely to surrender that advantage. Therefore, trade secret owners in litigation need the protection afforded by the current regime, with its presumptive “good cause” standard.

The Draft Guidelines may create new ethical obligations on attorneys involving the production and use of confidential information. AIPLA cautions against such an approach without a more careful understanding of the implications of those obligations. Each state bar has its own established rules and precedent regarding the ethical obligations of their members. How the ethical obligations imposed by the Draft Guidelines would affect these various state codes or rules of conduct is not clear and, certainly, has not been studied. AIPLA does not approve of such a marked change when there has been no apparent analysis of its impact.

AIPLA strongly urges that the Draft Guidelines be revised to properly take into account 1) the strong public policy of protecting trade secret rights and 2) the severe and irreversible damage that can be inflicted on a litigant without protections against public disclosure of its commercial secrets. At a minimum, the Guidelines should include one or more of the following

- Establish an exception for trade secrets that preserves the “good cause” standard of FRCP 26 and comparable state laws.
- Include a statement that preserving the trade secret property right presents a “compelling circumstance”.
- Extend procedural deadlines involved in confidentiality determinations to accommodate cases with large numbers of technical documents, confirming the courts’ ability to address these issues by categories of information when appropriate, rather than on a document-by-document basis.

AIPLA also notes the well articulated and detailed contributions to this discussion by Arthur R. Miller (March 17, 2006) and Stephen G. Morrison (March 31, 2006). AIPLA generally agrees with the points made by these authors, who also seek to highlight the impact of the Draft Guidelines specifically on litigation involving trade secrets.

AIPLA is prepared to meet with the Working Group to provide further comments and assistance in improving the Draft Guidelines to better meet the concerns of the intellectual property community. AIPLA agrees with the notion that the public should have access to all court proceedings except those which overriding interests require be private. But we disagree that, where sealing is concerned, the public has only an interest in unsealing. The public also has an interest in robust protection of intellectual property rights, including trade secrets. The current system accommodates these interests fairly well. AIPLA believes that the Draft Guidelines, in their current form, would put a thumb on the scale in favor of disclosure, changing time-tested rules without evidence that change is needed, and imperiling one of the most important modern property rights as a cost of being involved in litigation.

Sincerely,



Michael K. Kirk
Executive Director
AIPLA