

# Intellectual Property

2015 WINTER BULLETIN

## Copyrighting Player-Generated Content in Video Games

BY JENNIFER LLOYD KELLY & NICHOLAS A. PLASSARAS

Last year, consumers spent more than \$21 *billion* on the video game industry. The Entertainment Software Association reports that almost 60% of Americans — roughly 200 million people — play video games. To put that into perspective, that rivals the number of Americans who saw movies in theaters, is almost double the number who subscribed to cable TV, and is about *six times* the number who subscribed to Netflix in 2013.

Players often create their own unique content — including characters, items, maps, and movies — based on their favorite games, often integrating that content back into the game itself. Is this player-generated content copyrightable and, if so, who owns it?

### Contract Is King

Copyright protects creative expression, which is typically owned by its creator. Video game players, however, often give up any rights they have to their in-game content when they agree to a Terms of Service or End-User License Agreement in order to play their favorite game. Courts typically enforce these agreements, even though they take away rights that would otherwise belong to the player. Because these contracts make game companies the owners of player-generated content, courts have yet to consider whether players can assert copyright protection over their in-game creations.

### Protection Under the Copyright Act?

The Copyright Act affords protection to creations that are sufficiently original. It is well-settled that certain aspects of a game are copyrightable, but unclear whether player-generated content is original enough to warrant copyright protection.

In general, the bar for originality is low. But player-generated content is less likely to be original if the creator's choices are tightly constrained by the mechanics of the games he or she plays. For example, imagine a player creating his or her character in an online role-playing game. If the player can only choose one of two genders and one of five classes, the resulting character is not "original" — there are only 10 possible combinations of gender and class. The character is largely a function of game-imposed limitations, not player originality, and is therefore the intellectual property of the game company.

But when games offer players large amounts of creative freedom, the outcome is different. Imagine a player constructing a virtual building. If the player can choose from hundreds of building materials with billions of possible configurations, the player can create almost anything. Because the resulting building is more a function of the player's creativity than of game-imposed limitations, the virtual building could be original and therefore copyrightable by the player. Thus, courts are likely to use creative freedom as an important factor in determining which player-generated content is original enough to warrant copyright protection.

### Ownership

Assuming player-generated content is copyrightable, who owns it? Copyright law could treat players as sole owners of their creations, excluding any ownership claims by game

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companies. But this ignores the contributions of game companies, which provide players with the inspiration and tools to create.

Alternatively, copyright could treat players and game companies as joint owners of player-generated content. This acknowledges the combined contributions of both parties but creates logistical hurdles for commercial exploitation — particularly because it would require profit sharing.

Lastly, copyright could treat player-generated content as a derivative work — a mere incremental addition to the underlying, copyright-protected game. This would require players to obtain permission from game companies to use or exploit any of the content that they create.

In 1998, the Ninth Circuit suggested that player-generated content is a derivative work of the underlying game. In *Micro Star v. FormGen, Inc.*, 154 F.3d 1107 (9th Cir. 1998), it held that player-generated maps for a popular first-person shooting game were infringing derivative works because they were sold without permission for profit. Writing for the majority, Chief Judge Kozinski explained that the maps invoked the underlying game’s story by drawing on its setting and characters. According to Judge Kozinski, this was similar to creating a sequel, which is prohibited without receiving the original author’s permission.

Judge Kozinski’s analysis does little to address the larger question of copyrighting player-generated content. It focuses on how the maps were used, not whether they were worthy of copyright protection in their own right. It also fails to account for games — like *Minecraft* — that have no underlying story and, instead, simply encourage players to be creative.

### Recent Changes to the Legal Landscape

With game companies’ interests protected by contract, and copyright-based alternatives mired in uncertainty, change seems unlikely. Surprisingly, the past few years have seen quite a bit of it.

Some game companies have become more assertive of their right to use player-generated content. The creators of *Second Life* — once the only online game to affirmatively recognize players’ rights to content created in-game — recently revised their Terms of Service to grant themselves the right to use player-generated content.

Other game companies have taken a more player-focused approach. In 2007, Microsoft released its “Game Content Usage Rules,” which provide players with a limited license to use copyrighted Microsoft content in

their own creations. Blizzard — the creator of *World of Warcraft* — quickly followed suit with its “Letter to the Machinimators,” providing players with a limited license to create movies using copyrighted material from *World of Warcraft*.

In addition, courts might be warming up to the idea of players asserting copyright protection in the content they create in-game. For example, in *FireSabre Consulting LLC v. Sheehy*, No. 11-CV-4719 (S.D.N.Y. 2013), a technology development company sued a group of educators for copyright infringement. The company created virtual islands in the online game *Second Life*, which were then used as virtual classrooms — players would log in to the game, meet at the designated in-game spot, and proceed with their lessons. The technology company alleged that the educators (1) used images of its virtual classrooms without permission and (2) later duplicated the company’s classroom without permission on a different *Second Life* server. The case got as far as being scheduled for a jury trial, but the parties ultimately settled out of court. It is not clear why the case got as far as it did, especially if the company’s claim to copyright ownership had no merit. Perhaps the case got so far because of *Second Life*’s then-unique stance on content ownership. But it might also indicate a willingness on the part of courts to engage in a discussion about whether players can copyright their in-game content.

Finally, players are finding more and more ways to monetize — and in some cases *live off of* — their in-game creations. In 2003, Valve Corporation launched its massively popular “Steam,” an internet-based digital distribution and social networking platform for video games. In 2011, Valve released “Steam Workshop,” a centralized hub where players can create, publish, organize, and even integrate their own user-generated content into various games. Part of that functionality allowed users to sell the unique items, maps, and costumes they created in-game. In early 2015, Steam Workshop was opened to third-party publishers, allowing players of non-Valve games to make and sell their own in-game items. The revenue implications of this change are huge: as of January 2015, Steam Workshop owners have collectively earned \$57 million from selling in-game content.<sup>1</sup> With serious money to be made by game companies *and* players, the need for clearer and more equitable ownership rules is growing.

1 Brenna Hiller, *Make Money From Your Non-Valve Mods With Steam Workshop* (VG24/7, January 29, 2015), online at: <http://www.vg247.com/2015/01/29/make-money-from-your-non-valve-mods-with-steam-workshop/>

Since their inception, video games have challenged our understanding of copyright law. Now, with billions of dollars at stake, it is no surprise that some have resorted to copyright as a way of carving out their piece of the pie. Although the above discussion suggests that player-generated content *can* be protected by copyright, it leaves open the question of whether it *should* be. Perhaps the entire gaming industry would be better off if no one owned the rights to player-generated content.

While the future legal status of player-generated content remains uncertain, one thing is clear: now that video games have entered the world of mainstream entertainment, the intersection between copyright and video games has never been more important.

## The Power Play Between Congress and the Courts Over Patents

BY STUART P. MEYER

The interplay between the legislative and judicial branches in the area of patent law has become a tectonic collision. Congress appears to be ever more active in telling courts how to handle patent matters, and the courts are increasingly writing their own exceptions into the statutory language governing patents.

For several years now, Congress has been promising to address patent litigation abuse, but judges have expressed concern that this would be a land grab in Article III territory. In 2013, Federal Circuit judges publicly warned that Congress was ill-suited to address litigation reform, and that any such attempts might encroach on the constitutionally enshrined power of the judiciary. One judge chided a senior senator for saying that there were three branches of government: the executive, the House, and the Senate. The judge devoted an entire keynote address to the topic of “how dismissive the other branches of government have become of the judiciary.” She spoke of “the inherent authority of the courts to manage and control patent litigation” and criticized legislative proposals dictating when sanctions are to be applied and how much discovery should be allowed. The Judicial Conference of the United States ultimately sent letters to the ranking members of the House Judiciary Committee in late 2013 warning that the proposed Innovation Act introduced by Rep. Goodlatte “runs counter to” the process set forth in the Rules Enabling Act.

Notwithstanding those concerns, Rep. Goodlatte just reintroduced a number of similar provisions on February 5, 2015 (H.R. 9). In the Senate, the STRONG Patents Act, S. 632, was introduced on March 3 and goes in a

different direction, expressly recognizing that the Judicial Conference is in the process of revising the Federal Rules of Civil Procedure and that recent Supreme Court rulings have “significantly reduced the burden on an alleged infringer to recover attorney fees from the patent owner.” Nonetheless, the STRONG Patents Act includes a provision requiring the Director of the Administrative Office of the United States Courts to designate half a dozen district courts for an expanded “pilot program” to address “special issues raised in patent infringement suits against individuals or small business concerns.”

On the other side of the coin, courts have been overtly making policy through interpretation of the patent statutes. The most dramatic example of this comes from *Alice Corp. v. CLS Bank International*, 134 S. Ct. 2347 (2014) and its progeny in determining what types of inventions are eligible for patent protection. The U.S. Supreme Court took on four cases in as many years related to this subject, all of which centered on a judicially created set of exceptions to the opening section of the patent statute: “Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor....” 35 USC § 101.

Over 150 years ago, the Supreme Court began chipping away at portions of this statutory language. In *Le Roy v. Tatham*, 55 U.S. (14 How.) 156 (1852), the Court essentially wrote the word “discovers” out of the statute, stating by the example of sources of power (e.g., steam power), “the invention is not in discovering them, but in applying them to useful objects.” At the time, three justices joined a lengthy dissent explaining that the patentee’s discovery of a property of metal that was at issue in the case at bar “led naturally to the apparatus, by which a new and useful result is produced. The apparatus was but incidental, and subsidiary to the new and leading idea of the invention. And hence, the patentees set forth, as the leading feature of it, the discovery, that lead, in a solid state, but under heat and extreme pressure in a close vessel, will reunite, after separation of its parts, as completely as though it had never been separated.”

In *Funk Brothers Seed Co. v. Kalo Inoculant Co.*, 333 U.S. 127 (1948), the Court held simply that “patents cannot issue for the discovery of the phenomena of nature.” Justice Frankfurter warned, in a concurring opinion, that, “It only confuses the issue, however, to introduce such terms as ‘the work of nature’ and the ‘laws of nature.’” He observed that “these are vague and malleable terms infected with too much ambiguity and equivocation.

Everything that happens may be deemed ‘the work of nature,’ and any patentable composite exemplifies in its properties ‘the laws of nature.’”

By the computer age, the Court was not limiting its policy making to just the “discovers” part of the statutory language. In *Diamond v. Chakrabarty*, 447 U.S. 303 (1980), the Court stated, “The laws of nature, physical phenomena, and abstract ideas have been held not patentable.” In the four recent Supreme Court cases on this subject, these exceptions have been applied without further discussion of their legitimacy.

Thus, over the years the statutory language “invents or discovers” seems to have been judicially reduced to “invents” and further limited to those inventions that do not run afoul of the exceptions created for “laws of nature, physical phenomena, and abstract ideas.” *Alice* was just the latest of the cases along these lines, but it appears to have been a tipping point, based on how lower courts, as well as the Patent and Trademark Office (PTO), reacted to *Alice*.

Specifically, as a result of *Alice* and related cases, invalidity defenses in infringement litigation have gone from having a success rate below 1/3 to a success rate well above 3/4 for some types of inventions. Given these statistics, it seems appropriate to consider the Court’s authority in crafting exceptions to statutory language. At least one district court judge recently quipped in an opinion that it was the Supreme Court that “invented or discovered” the three exceptions to the broad language of the statute. *Eclipse IP LLC v. McKinley Equip. Corp.*, No. SACV 14–742, 2014 WL 4407592 (C.D. Cal. Sept. 4, 2014) (Wu, J.).

In the wake of last summer’s *Alice* decision, courts are routinely invalidating patents not just at trial or at the summary judgment phase, but on Rule 12 motions to dismiss at the outset of the case. Such decisions often come before the claim construction phase of the case. There has been scant attention given in these cases to the fact that during prosecution of most of these patents, the patent examiners initially raised such § 101 issues, and through amendment or argument the PTO became satisfied that the application was in fact directed to patent-eligible subject matter.

Under 35 USC § 282, “A patent shall be presumed valid.” Some jurists now appear to be proposing, in the wake of *Alice*, that there is an exception to this statutory provision as well. In *Ultramercial, Inc. v. Hulu, LLC*, 772 F.3d 709 (Fed. Cir. 2014), Judge Mayer issued a concurring opinion asserting that no presumption of

validity should attach to § 101 analysis. Judge Mayer described the rationale for such a presumption as being that the PTO, “in its expertise, has approved the claim” and said that “because the PTO has for many years applied an insufficiently rigorous subject matter eligibility standard, no presumption of eligibility should attach when assessing whether claims meet the demands of section 101.” Judge Mayer stated that “while a presumption of validity attaches in many contexts, no equivalent presumption of eligibility applies in the section 101 calculus” (citation omitted). Judge Mayer’s view may represent good policy but does not represent a policy balance that has been struck by Congress.

Furthermore, Judge Mayer stated that in the several recent Supreme Court opinions regarding § 101, there has been no mention whatsoever of any “presumption of eligibility” and accordingly concluded that “while a presumption of validity attaches in many contexts, see *Microsoft Corp. v. i4i Ltd. P’ship*, \_\_ U.S. \_\_, 131 S.Ct. 2238, 180 L. Ed. 2d 131 (2011), no equivalent presumption of eligibility applies in the section 101 calculus.” However, in the *Mayo* case in 2012, to cite just one example, the Supreme Court concluded its § 101 analysis by stating simply that “the patent claims at issue here effectively claim the underlying laws of nature themselves. The claims are consequentially invalid.” *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 132 S. Ct. 1289. And even in *Microsoft*, at a portion of the opinion only one page before the section cited by Judge Mayer, § 101 was discussed along with §§ 102, 103, and 112 in connection with the statutory presumption of validity in 35 USC § 282. Judge Mayer’s attempt to say that whether a patent satisfies § 101 is not related to whether a patent is “valid” seems to be supported neither by the statute nor by the recent case law.

In this instance, we see a second attempt to create a judicial exception to statutory language, this time to ease the mechanism for applying a first judicially created exception to statutory language. Judge Mayer’s approach has not been universally adopted. See *StoneEagle Servs., Inc. v. Pay-Plus Solutions, Inc.*, 8:13-cv-2240 (M.D. Fla. Feb. 9, 2015) (order citing to Judge Mayer’s concurrence in *Ultramercial* but holding nonetheless that the presumption applies, and denying as premature defendant’s motion on the pleadings).

Patent law thus appears to be caught in a battle of Titans. Congress sees the courts as unable to rein in litigation abuses, and so proposes reforms the judiciary finds offensive. The courts see Congress as too reluctant to address the nuanced aspects of patent-eligible subject

matter, and so take steps to fill what they see as policy gaps. It seems impossible to predict how it all will play out, but in the meantime we can expect the tectonic activity to keep changing our patent landscape. As always, the lesson is the same: IP law is like a pendulum that just keeps moving back and forth.

## Quick Updates

### ***Omega v. Costco* — The Final Chapter?**

When we last left the saga of the luxury watchmaker versus the wholesale giant, the District Court had granted summary to Costco on the grounds of copyright misuse by Omega, but we noted, “It is almost certain that Omega will appeal.”

Omega did indeed appeal, but got nowhere. While the Ninth Circuit panel of Judges Nelson, Wardlaw, and Rawlinson differed on the reasoning, they unanimously affirmed the win for Costco and the District Court’s award of nearly \$400,000 in attorney’s fees; however, the judges differed on what theory should be the basis to affirm Costco’s win. *Omega S.A. v. Costco Wholesale Corp.*, 776 F.3d 692 (9th Cir. 2015).

Writing for herself and Judge Rawlinson, Judge Nelson avoided the copyright misuse issue and found that the first sale doctrine precluded Omega’s claim. Due to the quirky history of this case, she held that the Supreme Court’s intervening decision in *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013), which held that the first sale doctrine applies to copies of works made abroad, abrogated the Ninth Circuit’s opposite finding in *Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982 (2008), and that the Supreme Court’s evenly split decision (with Justice Kagan recusing) in *Costco Wholesale Corp. v. Omega, S.A.*, 562 U.S. 40 (2010) (per curiam) was nonprecedential. Applying *Kirtsaeng* retroactively fully invalidated Omega’s claim.

Judge Wardlaw, on the other hand, wrote separately to state that she believed the Ninth Circuit should affirm on the basis of copyright misuse as the issue the parties had briefed on appeal. She detailed Omega’s efforts to leverage copyright law to control the import of luxury watches that it had, for many years, sold without the “nearly invisible” “Global Design” that it finally added at the behest of its attorneys. Though Judge Wardlaw noted that a defendant need not show a violation of antitrust law to prove copyright misuse, she nevertheless called Omega’s motives “anti-competitive,” and named as a consequence a reduction in competition. Key to Judge Wardlaw’s analysis was that Omega owned a copyright

only in the tiny “Global Design” engraved on the back of the watches, not the watches themselves, yet Omega sought to restrict sale of the watches. She analogized this misuse to a technology company “surreptitiously plac[ing] a few lines of programming code from its copyrighted software onto a piece of computer hardware that was not entitled to intellectual property protection, with the express purpose of using its copyright to restrict competing retailers from selling that hardware at discounted prices.” Only time will tell whether Judge Wardlaw’s dicta will prove prophetic, but in the meantime, companies may wish to carefully examine copyright claims that serve non-copyright purposes.

### **Claim Construction and Appellate Review after *Teva***

On January 20, 2015, the Supreme Court issued its decision in *Teva Pharm. USA, Inc. v. Sandoz, Inc.*, 135 S. Ct. 831 (2015) and changed the standard of deference for claim construction. Previously, all claim construction decisions were reviewed *de novo* by the Federal Circuit, whether or not the decision involved any evidentiary underpinnings, such as extrinsic evidence or expert testimony. In *Teva*, the Court held that subsidiary factual findings about extrinsic evidence should be reviewed for clear error on appeal.

The patent in *Teva* covers a multiple sclerosis drug, Copaxone. After Sandoz tried to market a generic version of the drug, Teva sued for patent infringement. Sandoz argued that the patent was invalid because a claim term was indefinite. The claim required the active compound to have “a molecular weight of 5 to 9 kilodaltons.” Sandoz argued that the claim did not meet the definiteness requirement under 35 U.S.C. § 112 because it did not state which of three methods was used to determine the weight of the active compound. The parties each offered expert testimony regarding how one of ordinary skill in the art would understand molecular weights. The district court adopted the testimony of Teva’s expert and found that the claim was not invalid for indefiniteness. On review, the Federal Circuit reversed the district court’s findings and found the patent invalid. The Supreme Court vacated the Federal Circuit’s decision, providing a new standard of review for the Federal Circuit to apply to the district court’s claim construction decisions.

Under the Court’s new standard, review of district court decisions based strictly on intrinsic evidence will remain *de novo*. Only subsidiary factual findings, such as whether to credit one expert’s testimony over another, should be reviewed for clear error. The Court provided a few examples of how to apply the new standard, stating “[i]n some cases, however, the district court will need

to look beyond the patent’s intrinsic evidence and to consult extrinsic evidence in order to understand, for example, the background science or the meaning of a term in the relevant art during the relevant time period.” Where those subsidiary facts are in dispute, the court will have to make “subsidiary factual findings about that extrinsic evidence.” Once the Court has made a factual finding “that, in general, a certain term of art had a particular meaning to a person of ordinary skill in the art at the time of the invention, the district court must then conduct a legal analysis: whether a skilled artisan would ascribe that same meaning to that term in the context of the specific patent claim under review.” On review, the Federal Circuit will examine the district court’s legal analysis *de novo*, but it may only overrule the district court’s factual finding if it is “clearly erroneous.”

The first precedential Federal Circuit opinion addressing claim construction after *Teva* — *In re Papst Licensing Digital Camera Patent Litigation* — involved only review of intrinsic evidence. 113 U.S.P.Q. 2D (BNA) 1533 (2015). The Federal Circuit acknowledged the new *Teva* standard, stating: “In this case, we review the district court’s claim constructions *de novo*, because intrinsic evidence fully determines the proper constructions. *See Teva Pharm. U.S.A. Inc. v. Sandoz, Inc.*, 135 S. Ct. 831, (2015). As we have noted, the district court relied only on the intrinsic record, not on any testimony about skilled artisans’ understandings of claim terms in the relevant field, and neither party challenges that approach.” In that case, the Federal Circuit reversed all of the district court’s constructions under review.

The new *Teva* standard raises practical questions for district courts, litigants, and patent applicants. Some judges discourage expert testimony on claim construction. Will these judges be more amenable to hearing such testimony now that their findings regarding that testimony will be afforded more deference? Will districts that do not generally allow separate *Markman* hearings change their procedures? Will patent applicants provide greater disclosure regarding significant patent claim terms to avoid a “battle of the experts”? Will cases such as *In re Papst* become the exception rather than the norm? It will take several years for the dust to settle and trends to emerge. In the meantime, experts are likely updating their CVs with their *Markman* experience and waiting by the phone.

### ***Hana Financial v. Hana Bank* — The Supreme Court Reaffirms the Power of the Jury to Decide Issues of Commercial Impression in a Trademark Tacking Decision**

In the first substantial trademark case in over a decade, the Supreme Court unanimously decided that a jury can apply the tacking doctrine and decide whether two trademarks, used by a single party, convey the same commercial impression. *Hana Financial, Inc. v. Hana Bank*, 135 S. Ct. 907 (2015).

**What Is Tacking?** Normally, the first party to use a trademark in commerce owns the right to use that mark and stop others from using the mark. This first user is said to have “priority” in the mark over subsequent users. Trademark law also recognizes that trademark owners should be able to make some changes to their marks without having to restart the clock on their priority date. This doctrine is called tacking. With tacking, a party can “tack” the first-use date of its new modified mark back to the first-use date of the original mark. But tacking is not available for any two similar marks. The marks have to be “legal equivalents” that create the same, continuing commercial impression for consumers.

**Why Should a Jury Decide Tacking?** During oral argument, Justice Sotomayor best summarized the issue by asking: “How is the *judge* supposed to know what a *consumer’s* impression would be generally?... Just figure it out?” Similarly, Justice Scalia quipped: “I cannot for the life of me decide why the one [tacking example] should be permitted and the other should not be permitted.... And I’d much rather blame it on the jury than on the court.”

Swimming upstream, *Hana Financial* offered four counterarguments. First, it argued that assessing whether two marks are “legal equivalents” is a question of law and must be decided by a court. The Court rejected this argument since “the application-of-legal-standard-to-fact sort of question... , commonly called a ‘mixed question of law and fact,’ has typically been resolved by juries.” Citing *United States v. Gaudin*, 515 U. S. 506 (1995).

Next, *Hana Financial* argued that tacking determinations would create new law, which could only come from a court. The Court disagreed, finding no reason why a jury’s decision on tacking issues would “‘create new law’ any more than will a jury verdict in a tort case, a contract dispute, or a criminal proceeding.” The Court similarly rejected *Hana Financial’s* argument that allowing a jury to decide tacking would create unpredictability in trademark cases. The Court again found nothing special about trademark cases that were different than other types of cases in which a jury routinely decides factual questions.

No matter who decides the issue, a judge or a jury, there is “some degree of uncertainty, particularly when they have to do with how reasonable persons would behave.”

Finally, the Court rejected Hana Financial’s argument that tacking was historically decided by judges, noting that all of the cases Hana Financial cited were after summary judgment motions or bench trials. The Court did not disagree that a judge *can* decide tacking in those circumstances where there is no factual dispute, but a judge does not *have to* make the determination.

At its core, the Court based its rejection of Hana Financial’s arguments on the underlying ability and importance of the jury. As Justice Sotomayor explained, “we have long recognized across a variety of doctrinal contexts that, when the relevant question is how an ordinary person or community would make an assessment, the jury is generally the decisionmaker that ought to provide the fact-intensive answer.”

**Takeaways.** Standing alone, the Court’s decision in *Hana Financial* is not a dramatic shift in the tacking landscape since many courts already allowed a jury to decide the tacking question. But if you are considering making a change to your mark, you should reach out to your trademark counsel to evaluate whether tacking may apply in your situation.

### **The Importance of Identifying Trade Secrets with Particularity Early in Litigation**

Federal courts hearing trade secret claims have long held that at some point during discovery plaintiffs must identify the misappropriated trade secrets with particularity or risk dismissal on summary judgment. *See, e.g., Imax Corp. v. Cinema Techs., Inc.*, 152 F.3d 1161, (9th Cir. 1998); *IDX Sys. Corp. v. Epic Sys. Corp.*, 285 F.3d 581, (7th Cir. 2002). Motion practice in the federal courts regularly arises about the timing of this identification. Defendants demand disclosure of the trade secrets in sufficient detail at the beginning of the case to narrow the scope of plaintiff’s claims and to reduce discovery expense. Plaintiffs often respond that defendants know this information already and requesting this as simply an excuse to hide documents and delay discovery indefinitely.

Some state courts, including California, require plaintiffs identify trade secrets with “reasonable particularity” before discovery relating to the trade secrets begins. *See, e.g., Cal. Civ. Code* § 2019.210. Although the Federal Rules of Civil Procedure do not expressly require the same, a growing number of federal courts have effectively adopted this rule. Federal district courts in several states,

including California, Arizona, Colorado, Connecticut, Georgia, Michigan, Nevada, North Carolina, Pennsylvania, and Texas, have recently issued orders staying discovery responses by defendants until plaintiffs identify with sufficient specificity the trade secrets at issue. *See United Servs. Auto. Ass’n v. Mitek Sys., Inc.*, 289 F.R.D. 244, (W.D. Tex. 2013) (listing opinions).

In a more recent trend, federal courts have dismissed trade secret claims on summary judgment after a plaintiff was ordered before discovery to disclose their asserted trade secrets with particularity and then failed to comply. For example, in *Jobscience, Inc. v. CVPartners, Inc.*, No. C 13-04519, 2014 U.S. Dist. LEXIS 26371 (N.D. Cal. Feb. 28, 2014), Judge Alsup ordered plaintiffs to file and serve a sealed statement providing a summary of each specific trade secret, the basis for it being a trade secret, and providing “each of the precise claimed trade secrets, numbered, with a list of the specific elements for each, as claims would appear at the end of a patent.” Plaintiff failed to comply with the order, and Judge Alsup summarily dismissed the trade secret misappropriation claims. *Jobscience, Inc. v. CVPartners, Inc.*, 2014 U.S. Dist. LEXIS 64350 (N.D. Cal. May 1, 2014) (“Jobscience promised it could disclose trade secrets, but when it came time to show us the money, its wallet was empty... . This experience has been nothing more than a fishing expedition.”).

Similarly, in *Purchasing Power, LLC v. Bluestem Brands, Inc.*, 22 F. Supp. 3d 1305, (N.D. Ga. 2014), the U.S. district court dismissed trade secret claims on summary judgment after plaintiff had been ordered at the beginning of discovery to identify with particularity the asserted trade secrets. The district court held that plaintiff’s mere assertion of general categories of trade secrets, especially in light of the court’s order months earlier, “preclude[d] Defendant and the Court from evaluating whether a ‘trade secret’ exists and, if so, whether it was misappropriated.”

Given the trend in federal courts of applying state court trade secret disclosure requiring and ordering early and specific identification of the trade secrets underlying a plaintiff’s claim, plaintiffs should prepare detailed descriptions of their asserted trade secrets prior to filing suit and certainly before discovery begins. As part of that exercise, Plaintiffs should also evaluate whether the misappropriated information is, in fact, a trade secret under the statutory definition. Defendants should insist upon a particularized list of trade secrets as soon as they receive notice of the lawsuit and ask the district court to include these conditions and deadlines in the case scheduling order.





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Alan C. Smith	<i>Chair</i>
Douglas N. Cogen	<i>Co-Chair, Mergers &amp; Acquisitions Group</i>
David W. Healy	<i>Co-Chair, Mergers &amp; Acquisitions Group</i>
Robert A. Freedman	<i>Co-Chair, Securities &amp; Corporate Finance Group</i>
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David L. Forst	<i>Chair</i>
Kenneth B. Clark	<i>Chair, Tax Litigation Group</i>

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#### Offices

801 California Street  
Mountain View, CA 94041  
Tel: 650.988.8500

555 California Street, 12th floor  
San Francisco, CA 94104  
Tel: 415.875.2300

1191 Second Avenue, 10th Floor  
Seattle, WA 98101  
Tel: 206.389.4510

36/F, Room 3690, Tower 2  
Shanghai IFC  
8 Century Avenue, Pudong  
Shanghai 200120, China  
Tel: +86 21 6062 6104

[www.fenwick.com](http://www.fenwick.com)

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