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Is Trade Secret Definition an Active Litigation Matter?

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“SIR, PLEASE SIR! put down the trade secret, take two steps back and put your hands where I can see them.” Cue the Dragnet music and, in your best Sergeant Friday voice, repeat after me : “You have the right to remain silent. Anything you say can and will be used against you in a court of law, you have the right to an attorney . . . ”

WAIT WAIT WAIT, you say – I’m just an IP lawyer, no one said anything about guns; people going to jail; or, whether we as attorneys need to be concerned about a witness’s or party’s Fifth Amendment right against self incrimination or Sixth Amendment right to counsel.

I feel your pain. On a Friday afternoon twenty - four years ago, I left my position as an associate with an IP boutique firm in New York. The following Monday, I began my stint as a federal prosecutor. By 10:00 am I was in federal court handling a VOP (which I later learned stood for “violation of probation ”). By the time the hearing was over – one in which I was merely a nonparticipating bystander – the defendant, who had walked in a free man, was being led out of the court in shackles. I stood there thinking, “wait a second – I’m just some patent lawyer looking for trial experience – no one said anything about people going to jail.” Ironically, over the years, I investigated and tried countless cases, all of which involved jail – including in some cases, mandatory life in prison.

In today’s civil trade secret practice, we are all faced with that very same paradox. In 1996, Congress passed the Economic Espionage Act of 1996. In addition to establishing criminal violations relating to economic espionage (18 U.S.C. §1831), the Act provided for criminal penalties of up to ten years imprisonment (18 U.S.C. § 1832(b)- Class D Felony) upon conviction for theft of trade secrets. See, 18 U.S.C. § 1832. And, if that wasn’t enough, in 2012, Congress passed the Foreign and Economic Espionage Penalty Enhancement Act of 2012. (H.R. 6029).The Penalty Enhancement Act increased the fine provisions for an individual from $500,000 to $5,000,000 and the potential corporate fines were raised from $5,000,000 to $10,000,000 or “three times the value of the stolen trade secret to the organization, including expenses for research and design and other costs of reproducing the trade secret that the organization has thereby avoided."

Pursuant to Title 28, United States Code, Section 994(p), the Penalty Enhancement Act specifically instructed the United States Sentencing Commission to “review and, if appropriate, amend the Federal sentencing guidelines and policy statement [to] . . . . reflect the seriousness of these offenses, account for the potential and actual harm caused by these offenses, and provide adequate deterrence against such offenses.” Given the express decree from Congress, it should come as no surprise that the United States Department of Justice (“DOJ”) has been serious in its efforts to investigate and prosecute federal criminal trade secret violations.

Even before Congress passed the Penalty Enhancement Act, the DOJ had ramped up its ability to investigate and prosecute trade secret cases. In June 2010, the DOJ announced the appointment of fifteen new Assistant United States Attorney (“AUSA”) positions and twenty new Federal Bureau of Investigation (“FBI”) agents dedicated to “combating domestic and international intellectual property crimes.” In the same press release, the DOJ announced that it would be awarding up to four million dollars to fund state, local and tribal criminal investigations.

One need look no further than the mainstream press to see the results of those efforts. On April 24, 2013, a federal jury sitting

in San Francisco found David Nosal, formerly of Korn/Ferry, guilty of violating federal criminal trade secret laws. Although he has yet to be sentenced, Mr.Nosal faces up to ten years in prison on the trade secret count; a maximum $250,000 fine under the alternate fine provisions of Title 18; a $100 special assessment; and, at least three years of supervised release.

On June 27, 2013, the DOJ announced that federal criminal charges had been filed in the U.S. District Court for the Western District of Wisconsin against Sinovel Wind Group (USA) Co., Zhao Haichun, Sue Liying and Dejan Karabasevic regarding wind turbine technology. If convicted, the individuals face up to 20 on each count charged up to twice the alleged loss of $800 million.

On September 5, 2013, Judge Jorge A. Solis, a federal district court judge in Dallas, sentenced Michael Musacchio to 63 months in prison for violations of federal criminal trade secret laws. And, to the extent that you're thinking that he will be out in a few months on parole–think again. Parole was abolished in the federal system over twenty years ago. So, other than a possible two months off per year for "good time," Mr. Musacchio will likely serve most, if not all, of his 63 month sentence. Oh, and by the way, with a 63 month sentence, the Bureau of Prisons will most likely designate Mr. Musacchio to a facility in which you really wouldn't want to spend the evening.

As these stories reveal, conviction on federal trade secret charges carries with it the real possibility of substantial jail time. Although the Federal Sentencing Guidelines are readily familiar to criminal practitioners, they are somewhat foreign to many intellectual property attorneys. The Guidelines assign a numeric value to both the offense of conviction (Offense Level) and the defendant's prior criminal conduct referred to as the Criminal History Category. These numbers are then plugged into the Sentencing Table which yields a suggested monthly sentence.

In order to determine the Offense Level, you look to the applicable section of the Federal Sentencing Guidelines categorized by statute. Although there is a lot more to it, it suffices to note that the relevant Federal Sentencing Guideline provisions applicable to a conviction for theft of trade secrets (18 U.S.C. § 1831) is Section 2B1.1, which provides for a Base Offense Level of 6 and the criteria for determining the Adjusted Offense Level set forth in Section (b). In a theft of trade secret prosecution, the primary offense characteristic is the amount of the loss. Based upon the language set forth in H.R.6029, there is a real possibility that the DOJ will base the "loss" calculations set forth in§2B1.1.(b) upon the expenses for research and design underlying the specific trade secret at issue. As evidence of the seriousness of all this, if the "loss" is $1,000,000 and the defendant has no prior criminal history, then the recommended prison time set forth in the Guidelines' Sentencing Table is 41-51 months. If the value of the loss is greater than $20 million, then the resulting recommended sentence is 78-97 months. Obviously, the government as to prove the amount of the loss. Going back to the case filed in June 2013 against Sinovel noted above–the government has alleged that the loss is in excess of $800 million. If convicted, under the Guidelines, those defendants would be facing a recommended jail term of 188-235 months. For those of us who have long forgotten our 12-times tables, that is a sentence potentially in excess of 19 years.

So, how does all of this affect the handling of a civil theft of trade secret claim? The bottom line is that in addition to dealing with all of the issues that arise in a "garden variety" IP litigation, practitioners need to be cognizant of how the serious and real threat of possible criminal prosecution affects both the parties and the witnesses. For example, and by no means limiting, we need to understand that a former employee of the trade secret holder–whether they be a witness or a party–has a Fifth Amendment right not to incriminate themselves and a Sixth Amendment right to independent counsel, to name but a few.

On the other side of the equation, if you're representing the trade secret holder, you may need to consider referral of the matter to the U.S. Attorneys Office for possible investigation and criminal prosecution. However, you must always be mindful of the fine line between zealous advocacy and many states' prohibition against the use of the threat of criminal prosecution to obtain an advantage in a civil litigation. In addition, because of the secrecy requirements underlying any grand jury investigation, once the case is turned over to the feds, you'll have no idea of what's going on until an indictment is returned. You also run the risk of losing control over the pace and prosecution of your civil case as the targets seek to deal with the federal authorities.

Regardless of your role in any litigation, for the foreseeable future, trade secret criminal prosecution is here to stay and we need to conduct ourselves and represent our clients accordingly.