

ORDERED in the Southern District of Florida on

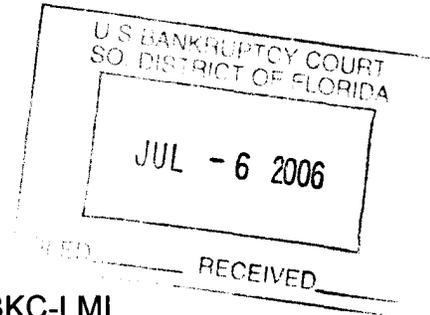
July 6, 2006



Laurel Myerson Isicoff

Laurel Myerson Isicoff, Judge
United States Bankruptcy Court

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF FLORIDA



IN RE:
El Toro Exterminator Of Florida, Inc.
Debtor.

CASE NO. 05-60015-BKC-LMI
Chapter 7

_____ /

ORDER DENYING MOTION TO COMPEL AND FOR SANCTIONS

This matter came before this Court on May 31, 2006 on Motion of Marcos Cernada and Andrew Rosenblatt (collectively "Creditors") to Compel Production of Public Records Withheld by Debtor and Motion for Sanctions Against Debtor (CP #92) (the "Motion to Compel"). The Court having considered the Motion to Compel, the Debtor's response thereto, the memoranda filed by the Creditors and the Debtor, and having otherwise reviewed all matters the Court deems relevant to the matters hereinafter set forth, the Court denies the Motion to Compel and for Sanctions for the reasons set forth below.

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Facts

El Toro Exterminator of Florida ("El Toro" or "Debtor") filed a petition for relief under Chapter 11 of the Bankruptcy Code on October 26, 2005. The Debtor's schedules include two related disputed claims, both of which arise from a pre-petition judgment entered by the Miami-Dade Circuit Court (the "State Court Judgment"). One disputed claim, in the scheduled amount of \$155,000, is held by Marcos Cernada, a former employee of El Toro, who is currently employed by a competitor of El Toro. Mr. Cernada's counsel in the State Court Litigation, Andrew Rosenblatt, was awarded attorney's fees in an amount undetermined as of the present day. Mr. Rosenblatt is scheduled as holding a disputed claim in the amount of \$100,000.

El Toro has appealed the entry of the State Court Judgment. That appeal is currently pending before the Florida Third District Court of Appeal.

On January 27, 2006, Creditors served a Notice of Rule 2004 Examination of El Toro's director (CP #42), which notice included, *inter alia*, request for production of (a) El Toro's client lists, (b) copies of any contracts pursuant to which El Toro will receive any money or (c) any contracts for work performed over the last two years having a value of at least \$10,000 per year. El Toro filed a motion for limited protective order (CP #51) objecting, in pertinent part, to disclosure of its client lists and contracts to the extent such request would disclose customer information, and requested permission to redact all customer identification from the documents to be turned over. The Court granted in part the motion for limited protective order (CP # 74) permitting El Toro to redact all attorney

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client, work client, and customer identification information from the requested documents.

The 2004 examination was conducted on March 31. El Toro brought to the examination several contracts between El Toro and various Florida and federal agencies, the confidential information in which could not be redacted, or redacted timely, in advance of the examination (the "Government Contracts").¹ Debtor's counsel did show the Government Contracts to Creditors' counsel, but would not allow Creditors' counsel to copy the Government Contracts or question El Toro's witness about the Government Contracts.

Creditors immediately filed the Motion to Compel and For Sanctions demanding that El Toro produce "all contracts and agreements with government agencies and all other documents ... that constitute public records," because all government contracts, according to Creditors, are a matter of public record under the Florida Public Records Act and, *ergo*, cannot be trade secrets. Creditors also moved to sanction El Toro's counsel "for failing to advise the Court that the documents at issue in [El Toro's] 'motion for limited protective order' were public records, and preventing Creditors' counsel from copying, or asking questions about, the Government Contracts." At the hearing on the Motion to Compel, El Toro stated that, although it was willing to provide certain information with respect to the Government Contracts, El Toro did not want to provide proprietary pricing information that was included in the Government Contracts. At the request of the Court, the parties

¹The Debtor also brought to the examination purchase orders with the various government agencies. The memorandum filed by the Creditors creates some ambiguity regarding whether these purchase orders are included in the discovery request but due to the Court's ruling, the ambiguity regarding what is requested is not relevant.

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submitted competing memoranda on the issue of whether the contracts with government agencies are protected trade secrets or must be turned over as part of the discovery request.

Fed.R.Bankr.P. 2004 permits any party in interest to examine the debtor on matters relating "only to the acts, conduct, or property or to the liabilities and financial condition of the debtor, or to any matter which may affect the administration of the debtor's estate. . .". While this right of examination is broad, see *In re Wilcher*, 56 B.R. 428 (Bankr. N.D. Ill. 1985), it is not limitless, see *Snyder v. Society Bank*, 181 B.R. 40 (S.D. Tex. 1994). Limitation of discovery using Rule 2004 is especially appropriate when the actual motion for the request is an improper purpose. See *In re Enron Corp.*, 281 B.R. 836 (Bankr. S.D.N.Y. 2002) (Rule 2004 discovery could not be used to circumvent discovery limitations in pending security fraud action); *Snyder*, 181 B.R. at 42 ("Examinations under Rule 2004 cannot be used to harass or oppress the party."); accord *Video Software Dealers Assn' v. Orion Pictures Corp. (In re Orion Pictures Corp.)*, 21 F.3d 24 (2d Cir. 1994)(affirming bankruptcy court's sealing of certain records pursuant to 11 U.S.C. §107(b)).

Recognizing the unique nature of bankruptcy and the procedural requirements of disclosure to obtain most types of relief, and balancing this against the general rule that court records are a matter of public record, generally, Congress enacted 11 U.S.C. §107(b) which provides in relevant part:

(b) On request of a party in interest, the bankruptcy court shall, and on the bankruptcy court's own motion, the bankruptcy court may -

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(1) protect an entity with respect to a trade secret or confidential research, development, or commercial information; . . .

The companion Bankruptcy Rule 9018 provides “[o]n motion or on its own initiative, with or without notice, the court may make any order which justice requires (1) to protect the estate or any entity in respect of a trade secret or other confidential research, development, or commercial information . . .”.

Trade secrets are not precisely defined under federal law. When determining whether something is a trade secret, courts draw from “commonly accepted criteria” such as the Restatement, Uniform Trade Secrets Act and other treatises. See, e.g., Chicago Tribune Co. v. Bridgestone/Firestone, Inc., 263 F.3d 1304, 1314 (11th Cir. 2001). In Chicago Tribune Co., the Eleventh Circuit identified four required elements to establish that information constitutes a trade secret: (1) that the party seeking protection has consistently treated the information as closely guarded secrets; (2) that the information is of substantial value to the party seeking protection; (3) that the information would be valuable to the party’s competitors; and (4) that the information derive its value from “the effort of its creation and lack of dissemination.” Id. As an extension of the first element, the Supreme Court has stated that information that is public knowledge or generally known cannot be a trade secret. Ruckelshaus v. Mosanto Co., 467 U.S. 986, 1007 (1984).

In Florida, “trade secret” is statutorily defined as

“information, including a formula, pattern, compilation, program, device, method, technique, or process that:

(a) Derives independent economic value, actual or potential, from not

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being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use; and
(b) Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

Fla. Stat. §688.04 (2005).

Creditors assert that the Government Contracts cannot be trade secrets because, by virtue of the Florida Public Records Act, these agreements are public records, and they are thus “readily available to third parties.” The Florida Public Records Act provides that “it is the policy of this state that all state, county, and municipal records are open for personal inspection and copying by any person.” Fla. Stat. §119.01(1) (2000). The statute defines public records as “all documents, papers, letters, maps, books, tapes, photographs, films, sound recordings, data processing software, or other material, regardless of the physical form, characteristics, or means of transmission, made or received pursuant to law or ordinance or in connection with the transaction of official business by any agency.”²

² While Creditors neither cited to federal law, nor explained why the Florida Public Records Act would apply to Debtors’ contracts with federal agencies, the Court notes that certain federal agency records may also be obtained through the Freedom of Information Act (“FOIA”), 5 U.S.C. §552. The FOIA provides that “upon any request for records which (i) reasonably describes such records and (ii) is made in accordance with published rules stating the time, place, fees (if any), and procedures to be followed, shall make the records promptly available to any person.” 5 U.S.C. 552(c). Although exactly what constitutes “agency records” is not stated in the statute itself, “[f]or requested materials to qualify as ‘agency records,’ two requirements must be satisfied: (i) ‘an agency must ‘either create or obtain’ the requested materials,’ and (ii) ‘the agency must be in control of the requested materials at the time the FOIA request is made.’ Grand Cent. Partnership v. Cuomo, 166 F.3d 473, 478-479 (2nd Cir. 1999) (citing U.S. Dept. of Justice v. Tax Analysts, 492 U.S. 136, 144-145)). There are several

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Commercial information has been defined in the context of 11 U.S.C. §107(b) as information that would cause “an unfair advantage to competitors by providing them information as to the commercial operations of the debtor.” Ad Hoc Protective Comm. For 10 ½% Debenture Holders v. Itel Corp., 17 B.R. 942, 944 (9th Cir.BAP 1982); In re Fibermark, Inc., 330 B.R. 480, 507 (Bankr. Ver. 2005). Once the court finds that the relevant information meets this threshold, the court is authorized to “make any order which justice requires” to prevent its dissemination.

As noted above, both in its papers and in oral argument, El Toro asserted that there is certain proprietary pricing information contained in the Government Contracts, which information would give any competitor an unfair advantage if the details of that pricing structure were disclosed. El Toro stated, and the Creditors did not dispute, that contracts with the government agencies are obtained through a sealed bid process, making more significant disclosure of this information to a competitor. At no time have Creditors disputed El Toro’s characterization of the proprietary information El Toro seeks to withhold. The Creditors’ argument, rather, focused on what Creditors’ assert is El Toro’s inappropriate assertion of the trade secret privilege.

There are several issues raised by both Creditors and Debtor regarding whether any or all of the Government Contracts are, or are not, public records, or are, or are not, trade secrets. However, it is not necessary for this Court to determine whether the Government

exemptions from production of information pursuant to the FOIA. Among them are “trade secrets and commercial or financial information obtained from a person and privileged or confidential.” 5 U.S.C. §552(b)(4).

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Contracts constitute “trade secrets” under the applicable Federal and Florida law, because the Court finds that the information El Toro seeks to withhold clearly constitutes “commercial information” the dissemination of which would put El Toro at a competitive disadvantage with respect to competitors, including Mr. Cernada and his employer.³ The Court having found that the information the Debtor seeks to protect is commercial information, the Court must now, as authorized by Fed. R. Bankr. P. 9018, determine whether there is a way to provide Creditors with information they request while protecting El Toro’s proprietary commercial information.

In its responsive memorandum, El Toro suggested that copies of the Government Contracts be provided only to Barbara Phillips, bankruptcy counsel for the Creditors “for review and analysis; with the proviso that the Debtor’s pricing information for each individual contract not be revealed to Creditors, and under such other safeguards as this Court determines to be adequate and just.” The Court finds this to be a reasonable resolution of this dispute, giving Creditors’ counsel access to information while protecting the proprietary information from potential mis-use by competitors. The Court also notes the parties will be mediating their disputes in the next several weeks and encourages the parties to utilize the mediator to resolve any remaining discovery disputes if appropriate and necessary.

³“Commercial information” is not a subset of “trade secret” and is therefore subject to the protections of §107(b) even if the commercial information does not meet “the same level of confidentiality” as a trade secret. *Orion Pictures Corp.*, 21 F.3d at 28.

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It is therefore, ORDERED and ADJUDGED as follows:

1. The Creditors' Motion to compel is DENIED. The Creditors' request for sanctions is also DENIED.
2. El Toro's counsel shall provide to Ms. Phillips the Government Contracts within ten (10) days of the date of this Order or such later date as the parties agree. El Toro's counsel shall identify in its transmittal letter what information El Toro's counsel deems proprietary commercial information.
3. Ms. Phillips may not (a) share any of the proprietary information with any other person, including Mr. Cernada or Mr. Rosenblatt, or (b) use the proprietary information in any way that would disclose its terms, without either the prior written consent of counsel for the Debtor, or further order of this Court.
4. Any motion seeking such authority may not include any of the protected proprietary information, and at any such hearing on the motion, steps must be taken to preserve the confidentiality of the information, until such time as the Court orders otherwise.

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Copies to:
Andrew Rosenblatt, Esq.

Attorney Rosenblatt shall serve a conformed copy of this order upon all parties in interest and shall file a Certificate of Service of same with the Clerk of the Court.