LOS ANGELES
Daily Journal
www.dailyjournal.com
MONDAY, DECEMBER 17, 2012

PERSPECTIVE

How courts approach use restrictions

By Emily H. Wood

During litigation, parties often enter into agreements that restrict the use of information designated "confidential." For example, parties may enter into settlement agreements or protective orders that prohibit the use of such information beyond the pending action. There are some legal limitations on a party's ability to employ a use restriction, and a court's willingness to enforce such a provision often turns on the context of the restriction, its scope, and the parties' intent in entering into the agreement.

A number of situations exist in which use restrictions are permissible. For example, courts routinely enter broad protective orders when managing complex litigation in order to help streamline the discovery process and reduce the costs of discovery. Without such orders, the cost of discovery could force unwarranted settlements. See, e.g., *Bell Atlantic Corp. v. Twombly*, 550 U.S. 544, 559, 127 S. Ct. 1955, 1967 (2007) ("the threat of discovery expense will push cost-conscious defendants to settle even anemic cases before reaching [the summary judgment stage]").

In general, the most common rationale for precluding a *party's* use of information is to protect the producing party from the risk that its competitors could use its highly confidential information to compete with the party after it is forced to disclose that information. Courts are more willing to enforce use restrictions when they identify specific materials that are subject to the restriction and expressly set forth what can — or cannot — be done with them. California courts, for example, have approved certain restrictions in protective orders entered in patent cases. In one such case, *Presidio Components, Inc. v. American Technical Ceramics Corp.*, 546 F. Supp. 2d 951 (S.D. Cal. 2008), the defendant argued that allowing plaintiff's patent prosecutors to have access to certain confidential information would allow those prosecutors to "know what experiments did and did not work, which would equip them with 'a wealth of knowledge about the possible new direction for the technology.'" The court agreed to a protective order that prohibited any individual who received or had access to certain technical information from prosecuting or assisting in prosecuting any patent application for a set period of time. It also held that patent prosecutors must choose whether to "prosecute future patents in this family of patents, or litigate the patent at issue, but not both." See also *Shared Memory Graphics, LLC v. Apple, Inc.*, Case No. C-10-2475 VRW (EMC), 2010 WL 4704420, *4 (N.D. Cal. Nov. 12, 2010) (court entered an order restricting litigation counsel from participating in a subsequent patent reexamination except in instances where the opposing party sought reexamination, and even then, counsel had to agree "not to use in any way an opposing party's Confidential Attorney Eyes Only Information to draft new claims, or to amend previously existing claims, through the reexamination process").

In contrast to restrictions on parties, courts are more reluctant to enforce restrictions against an attorney's future use of more generalized knowledge learned during the course of litigating a case. For example, in *Hu-Friedy Mfg. Co., Inc. v. General Elec. Co.*, Case No. 99 C 0762, 1999 WL 528545 (N.D. Ill., Jul. 19, 1999), plaintiff's counsel had previously entered into a protective order, which provided in relevant part that "[a]ll confidential materials shall be used and disclosed solely for purposes of the preparation and trial of the case and shall not be used or disclosed for any other purpose." In a subsequent dispute, General Electric sought to enforce the prior protective order and bar plaintiff's counsel from prosecuting claims against GE. GE argued that plaintiff's counsel would receive an unfair advantage if he could rely on confidential information that had been disclosed to him in the prior lawsuit. It would, GE argued, give the lawyer "a 'head start' in understanding the same materials in th[e second] case." Illinois ethics rules contained a prohibition against restricting a lawyer's right to practice law, a common provision among state ethics codes. To overcome that rule, GE argued that it was permissible to prohibit a lawyer's representation if it would violate a protective order — i.e., that it was a legitimate restriction on an attorney's right to practice law. The Northern District of Illinois rejected GE's argument and its interpretation of the word "use," finding that any competent attorney would seek such information through discovery in the current matter and "eventually be able to understand the materials in question." See also In re *Dual-Deck Video Cassette Recorder Antitrust Litigation*, 10 F.3d 693, 695 (9th Cir. 1993) ("lawyers who learn from and use their experience obtained in discovery under such [a protective] order would have to change fields, and never do antitrust work again, lest they 'use' what they learned in a prior case 'in any way whatsoever' in any 'other action.' For the protective order to comply with common sense, a reasonable reading must connect its prohibitions to its purpose — protection against disclosure of commercial secrets").

California also has an ethics rule that prohibits restrictions on an attorney's right to practice law. Rule 1-500(A) of the California Rules of Professional Conduct states that an attorney "shall not be a party to or participate in offering or making an agreement, whether in connection with the settlement of a lawsuit or otherwise, if the agreement restricts the right of a member to practice law." Rule 1-500 serves several purposes: it is meant to afford clients greater freedom in choosing counsel; it helps preserve the pool of skilled legal talent available to clients; and it protects lawyers from onerous conditions that would unduly limit their ability to practice law. ABA Model Rule 5.6(b) contains a similar provision, although it is limited to settlement agreements. It states: "A lawyer shall not participate in offering or making ... an agreement in which a restriction on the lawyer's right to practice is part of the settlement of a client controversy."

While no California court has analyzed the interplay between Rule 1-500 and use restrictions, ABA Formal Opinion No. 00-417 (2000) addressed whether Model Rule 5.6(b) would prohibit a lawyer from entering into a settlement that prevented him or her from using information learned during one matter in any future matter against the same opposing party. The opinion concluded that although a lawyer can agree, as part of a settlement agreement, not to *disclose* certain information learned in the course of handling a certain matter, the lawyer could not ethically agree not to use that information in subsequent matters. For example, the lawyer could agree not to reveal information about the facts of the particular matter or the terms of its settlement. However, the opinion concluded that "[k]nowledge of the existence of these records, or witnesses, and an agreement not to use such knowledge, is tantamount to agreeing not to subpoena or use the information. The committee believes that each of these restrictions is a restriction on the lawyer's right to practice."

In evaluating whether to uphold a particular provision in any given situation, courts will need to look at the entire context of the situation, the scope of the use restriction, and the underlying purpose and intent behind the restriction. When a party seeks to impose or enforce a protective order against a particular lawyer, the court will also need to examine whether the use restriction would violate any applicable ethical rule governing lawyers.

EMILY H. WOOD
Arnold & Porter LLP

Emily H. Wood *is an associate with Arnold &Porter LLP's litigation group. Her practice primarily focuses on complex commercial litigation and securities and financial services litigation. She also works with the Attorney Liability practice group and has represented lawyers in malpractice and breach of fiduciary duty claims.*