



SOUTHERN DISTRICT CIVIL PRACTICE ROUNDUP

Expert Analysis

Limited Confidentiality Under Protective Orders

Protective orders, widely relied upon in federal civil litigation, are not automatically available, and even when in place, offer only a measure of protection against use and dissemination of information litigants may prefer to keep under wraps. Whether on an initial motion for a protective order or on a challenge to confidentiality designations made under a consensual protective order, a party seeking to limit disclosure of discovery material must make a specific showing of good cause that is often far from a foregone conclusion. Moreover, the confidentiality offered by a protective order may only be temporary, and offers no permanent assurance of non-disclosure.

Establishing 'Good Cause'

Traditionally, parties obtained protective orders via motion pursuant to Federal Rule of Civil Procedure 26(c), which provides that for "good cause" a court may "issue an order to protect a party or person from annoyance, embarrassment, oppression, or undue burden or expense." Increasingly, parties have followed a route entailing less up-front litigation, entering into stipulated protective orders at the commencement of discovery, which permit any party to designate materials as confidential, subject to later challenge by any other party.

The court will get involved, and apply the good cause standard, when there is a disagreement among the parties as to a



By
**Edward M.
Spiro**



And
**Judith L.
Mogul**

confidentiality designation, or sometimes on its own initiative.

The party seeking a protective order bears the burden of showing good cause, and courts have broad discretion in determining whether that showing has been made. Courts generally require some degree of specificity before issuing a protective order, looking for a showing of "clearly defined, specific and serious injury" absent the relief sought.¹ Applying this standard in *Pitsiladi v. Guerrero*,² Southern District

The court considered the extent to which the information was known inside and outside the business, the measures taken to guard its secrecy, and the value of the information to the business and its competitors.

Magistrate Judge James C. Francis IV granted a protective order for only a portion of the information plaintiffs sought to protect, rejecting as insufficiently particularized their showing with respect to the remaining information. Plaintiffs, who were property owners suing their former managing agents, sought an order directing that all information produced in discovery be used only for purposes of that proceeding and be returned to them at the

conclusion of the case. They asserted that the order was necessary to prevent the defendants from using discovery materials to harass plaintiffs by disseminating those materials to the media, contending that derogatory information that could only have emanated from defendants or their accountants already had been circulated in South Africa, where the plaintiffs are citizens.

Magistrate Judge Francis began from the assumption that in the absence of a protective order "parties to a law suit may disseminate materials obtained during discovery as they see fit."³ He noted that the good cause standard requires that allegations of harm be substantiated by specific examples or articulated reasoning, and that the harm threatened be significant and "not a mere trifle." He concluded that the plaintiffs had "utterly failed to identify with particularity any documents for which a protective order might be warranted," with the exception of two narrow categories of documents containing personal data such as social security and bank account numbers, and tax return information. Observing that plaintiffs themselves had mooted much of their concern as to the personal data by disclosing it in their papers, he limited the requested protective order to tax returns and personal data to the extent not already disclosed publicly.

Business Information

In addition to personal financial information, which courts generally accept as entitled to confidential treatment, courts also are often inclined to protect trade secret and other proprietary commercial information. Rule 26 (c)(1)(G) expressly recognizes that a protective order may be used to limit disclosure of "trade secret

EDWARD M. SPIRO and JUDITH L. MOGUL are principals of Morvillo, Abramowitz, Grand, Iason, Anello & Bohrer, both concentrating in commercial litigation. Mr. Spiro is co-author of "Civil Practice in the Southern District of New York," 2d Ed. (Thomson West 2008). GRETCHAN R. OHLIG, an attorney, assisted in the preparation of this article.

or other confidential research, development, or commercial information.” But, as Southern District Magistrate Judge Ronald L. Ellis observed in *ABC Rug & Carpet Cleaning Service Inc. v. ABC Rug Cleaners Inc.*,⁴ even in the context of commercial information, the burden remains with the moving party to demonstrate good cause, substantiated by specific examples and reasoning that demonstrate “clearly defined and very serious injury.”

In determining whether to order the defendant in that trademark case to produce its customer lists, and if so under what conditions, Magistrate Judge Ellis considered the extent to which the information was known both inside and outside the business, the measures taken to guard its secrecy, and the value of the information to the business and its competitors.

Magistrate Judge Ellis found that because the litigants were direct competitors, disclosure of the defendant’s customer lists, which it had spent substantial time and effort establishing and which were not readily ascertainable elsewhere, could potentially cause economic harm to the defendant. Balancing this potential harm against the plaintiffs’ need for the information, he held that the lists be produced under a protective order that restricted access to plaintiffs’ attorneys only, limited the number of copies that could be circulated among counsel, and limited use of the information to that litigation only.

In rare instances, even an order limiting information to “attorney’s eyes only” is not sufficient to protect commercial information from a competitor. Thus, in *Grand River Enterprises Six Nations, Ltd. v. King*,⁵ Southern District Judge John F. Keenan upheld the decision of Magistrate Judge Douglas F. Eaton permitting defendants to withhold completely from discovery certain strategic business plans of defendant R.J. Reynolds Tobacco Company (RJR). RJR successfully showed that the plans contained proprietary information assessing market performance and pricing and set forth long term marketing objectives which could provide competitors with a roadmap to its competitive planning process.

Judge Keenan rejected plaintiffs’ contention that their experts could

“compartmentalize” information they obtained about RJR’s business strategies. Because the plaintiffs’ interest in the plans was only tenuously related to one of their claims, Judge Keenan concluded that RJR’s interest in protecting the plans outweighed plaintiffs’ relatively weak interest in obtaining them.

Judicial Documents

The protective order calculus changes significantly once documents have been submitted to a court for review and consideration. As the U.S. Court of Appeals for the Second Circuit observed in *Lugosch v. Pyramid Co. of Onondaga*, documents filed with the court that are “relevant to the performance of the judicial function and useful in the judicial process” are accorded a presumption of public access.⁶

The circuit draws a distinction between such “judicial documents” and documents exchanged between the parties in discovery. If the documents are not judicial, there is no presumption of public access and the movant need only make a baseline showing of good cause to obtain a protective order.

If the documents are judicial in nature, the court must determine the weight of the presumption of access by reference to the continuum “from matters that directly affect an adjudication to matters that come within a court’s purview solely to insure their irrelevance.”⁷ The court must also determine whether there are any competing considerations against public access to judicial documents, such as law enforcement interests, judicial efficiency, and privacy interests of those resisting disclosure.⁸

Materials filed in connection with a motion for summary judgment are always considered judicial documents inasmuch as they are presented to the court in connection with a core adjudicative function.⁹

More nuanced questions emerge in determining whether documents submitted in support of other types of motions also qualify as judicial documents. In *Standard Investment Chartered Inc. v. NASD*,¹⁰ Southern District Judge Shirley Wohl Kram addressed whether documents submitted on a motion to dismiss and a motion for reconsidera-

tion qualified as judicial documents—then a question of first impression in the Second Circuit. She held that those documents filed in conjunction with a motion to dismiss under Rule 12(b)(1) were judicial to the extent the motion included a “factual challenge to subject matter jurisdiction” because the court legitimately could rely on them when deciding the motion.

However, documents submitted on a motion to dismiss under Rule 12(b)(6) for failure to state a claim could not qualify as judicial because those documents were beyond the court’s purview under the Rule.

Finally, documents filed in support of a motion for reconsideration were judicial because the court “should have considered” them in resolving the motion. Having determined that some of the documents were judicial, Judge Kram held that a more detailed showing of good cause was required to justify their continued protection, and requested additional argument on whether that burden could be met.

Following additional briefing by the *Standard Investment* parties, Judge Kram

The circuit draws a distinction between ‘judicial documents’ and documents exchanged between the parties in discovery. If the documents are not judicial, there is no presumption of public access and the movant need only make a baseline showing of good cause to obtain a protective order.

granted in part and denied in part the protective order requested by the NASD. Specifically, she found that with respect to certain documents, the NASD had “clearly defined the injury it [stood] to suffer by identifying particular future transactions with respect to which broad disclosure would cause it to suffer a competitive disadvantage,” and that the NASD had kept such information strictly confidential.¹¹

Because the documents at issue had played a “negligible role” in the court’s adjudication of the motion in connection with which they were submitted, Judge Kram concluded that the NASD’s showing

of good cause was sufficient to overcome the presumption of access.¹² She also authorized continued protection of information submitted by the NASD to the IRS, that would qualify for protection as “return information” under 26 U.S.C. §§6103 and 6110. By contrast, Judge Kram denied the request for continued protection of certain board minutes and other materials submitted to members of the NASD board, finding the NASD’s assertions of harm too vague and conclusory to support even the baseline showing of good cause necessary to obtain a protective order for non-judicial documents.¹³

Subsequent Litigation

Judge Keenan’s recent decision in *TradeWinds Airlines Inc. v. Soros*,¹⁴ raises an interesting limitation on the utility of a continuing confidentiality order after a case is complete. In *TradeWinds*, the plaintiff sought to pierce the corporate veil to hold two individuals, including George Soros, liable for a default judgment obtained against C-S Aviation. Plaintiff’s counsel had previously represented another plaintiff in a similar veil piercing action involving the same corporation and Soros and his co-defendant. The parties in the previous action had entered into a protective order requiring that discovery materials (with certain exceptions) be destroyed or returned after the case concluded, as well as a settlement and confidentiality agreement barring disclosure of both the terms of the settlement and the claims for relief and the bases for them.

Soros moved to disqualify plaintiff’s counsel, asserting that her representation of plaintiff violated the protective order and settlement agreement in the prior action. The attorney claimed to have destroyed and made no use of any confidential documents in preparing the complaint, although she had previously billed herself as being uniquely qualified to represent the current plaintiff given her previous experience against the same defendants.

Judge Keenan noted that disqualification is generally appropriate only where an

attorney concurrently represents parties with adverse interests, or the attorney is in a position to use relevant, privileged information in litigation against a former client.

Because the attorney’s conduct did not fall into either situation, Judge Keenan held that disqualification would be appropriate only if the alleged misconduct taints the proceedings or creates an exceptional appearance of impropriety, circumstances he did not find in this case. He declined to draw the “reasonable inference” urged by Soros, that the plaintiff’s lawyer must have disclosed prohibited information to her current client, finding that Soros could not satisfy the standard of proof for disqualification merely by inferring misconduct or offering vague speculation about prohibited disclosures.

Judge Keenan did find that the attorney had violated the confidentiality obligations in the settlement agreement by including in the complaint and amended complaint a recitation of the veil piercing claims in the prior action. He concluded, however, that these disclosures did not taint the case such that disqualification was warranted. He also rejected Soros’s argument that the plaintiff’s lawyer would be “unable to eliminate from her mind and to refrain from using” information she had learned from the protected materials in the previous action, and that her exposure to the protected information gave her a “head start” or unfair advantage. He reasoned that because the information at issue was already publicly available through court filings, or freely discoverable, she had no advantage akin to the attorney who switches sides or otherwise uses privileged or non-discoverable confidential information. Finally, Judge Keenan observed that even if the attorney had violated the protective order, the Grievance Committee’s conventional disciplinary machinery, rather than disqualification, was the proper remedy.

Conclusion

Courts do not enter protective orders lightly, and the party seeking a judicially imposed protective order should take the

time to support its application with particularized arguments supporting its assertion of good cause. Parties should also be aware that the confidentiality obtained through a protective order is not ironclad, and may well give way to the presumption of public access when materials are submitted to the court as part of its adjudicative function. A confidentiality order also will not protect against discovery in subsequent litigation.



1. *Pitsiladi v. Guerero*, 2008 WL 5454234, at *2 (S.D.N.Y. Dec. 30, 2008) (Francis, M.J.) (quoting *In re Terrorist Attacks on Sept. 11, 2001*, 454 F. Supp. 2d 220, 222 (S.D.N.Y. 2006) (Casey, J)).

2. *Id.*

3. *Id.* (quoting *Jepson Inc. v. Makita Elec. Works, Ltd.*, 30 F.3d 854, 858 (7th Cir. 1994)).

4. 2009 WL 105503 (S.D.N.Y. Jan. 14, 2009).

5. 2009 WL 222160 (S.D.N.Y. Jan. 30, 2009).

6. 435 F.3d 110, 119 (2d Cir. 2006) (quoting *United States v. Amodeo*, 44 F.3d 141, 145 (2d Cir. 1995)).

7. *Standard Inv. Chartered Inc. v. NASD*, 2007 WL 2790387, at *2-3 (S.D.N.Y. Sept. 26, 2007) (Kram, J.) (quoting *United States v. Amodeo*, 71 F.3d 1044, 1049 (2d Cir. 1995)).

8. *Lugosch*, 435 F.3d at 120; *Amodeo*, 71 F.3d at 1050. Courts also must determine whether the additional qualified First Amendment presumption of public access applies. When this presumption applies, a court can issue a protective order only if the moving party satisfies an even more demanding standard of good cause than that applicable under the common law presumption of access. *Lugosch*, 435 F.3d at 124.

9. *Lugosch*, 435 F.3d at 121-124.

10. 2007 WL 2790387.

11. *Standard Inv. Chartered Inc. v. NASD*, 2008 WL 199537, at *7 (S.D.N.Y. Jan. 22, 2008).

12. Judge Kram held that the NASD’s interest in protecting its confidential business information also outweighed the more exacting qualified First Amendment presumption of access, but recognized the need to narrowly tailor the sealing order to “preserve higher values,” ordering redaction rather than wholesale sealing of one of the affected documents that also contained substantial amounts of non-confidential information. *Id.* at *8-9.

13. See also *In re Parmalat Securities Litigation*, 2009 WL 1576300 (S.D.N.Y. June 1, 2009) (Pitman, M.J.) (recognizing exception to presumption of access for judicial records upon specific showing of competitive harm, but holding, despite testimony about cost of developing the information at issue and efforts to maintain its confidentiality, that assertion of economic value in documents was too vague and conclusory, and showings of potential harm too minimal to warrant protection).

14. 2009 WL 1321695 (S.D.N.Y. May 12, 2009).