Discovery and Protective Order Requiring the Non-Disclosure of Trade Secrets in Patent Infringement Litigation: The Handling of the E-Discovery System (*)

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In the U.S. discovery system, it is the rule that the parties have to disclose information (evidence) related to the case before the trial (pretrial stage). In relation to this discovery system, there is criticism that it is costly and time consuming, but it is still a basis of the American Civil Procedure and obviously an important system with regard to civil lawsuits. Especially for patent infringement litigations, as the result of the litigation depends upon the management of discovery, the role of discovery system is substantial. In the discovery system, it is expected that all related information will be produced and disclosed, but by filing a protective order with the court, the parties can escape from discovery or limit the method of discovery itself. Therefore, in this research, I will focus on protective orders in terms of aggressive and defensive roles to protect trade secrets in patent infringement litigations.

I. Introduction

The discovery system is a procedure of gathering information and evidence from litigants and related parties and particularly it has a purpose of voluntary and thorough inquiry and gathering of information and evidence related to the case. At the same time, it has a meaning of preparatory activities to support proof and defense for the litigation.

Chapter 5 of the Federal Rule of Civil Procedure, which sets forth the principles of disclosure and discovery, is constituted from Article 26, on the general principle, to Article 37, on the sanctions. In particular, the "Protective Order," constituting the central analysis in this report, is provided for in detail by Federal Civil Procedure Code 26 (c).

The scope of the disclosure in the discovery system is rather extensive and free, and, due to the amendment of the Federal Civil Procedure Rules in December 2006 that enacted the provisions on the disclosure of Electric Stored Information (ESI), all kinds of electronic data were also included as materials to be disclosed. Hence, the scope of information disclosure in discovery has become even broader. In the discovery system, in spite of the basic principle of total disclosure, a certain category of information can be kept as undisclosed even if such information relates to the case. Such

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non-disclosure is accepted in three ways: (1) attorney-client privilege, (2) work product, and (3)

protective order.

In this paper, after a brief introduction, in Chapter II, I first describe the discovery system in the United States and how, in accordance with the revision of the Federal Civil Procedure Rules in December 2006, the discovery system has entered the era of focusing on the disclosure of electronic information. In Chapter III, I explain the non-disclosure privileges, related to attorney-client privilege and work product, and then in Chapter IV, I focus on the “Protective order” which is the main theme of my research, and explain of its contents and roles. In Chapter V, I mention the recent trends of an increasing number of patent litigations and describe the importance of pre-trial conference in patent litigation, and essentially attempt to examine and organize the role of aggressive use of the “Protective Order.” In Section VI, I introduce three cases of effective use of the “Protective Order” in patent litigations. Finally, in Chapter VII, I present concluding remarks and note the remaining issues.

II. What is the Discovery System[1]?

The American civil procedure is largely different from the method of Japan, and they have two stages, one is the pretrial stage and the other is the trial stage. In the United States, the pretrial stage, including judgment of the possibility of settlement, has significant meanings.

The discovery system entails disclosure of evidence where the parties in the litigation submit information related to the case to each other in the pre-trial stage, and one of the important points of the system is the broad range of scope. The Federal Civil Procedure Code was amended on December 1, 2006, on the Electronically Stored Information (ESI). In regard to the ESI, a vast portion of the discovery work is actually done by the vendor companies. At present, they work on narrowing down information, extracting search terms from a large amount of information, and extracting important frequently used terms with the help of artificial intelligence (AI), and it works efficiency and fast.

III. Regarding Non-disclosure Privilege

Legally, non-disclosure allowed for the discovery request can be divided into the following two types.

1. Attorney-Client Privilege

[1] Regarding the discovery system in Chapter II and the privilege in Chapter III, Harumi Takebe, *Discovery System in the U.S. Civil Procedure: On Protective Order and Good Cause*, 59 HO TO SEIJI 4, 119-214: TAKASHI MARUTA, THE WAY OF THINKING ABOUT AMERICAN LAW: INTRODUCTION TO AMERICAN LAW, 127-51 (Nippon Hyoron Sya 2016).

Attorney-client privilege applies to any type of communication or document relating to legal advice. If the client received legal advice from an attorney, such communications or documents which are protected from disclosure by the client or legal counsel unless such privilege is expressly abandoned. The purpose of admitting this privilege is to "promote full and frank communication between attorneys and their clients," and this privilege has efficiency in protecting the advice that clients receive from lawyers.

2. Work Product

On the other hand, work products were established in the U.S. Supreme Court ruling in the 1947 Hickman case. It is necessary and legitimate for all lawyer's work products to receive at least legal exemption from civil discovery. After the Hickman case, counterparty attorneys cannot seek to disclose any information by the attorneys gathered on the premise of litigation. In the Hickman case, the U.S. Supreme Court reserved the right to completely escape from discovery as a work product any part of information that reflects the impressions, opinions or strategies of a lawyer who will represent the case in the future. This decision resulted in work products to protect lawyers' work in preparation for litigation.

IV. Regarding Protective Order

The following is an analysis of the strategic use of the protective order as an approach to avoid disclosing undesirable information at the discretion of the courts besides the non-disclosure privilege described in Chapter III.

1. Application of Protective Order

Regardless of the system, whenever the flexibility of operation of a system is higher and the width of the freedom is greater, it comes to be abused or misused. As far as the discovery system is concerned, the counterparty is burdened by the extensive time and cost or huge discovery requests, and is frequently requested to produce trade secrets and customer information of counterparties not directly related to litigation through discovery. Thus, for example, if it is related to the privacy information or trade secrets, the necessity arises to restrict the access to information gathered for litigation in some way. In such a case, the parties need to seek protection from the court in advance to keep such information confidential. If this protection is granted by the court, the method and scope

of discovery will be limited depending on the nature of the case. The Federal Civil Procedure allows the court to prohibit or limit discovery in order to prevent a party or person from annoyance, embarrassment, oppression or undue burden or expense.[2]

2. Use of Discovery for Non-Disclosure Information

According to the Federal Rule of Civil Procedure, even information that cannot be used as evidence in the trial will be able to be obtained through the discovery system and the parties are allowed to request the production of secondary information related to claims or defense. However, as far as the secondary information is concerned, it is not necessary to disclose information every time. In order to respond to these demands, Rule 26 (c) states that if the party uses the discovery system "to protect a party or person from annoyance, embarrassment, oppression or undue burden or expense," they can utilize the "protective order"; thereby, the parties are protected from unfair disclosure requests.

The court can create a certain limit on discovery in a case where the purpose of discovery is found to disturb the counterparty or to get information for a competitive advantage.

Through this protective order, the court is given discretion to control the content and method of discovery.

Even if the disclosure of secondary information is approved, non-disclosed requester has a way to identify the subject to be disclosed and to specify the disclosure method there are still means to limit the person who check the information on the method of disclosure. For example, they can assign disclosures to a limited person such as "litigation lawyer only," "litigation lawyer and experts only," "litigation lawyer, experts and corporate agent only," or "litigation agent, expert, corporate agent, and some executives" and so on, and limit access to information.[3]

3. Constrictive Use of Protective Order

The protective order is an order to designate documents and other discovery materials as "secret" and to prevent disclosure of materials beyond the scope of the lawsuit. However, everyone involved in the lawsuit can limit access to the disclosure of the information when materials are sensitive to confidentiality and there is also a protective order specifying the term "attorneys' eyes only," permitting only the adversary party's attorney to access such information.

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[2] *See* W.F. Reinke, *Limiting the Scope of Discovery: The use of Protective Orders and Document Retention Programs in Patent Litigation,* 2 ALB.L.J.SCI.& TECH. 175, 190 (1992).

[3] ALAN THIELE, CHARLES HOSCH & JUDITH BLAKEWAY, THE PATENT INFRINGEMENT LITIGATION HANDBOOK: AVOIDANCE AND MANAGEMENT 138 (ABA Book Publishing 2009).

The patent infringer is concerned that the disclosed information will be used to reinforce the claims of other parties, or the plaintiff will get good value such as copying or commercial success by using them in the future. The difference between this type of protective order and the other one is that the data subject to such orders is handled carefully only by non-in house lawyers.[4] This type of protective order prevents the counterparty's officer and in-house lawyers from accessing important information submitted in the discovery.

Generally, as non-in house lawyers are not involved in the decision-making process concerning the formulation of corporate business policies, they can examine confidential information such as business secrets, marketing plans or highly confidential data in terms of competition. On estimating whether the protective order to limit disclosure of certain information is necessary or not, the courts balance the benefits of the disclosure limitations and the effective discovery process as a means of aiding accuracy towards conflict resolution. In this way, the court's decision to control discovery depends on the balance test by comparison with the "reasoning for limiting discovery" against the "value of information requested by discovery." Regarding this balancing factor, the courts usually take into consideration the protection of confidential information and the public right to access the information in terms of the rigor or tolerability of the protective order.[5]

V. Discovery System in Patent Litigations

1. Number of Patent Litigation Cases in Recent Years

Between 2009 and 2015, the number of patent litigation cases has more than doubled. A decisive factor contributing to the increase in the number of cases is the fact that Article 299 of the Leahy-Smith America Invents Act (AIA) in September 2011 restricted the filing of defendants' joinders in patent infringement litigations.[6] As a result, along with the increased number of patent cases, the importance of the discovery procedure, especially the pre-trial conference described below, becomes increasingly vital.

2. Pre-trial Conference in Patent Litigations[7]

After the complaint has been serviced to the defendant, the court generally will conduct a pre-

[4] Protective Order, http://ptolitigationcenter.com/2009/09/protective-orders/(last visited May 24, 2017).
[5] Ashish Prasad, *The Importance of Keeping Secrets: The Use of Protective Orders during Patent Litigation*, 29 COMPUTER & INTERNET LAWYER 25, 27 (2012).
[6] The Leahy-Smith America Invents Act created a new joinder statute at 35 U.S.C. § 299.
[7] Larry Kolodney, *A Guide to Patent Litigation in Federal Court*, https://www.fr.com/wp-content/uploads/2016/04/A-Guide-to-Patent-Litigation-in-Fed-Court-2016.pdf (last visited May 24, 2017).

trial conference with the lawyers in charge of the case. The aim of the conference is to confirm the framework on how to proceed with the case. For this reason, the respective lawyers of the plaintiff and defendant are required to "meet and confer" about the framework on litigation proceedings, including narrowing down the issues, before discovery starts. Various problems and topics are discussed and decided at the pre-trial conference stage, but the most common issues are (1) Scheduling, (2) Discovery Limits, (3) Electronically Stores Information (ESI) (4) Protective Order, (5) Stipulations to Simplify Case, and (6) Mediation.

3. On Protective Order in Patent Case

(1) Focus on Local Rules and "Sealing Provision"

Generally, when drafting protective orders or negotiating on this matter, it is necessary to pay attention to the contents of the local rule of the court that hears the specific situation of each case. This is because each court has set its own rules (local rules) on various methods of claim and timing of submission. Therefore, it is important to take measures corresponding to them.[8]

Utilizing the "Sealing Provision" is another possible method for a protective order. The Sealing Provision means that information is withheld for discovery up to the stage and timing when such disclosure is decided as reasonably and indispensably necessary by the court and it is sealed so as to allow the court to approve the timing of disclosure. Therefore, it is essential to consider that the drafter of the protective order specifies (1) sealing of the document (not to disclose), (2) for attorney's eyes only, and (3) means to recover from unintended disclosure in terms of providing Claw-back request.

(2) Claw-back Clause

As the information required by E-discovery is massive and largely spread, the information that should be protected or materials to be claimed as privileged may be disclosed accidentally to the counterparty. In the case of business litigations involving particularly large volumes of documents, use of the "Claw-back" clause to protect the parties in case of inadvertent disclosure of privileged documents is recommended to be taken. The agreement on the Claw-back clause is to set up corrective measures in case of erroneously disclosing confidential or privileged documents and to agree that the inadvertent disclosure will not be a waiver of privilege. By concluding an independent

[8] Kaedeko Takagi, *Local Patent Rules of the US District Court and Patent Litigation Practices (1)*, HO TO KEIZAI JOURNAL, http://judiciary.asahi.com/outlook/2015082600001.html (last visited May 24, 2017).

Claw-back agreement with the counterparty party it is possible to avoid the assumption of waiver of the privileges by unintended disclosure.

However, a Claw-back agreement is merely a contract among the parties, being binding only on the agreed parties and thus in order to claim the effect to a third party, they need to get a protective order from the court. (Federal Evidence Regulation Article 502.)

VI. Court's Response to Protective Order

In this section, I introduce three patent cases in which protective orders were issued. Especially on the protective order, as stated above, it is possible to limit the persons who can check the disclosed information is to be sought, but at that time all the requests of the discloser are not necessarily accepted. In the cases of Safe Flight Instrument Co. v. Sundstrand Data Control Inc., 682 F. Supp. 20 (1988) and Tailored Lighting, Inc. v. Osram Sylvania Products, Inc., 236 F.R.D. 146 (2006), while the discloser asked the court for a protective order to restrict a hired lawyer or an external consultant from accessing such information, the other party made a counterclaim as it costs too much to ask for such designated disclosure and instead proposed to allow the qualified company president to access the disclosure information.

In case 1, the plaintiff filed a lawsuit against the defendant for patent infringement of a wind shear detection system. The defendant filed a protective order to limit the disclosure of confidential documents solely to the defense counsel and approved experts. The plaintiff opposed such a narrow limitation and insisted that the company president who is an outstanding engineer and received numerous patents should be allowed access to such information. According to the plaintiff, the president has the power to evaluate the information and can decide whether to proceed with the lawsuit or not.[9] However, the court granted the defendant's proposed protective order and rejected the plaintiff's request that the president should be allowed to access the confidential information. The court reasoned that even if the president were assumed to be "a person with excellent moral heart," doubt was raised that, "in the future research, he would not be able to separate off his own ideas and the usefulness he could obtain from the defendant documents."[10] The court also pointed out that the plaintiff had not yet investigated the availability of qualified external experts.[11] The court then concluded that the scientific expertise of confidential chemical information belonging to competitors and the risk of economic damage from even inadvertent disclosure by individuals can be a good reason to grant the limited protective order. Case 2 is the one that followed case 1 and

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[9] Safe Flight Instrument Co. v. Sundstrand Data Control Inc., 682 F.Supp. 20, 21 (1988).
[10] *Id*. at 22.
[11] *Id.*

refused a similar claim.

On the other hand, case 3 limited the request for discovery by using a protective order against a full disclosure request by a so-called “patent troll.” The plaintiff, a patent troll, filed a patent infringement lawsuit on bone implant technology and requested disclosure of all sales data and other information related to the defendant’s company through discovery. The plaintiff insisted on the relevance of the whole sales data and other information on the infringed patent. The defendant counter-argued that the sales data is confidential business information. The Federal Court of Appeal completely tolerated the District Court judgment which denied the request of the plaintiff and protected the discovery request to protect the defendant's sales data and the trade secret information by a protective order.

VII. Conclusion

This research focused on the active use of the protective order and examined the protection of patents and related essential information of Japanese companies in terms of being able to achieve more effective litigation resolution. The discovery system is still accepted as troublesome in terms of consuming a tremendous amount of time and money by being requested to submit all kinds of information, and its negative image is becoming stronger among Japanese companies especially confronted with the e-discovery era that entails a heavier responsibility. However, as mentioned in this report, first, it is possible to make use of the Sealing Provision and the Claw-back agreement and to adopt a method to avoid unnecessary disclosure of information beforehand among companies. Even when the case is filed, a protective order to the court should be requested to mainly protect the submission of confidential business secrets and the privacy of others and avoid unnecessary disclosure of the information in discovery. In other words, it is necessary to focus on the so-called defensive role and the function of the protective order which will reduce the fear of undesirable discovery results.

Especially in patent litigations, it becomes clear in this research that the flexible use of the protective order is functioning effectively. Although the protective order can limit the persons who can examine the discovered information, in cases 1 and 2, as mentioned above, the defendants requested that access to information be limited only to an external lawyer and an expert consultant and the plaintiffs requested to allow their presidents to access the information because of the expensive cost, but the courts clearly refused such request. From these cases, depending on the use of the protective order, it can be considered that information protection can be promoted effectively by limiting the disclosure method and the disclosure information.

Legal measures against the discovery requests of patent trolls will be a crucial theme in patent

litigations in the future. Case 3 was an example that showed successful limitation of a request for discovery by using the protective order against the full disclosure request by a patent troll. In this case, by making full use of the active function of the protective order, it can play its offensive role and the court accordingly accepted non-disclosure by the defendant through the protective order. Therefore, the offensive role of protective orders can be used as a defensive measure against patent trolls and discovery can be avoided so as not to be "controlled by the patent trolls as they like" by using such effective protective order. In the era of patent trolls, the reevaluation and reuse of such protective order will be strongly encouraged.

The discovery system is closely related to the legal practice, so there will be a need for empirical research on how much the Claw-back agreement actually is used in practice, for example, but I have not completed such empirical research this time. I would like to do such research in the future.