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E-Filing Mistakes Could Jeopardize Third-Party Trade Secrets

By **Carolyn Martin and Robert Piper** (June 14, 2021, 1:26 PM EDT)

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E-filing has revolutionized the court system, making it easier and faster to file documents to the court record. However, it is now also easier for lawyers to make inadvertent mistakes that have potentially serious consequences.

The high-profile trial of Epic Games Inc. v. Apple Inc. showed that even the most astute law firms can mistakenly publicize third parties' trade secrets by inadvertently filing unredacted documents. E-filing mistakes of this kind could lead to the third parties losing trade secret protections for the leaked information.

May 21 marked the end of an epic three-week trial in the U.S. District Court for the Northern District of California, pitting Epic, the owner and developer of the wildly popular Fortnite video game, against Apple, the maker of the number one smartphone platform in the U.S.

Despite being an antitrust case, Epic v. Apple inadvertently raised a serious trade secret concern on its very first day.

On May 3, the district court released a tranche of documents to the public. Many of these documents contained unredacted trade secrets owned by third parties. Before the court could delete and reupload redacted versions of the files, journalists downloaded, read and published stories on the trade secrets contained within them.

The affected companies were outraged and quickly filed an avalanche of motions to seal. Although the issue would be resolved within hours, the damage was already done.

Did the widespread publishing of these trade secrets render them unprotected?

Trade Secrets in the Video Game Business

A trade secret is broadly defined as any type of information that is kept secret and has economic value because it is kept secret. With limited exceptions, as soon as a trade secret is made public, it loses all protections.

Owners of trade secrets mainly enforce the protection of their information through civil suits in state or federal court. A court can protect the plaintiff by ordering a defendant to cease use of the information or to protect the information from being revealed to the public.

In some extreme scenarios, courts may order the seizure of the misappropriated trade secret. If the plaintiff proves that its secret has been stolen or misappropriated, the court may award monetary damages, attorney fees and a permanent injunction.

The video game industry is experiencing rapid growth, seeing exponential gains in sales over the last decade. In 2020, the industry generated more than $175 billion, a 20% increase over 2019. With such significant potential cash flow on the line, video game companies often go to great lengths to keep their development plans, best practices and source codes secret.

Moreover, video game development requires more secrecy because of the extended development period compared to other media, such as movies. Product announcements are a major part of the marketing push and are usually timed close to product release for maximum impact.

Nondisclosure agreements, intense cybersecurity and redacted documents are common ways video game corporations keep their proprietary information from leaking to their competitors or the public.

One of the fastest growing areas is mobile gaming. Fortnite, PUBG, Candy Crush, Among Us and an assortment of other titles exploded in popularity between 2010 and 2020.

The video game developers must sign contracts with the platform owners (Apple for iOS and Google for Android) to place their games in the mobile app store. Often these agreements contain, or at least reference, confidential business plans, fee structures or other development ideas that the developer regards as its trade secrets.

The developer and the platform host both understand that these secrets must be kept confidential in order to keep their trade secret status. Unfortunately, due to human error, these secrets can be leaked through sloppy e-filing when one of the platforms is taken to court.

Epic v. Apple Lawsuit Basics

Apple owns and operates iOS, which is the most popular smartphone platform in the U.S. and the second most popular phone platform in the world.

Apple restricts the user's ability to download apps from outside sources, rendering the Apple App Store the only place where iPhone users can download apps. Further, Apple takes a 30% cut of any transaction that happens in an app on the iPhone.

For example, every time an iPhone user buys Candy Crush gold coins, pays to remove annoying pop-up ads or upgrades their Spotify account to Premium, Apple takes 30% of the money that changes hands.

Many mobile game developers see this practice as anti-competitive and have alleged violations of various antitrust and anti-monopoly laws.

Epic is the owner and developer of several popular mobile games, including its flagship property Fortnite. On average, Fortnite generates about $5 billion in profits each year, and 30 cents of every dollar spent in the iOS version of Fortnite goes straight to Apple.

Last summer, Epic updated the Fortnite iOS app to let users bypass the Apple payment system, allowing Epic to avoid Apple's 30% cut. Apple responded by banning Fortnite from the app store until Epic agreed to disable the new payment scheme. Epic filed suit in the Northern District of California, alleging violations of antitrust laws and seeking a return of Fortnite to the Apple App Store.

Third Parties' Potential Trade Secrets Leaked Via Public Record

As part of the discovery plan, each party agreed to release documents related to Fortnite, the Apple App Store and any other business dealings that related to those two topics. Epic needed to provide any agreements or emails between itself and other platform hosts like Sony Corp. or Microsoft Corp. Apple was required to produce documents related to other major game developers who partnered with the App Store.

On May 3, a significant number of these documents were made public through the online cloud storage folder on the district court's website. Third party corporations like Samsung Electronics Co. Ltd., Walmart Inc. and Sony all quickly realized that documents they thought were confidential were now available for the public to download.

Reporters from outlets like The Verge and IGN quickly downloaded and combed through the documents, publishing multiple stories on once-confidential business plans. By the end of the day, many of the documents had been deleted, redacted and reuploaded, but the damage was done.

These third party entities were outraged and began filing motions to seal documents and redact information. The inundation of motions led U.S. District Judge Yvonne Gonzalez Rogers to state with exasperation, "I have received — I don't know what, ten? — motions from third parties asking me to seal information."

These motions came so quickly and in such large volumes that Epic's counsel had to object midquestioning to prevent Apple from disclosing information a third party, Paradox Interactive AB, desired to keep confidential.

When Apple's counsel retorted that this was the first time he had been alerted to Paradox's request, Epic shot back that they had just been informed themselves. Judge Gonzalez Rogers then declared that Paradox had not filed any motion to seal the document, and that Apple could continue.

Did Sony, Microsoft and Others Lose Their Trade Secret Protections?

One of the key attributes of a trade secret is that it is kept secret. In most cases, a trade secret loses its status as soon as it is no longer confidential.

Here, multiple outlets reported on potential trade secrets before the documents could be sealed. Media outlets reported on Sony's initial reluctance (and ultimate acquiescence) to allow cross-platform play on the PlayStation, Walmart's desire to bring its own streaming video game product to market and Microsoft's business plan to purposely lose money on sales of the Xbox.

In most cases, these companies would no longer be able to enforce trade secret protections on these plans in court. However, multiple circuit courts have recognized an exception to this rule that should apply in this scenario.

According to several circuit and district courts, the inadvertent disclosure of a trade secret at trial does not automatically destroy confidentiality.[1] These decisions include Hoechst Diafoil Co. v. Nan Ya Plastics Corp., decided in 1999 by the U.S. Court of Appeals for the Fourth Circuit; Gates Rubber Co. v. Bando Chemical Industries, Ltd., decided in 1993 by the U.S. Court of Appeals for the Tenth Circuit; and Religious Technology Center v. Netcom On-Line Communication Services Inc., decided in 1995 by the U.S. District Court for the Northern District of California.

In those cases, the court considered a variety of factors ranging from how and when the documents were made public to the measures the affected business took to protect the secret after the initial leak. The fact that the documents were inadvertently made public was just one nondispositive factor.

In each case, the court found that the information could still be considered a trade secret despite being made available to the public through the court record.

The one distinction between the present circumstances and the previous case law is that the Epic v. Apple suit leaked the secrets of third parties. In each case cited above, the party at risk of losing its secrets was the party that made the e-filing mistake.

Here, Sony, Walmart and Microsoft were not responsible for the inadvertent disclosure of their business secrets. In fact, it is unclear who exactly is to blame for the mishap; Epic, Apple and the court all had the potential to make this error.

Regardless of which entity improperly redacted the documents, it is clear the blame does not fall on the third parties. This fact, combined with the flood of motions to seal following the inadvertent disclosures, supports a finding that the third parties were not responsible for this mistake and should not lose their trade secrets.

Third Parties in This Case Can Relax, But All Parties Should Exercise Use Caution When E-Filing

There are several circuits in which a mistake of this nature would be an issue of first impression. Given that there is still a possibility for a circuit split on the issue, parties to a suit should exercise great caution when e-filing discovery documents. It is entirely possible for a circuit lacking any

precedent in this area to rule that the trade secrets lost protection after being so widely published.

Indeed, each case cited above includes dicta that a trade secret that is inadvertently revealed through a court record and widely publicized by the press could lose trade secret status. The District Court for the Eastern District of Virginia made this exact ruling in Religious Technology Center v. Lerma in 1995.[2] If the mistake could be traced back to one of the parties, it could be liable to the third party for leaking the trade secrets.

For this reason, it is always advisable to ensure that any request for confidentiality is honored before e-filing documents for the public record.

For law firms that do not specialize in trade secrets or IP, it is advisable to double-check documents for potential trade secrets that could be put in jeopardy if they are not properly concealed. The last thing any attorney would want is for a third party to sue their client for an inadvertent mistake made during an unrelated trial.

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[1] See, e.g., Hoechst Diafoil Co. v. Nan Ya Plastics Corp ., 174 F.3d 411, 418 (4th Cir. 1999); The Gates Rubber Co. v. Bando Chemical Industries , Ltd., 9 F.3d 823, 848-849 (10th Cir. 1993); Religious Tech. Ctr. v. Netcom On-Line Comm. Servs., Inc ., 923 F. Supp. 1231, 1255 (N.D. Cal. 1995).

[2] 908 F. Supp. 1362 (E.D. Va. 1995).
