

Jordan Grotzinger:

Welcome to the trade secret law evolution podcast, where we give you comprehensive summaries and takeaways on the latest developments and trends in trade secret law. We want you to stay current and ahead of the curve when it comes to protecting your company's most valuable assets. I'm your host Jordan Grotzinger

Jordan Grotzinger:

Hi everybody. We are on episode 29 of the trade secret law evolution podcast. And I have with me finally, a cohost after several months, my partner, Todd Pickles in our Sacramento office, and we are going to discuss something we haven't addressed on this podcast before, which is unique because there are so many recurring subjects we're going to discuss the criminal enforcement of trade secret misappropriation, Todd. Hi, and how are you?

Todd Pickles:

I'm doing great. How are you doing Jordan?

Jordan Grotzinger:

I am fine. As we just talked about, you know, the challenge is just to, uh, maintain some level of background silence, which will be, uh, difficult, but we'll do our best. So why don't we jump right in. And, and why don't you tell us about the statutes that govern criminal prosecution of trade secrets, trade secrets, of course,

Todd Pickles:

Right. There's a, there's two main statutes that, uh, are involved when it comes to federal criminal prosecution or enforcement of trade secret theft. One is just theft of trade secrets. And the other is economic espionage. Both are criminal statutes. They're filed under title 18, which is where the criminal laws fondant or federal law both involve pretty similar concepts when it comes to civil trade, secret enforcement and misappropriation. For example, the government would need to prove that the trade secret owner had taken reasonable measures to keep the information secret or that a claimed trade secret as some economic value that was derived from the fact that it wasn't publicly known or couldn't be readily ascertainable by proper means. So a lot of that's going to be similar where the government, uh, kind of becomes more unique with respect to criminal prosecutions. The government's going to need to prove some intentional conduct by the defendant.

Todd Pickles:

For example, the government has to prove that the defendant intended, uh, to misappropriate or take without authorization the trade secrets and that, uh, the defendant knew what they were taking was in fact confidential with respect to the trade secret theft statute there, the government's going, gonna have to prove a couple of additional things. Uh, for example, the government has to prove that the defendant intended to obtain an economic value for someone other than the owner, and that doesn't have to be the defendant him or herself. It could be someone beyond the defendant, uh, and that the owner was going to be, and then to make it bedroll, the government's gonna have to prove that there was, uh, some aspect of Bourne or interstate, uh, commercial activity to make it, uh, to make it a federal trial.

Jordan Grotzinger:

Yeah. So before we get into, uh, economic espionage, it sounds like as you said, the, what a trade secret means for purposes of these criminal statutes really is borrowed from the civil definitions. You know, something that's actually secret valuable because it's secret and subject to reasonable efforts to maintain secrecy. And in terms of the government's, uh, additional showings that you mentioned, we've always talked about civil trade secret prosecution, where the preponderance of the evidence is the evidentiary burden and for the non-lawyers out there, uh, that means to win your trade secret case and a civil matter. Essentially you have to prove that you're probably right, the preponderance of the evidence means greater than 50%. That you're correct in these statutes. I assume we're talking about the criminal standard right. Beyond a reasonable doubt.

Todd Pickles:

That's exactly right. The government is going to have to prove each of these elements as they're called beyond a reasonable doubt. And in a federal jury system, it has to be a unanimous 12 person verdict. So it's a pretty substantial burden on the government as we'll talk about it a little bit later, uh, the government hasn't always met that burden when it comes to some of these trade secret prosecutions.

Jordan Grotzinger:

And I bet, you know, I, I, I bet the government's got to do a lot more because of that significantly higher burden. The government's got to do a lot more homework. I would assume upfront to get itself comfortable that the assets, that issue actually are trade secrets and that the bad actors, uh, in fact, acted with the intent, um, you're talking about because in the civil cases, I see, and as you know, frequently at the beginning of these cases, you're kind of in this fog where you have a defendant to, you know, in the middle of the night downloaded thousands of files, and you may have to get relief immediately. Of course, logistically you can't, you can't determine every single file, uh, that was, that was stolen or whether it, uh, met trade secret status, but with the preponderance standard or, or the injunction standard of likelihood of success, you're frequently still able to run to court without doing all of that homework. If you've got enough circumstantial evidence to show that trade secrets were probably taken here, it's sent with that reasonable doubt burden. Uh, you don't have that luxury if you're the government, I would assume.

Todd Pickles:

Yeah, that's right. A lot of times, unlike a civil context where maybe the, you filed a complaint and then you really start doing the investigation, uh, in the criminal context, it's very much the opposite, which is why oftentimes these criminal investigations can take months, if not longer, before charges are filed, that said, I will caution, uh, that the government continues to investigate after charges are filed. And so it's not so, uh, kind of unusual that the government may amend the charges as the case case proceeds.

Jordan Grotzinger:

That's interesting and very different than your typical civil case. So you started to talk about the economic espionage act. Yeah. So

Todd Pickles:

That's the other kind of main federal statute that is employed when it comes to trade secret theft. And there, the government's going to rely upon a lot of the same, or has to prove a lot of the same elements

for domestic trade secret theft. But in addition, that government is going to have to prove that the defendant, uh, intended or the, through the theft intended to aid to foreign government of foreign instrumentality or a foreign agent. And the reason, uh, it's broadly defined in that, uh, statute is because it can actually include foreign corporations provided there's some evidence that those foreign crop corporations or owned controlled operated by a foreign government. And so really obviously the economic espionage act is, is truly aimed at the foreign instrumentality, whether it be the government or perhaps a state owned or affiliated county.

Jordan Grotzinger:

So, so hence that broad definition. So it, it it's, it's broader than foreign government and includes instrumentality and agent. But what you're saying is essentially the bad actors have to be somehow related to a government entity.

Todd Pickles:

Exactly. Uh, and, and there, and the, the courts have indicated that the benefit that can be provided to the foreign government or foreign company can include not just economic benefit, but strategic benefits as well. Uh, so it, the statute is broadly has been broadly interpreted to cover a lot of different conduct.

Jordan Grotzinger:

And I understand economic espionage can include trade secrets theft to benefit a private company. If, and I think I'm quoting from the statute here, if it's substantially owned, controlled, sponsored, commanded, managed, or dominated by a foreign government close quote. So that that's the connection that must be established.

Todd Pickles:

Exactly. And the government would have to prove, uh, these same elements by the beyond a reasonable doubt standard. But if they can do that, then they can tag, uh, even a theft that would involve a theoretically private company.

Jordan Grotzinger:

And are the defenses, uh, similar in, in these cases to civil cases?

Todd Pickles:

Yes. A lot of the same defenses that you'd see in a civil great secret misappropriation case are going to apply in the criminal context. For example, a defendant can argue that, you know, that their development was the, of, of parallel work. There's no winners monopoly. The first that gets the trade secret can exclude all others or, uh, that the, you know, their own, uh, whatever they developed was the result of reverse engineering provided. It was legitimately done that the defendant can't stand and say, well, I could have reverse engineered it, how they wanted to, that's not going to be a defense, but otherwise the, a lot of the defenses you see, uh, in the trade secret context, when it comes to the merits, apply to the criminal context as

Jordan Grotzinger:

Well. Right? So a lot of substantive over overlap, but, um, uh, the burdens are different. And of course with the espionage act, the, uh, universe of defendants is narrower. So the FBI is the agency with

investigative responsibility for trade secret theft and espionage. Although the us custom service might be involved if there's importation of goods related to trade secret theft as well. Right.

Todd Pickles:

That's right. Both of those agencies are the ones that are designated under the federal, uh, the operative federal regulations as the investigative agencies involved. Typically it's going to be the FBI. Uh, that's going to be the ones out there doing the investigation, but accustomed through DHS can be involved in under circumstances, certain circumstances.

Jordan Grotzinger:

So, oh, in civil cases, uh, when you're a defendant facing a trade secret misappropriation claim, uh, your exposure is to remedies like damages, uh, restitution or unjust enrichment, uh, attorney's fees. If the, uh, misappropriation was willful and also potentially double damages, if the misappropriation was willful and of course, injunctive relief, uh, as we've talked about a lot, what are the risks for criminal defendants in trade secret cases?

Todd Pickles:

Sure. So when it comes to individual defendants, uh, you're gonna have some of the same economic, uh, consequences, for example, restitution and fines. Although those are set by statute and go up and up into the millions, the bigger hammer of course, is the potential to lose your Liberty and, uh, be sent to prison. And they're the, the, uh, statutory maximums are pretty substantial. For example, under theft of trade secrets, you can be in prison for up to 10 years. And when it comes economic espionage, it could be 15 years of imprisonment as the maximum penalty. Now, obviously each state, I mean, each, uh, H case is going to be, uh, kind of defined by its own facts and circumstances, but those are the, the maximum terms of imprisonment as we'll talk about. Uh, there have been some significant sentences that have been doled out in some of these cases we've been seeing over the last few years.

Jordan Grotzinger:

Other criminal statutes, uh, might be at play when you're talking about secret theft, uh, like fraud and computer hacking, uh, obstruction relating to the investigation, et cetera. So, uh, you know, th this kind of bad conduct is not only circumscribed by these two trade seek related, related statutes.

Todd Pickles:

That's exactly right. Uh, the, the federal playbook is pretty broad when it comes to, uh, trade secret investigations. Uh, oftentimes, uh, there may be a fraud element to the, to the conduct or, uh, could be a result of hacking. And so there are other statutes that can apply to that. And then, uh, obstruction is oftentimes at play. In fact, there was very recently, uh, uh, citizen of China who was charged and arrested and charged in Southern California with respect to, uh, trying to destroy evidence as part of a ongoing FBI investigation about trade secret theft from a university down there. So that, that piece of it is always there, you know, that the cover up sometimes can be the crime. Uh, so that's, you know, always, always on the government's radar when it comes to any type of investigation, particularly Tracy grits.

Jordan Grotzinger:

That makes sense. Let's talk about, uh, have there been recent trends in trade, secret enforcement in the criminal space, and if so, can you talk about that a little bit?

Todd Pickles:

Yeah. There have been, uh, both kind of nationally and, and more locally here in California, but the national level, the most recent guidance that the department of justice has provided to prosecutors, uh, notes, kind of the historical idea that prosecutors shouldn't be prosecuting or charging every great secret investigation that walks in the door that oftentimes the civil remedies are going to be sufficient. But, uh, and this is kind of an important thought. The department is now telling federal prosecutors that when it comes to intellectual property and particularly trade secrets, those are vital to kind of the economic wellbeing and to the national security, and they need to be taking that into consideration. And there's also been a recognition by the department that historically there have been an enforcement gap when it came to federal trade secret prosecutions, and that the, the department should be trying to narrow, narrow that gap. And one area in particular, that's been, uh, a focus recently under the, certainly the current administration has to do with trade secrets involving, uh, China or Chinese, uh, affiliated companies as part of what's been called the China initiative.

Jordan Grotzinger:

And let's talk about the China initiative, but, but first, when, when you, um, say, uh, uh, when you mentioned this federal enforcement gap, what do you mean exactly? Do you mean, uh, they're not prosecuting enough,

Todd Pickles:

Both that, and the idea that maybe in the past, they had left it to either state or a civil process to kind of remedy, uh, the, these issues. And so really it's a recognition that because trade secrets are vital and at least in the government's perspective to economic security and national security that the federal prosecutors need to step up enforcement to make sure there is, uh, this, this priority is being recognized, uh, both across the, across the department, as well as, uh, at main justice.

Jordan Grotzinger:

So what's the China initiative.

Todd Pickles:

So this is, uh, uh, a current initiative out of the department of justice announced in November of 2018, and it's the official department of justice policy. And it was to quote, I identify prior probably identify and prioritize Chinese trade secret theft cases and share that we have enough resources dedicated to them and make sure that we bring them to an appropriate conclusion quickly and effectively. So essentially what the, what the guidance is going out to all of the local us attorney's offices, as well as the different contingents within, uh, the department of justice is to make trade secret theft involving China, a priority, and to devote resources to them and to get these cases charged, uh, not to have them kind of language where maybe in the past that had, that occurred with some other trade secret theft investigations,

Jordan Grotzinger:

Uh, a significant number of prosecution since the announcement of this initiative in 2018,

Todd Pickles:

There have been, the department keeps statistics and has shown a number of defendants, uh, you know, several dozen charged across the United States. And it's, it's not a particular area that's affected. Uh, we've seen certainly on the west coast, the number of cases that have been brought, but also in the east coast, including, uh, in Brooklyn and then places in between Ohio and even, even Oklahoma of all places has seen, uh, trade secret theft or economic espionage charges brought as a result of the China initiative.

Jordan Grotzinger:

I understand an example of a recent successful prosecution under this initiative was the, was a verdict in June of this year against a Chinese citizen who was found guilty of economic espionage and theft of trade secrets in the Northern district of California after a bench trial. You want to talk about that case?

Todd Pickles:

Yeah, that's right. So there was a case that was brought, uh, it was originally charged back in, uh, 2018, but was brought to trial in 2020, uh, here in the Northern district or in the Northern district of California, which has included Silicon valley, the government in that case, alleged that from 2010 to 2015, uh, the defendant conspired to steal trade secrets from two companies, uh, both were in the semiconductor field. One was headquartered in San Jose, California, but had, uh, an affiliate office in Singapore and another, uh, another company that was headquartered in Massachusetts in that case, the government was able to prove that in fact, there was purposeful misappropriation misappropriation of trade secrets from those companies. And also that the defendant had helped, uh, intended is steal the trade secrets for the benefit of the people's Republic of China. So the defendant was found guilty after a bench trial, so it wasn't a jury, but still the government had to prove those elements beyond a reasonable doubt. The judge found the government had proven those. And, uh, as recently as September of this year, that defendant was sentenced to 18 months of imprisonment. And in order to pay restitution and fines totaling almost \$500,000,

Jordan Grotzinger:

Definitely a sharper teeth, um, in terms of remedies for those kinds of cases than civil cases. And I see that, uh, there's been several other prosecutions under the China initiative, several American tech and biotech and healthcare companies for the benefit the, where the alleged theft was for the benefit of the people's Republic of China or, or affiliated companies.

Todd Pickles:

That's right. And, and these, uh, have continued up through, uh, the most recent statistics are September of this year, Joe, you know, the prosecution's continuing, uh, under this initiative. And, uh, I do want to note, however, although the China initiative is, uh, kind of the most recent iteration of the department of justice policy, there has been a history of, of prosecuting a trade secret theft and economic espionage cases and involving the people's Republic of China before the initiative, including back to the, to the prior administration, which suggests at least potentially that even if there's going to be a change of administration this year, that the focus on trade secret theft and economic espionage, when it comes to China or Chinese affiliated companies may not change all that significantly.

Jordan Grotzinger:

As we've talked about, uh, these, these criminal issues, I've wondered, you know, how the government comes across, uh, the evidence to start building a case to do, do, uh, the putative civil plaintiffs, uh, call the FBI and, and make complaints, um, you know, how do they, how are they initially notified about this? And it also reminds me of many first calls with trade secret plaintiff clients, where, you know, they're asking me things like, what do we do? Do we, do we call the police too? You know, because companies don't know, um, whether, you know, how to enforce this, if it's civil court or criminal. And also we've got as lawyers, uh, ethical obligations, not to threaten criminal prosecution or criminal consequences, uh, to get leverage in a civil case. So how does, how do civil proceedings play into, uh, criminal prosecutions of trade secrets? If at all, in other words, are we seeing the government take note of, uh, civil cases and do something about them?

Todd Pickles:

We are in fact, uh, that's kind of been very prevalent here in California. Uh, two kind of high profile cases that were brought again by the Northern district of California, us attorney's office. Uh, both in, in the current us attorney for the Northern district has indicated that, uh, trade secret prosecutions are going to be a priority, uh, in order to quote, uh, protect the crown jewels of the business assets of Silicon valley, where the Northern district is located. And so, uh, there've been two situations where you had, uh, DOJ prosecution that followed from civil proceedings, where there had been an allegation of trade secret misappropriation. Uh, one of those cases was brought in 2018 by prosecutors out of San Francisco there, uh, the allegation was that some former employees of a fitness accessory company at misappropriated, some trade secrets from their prior employer, there've been civil litigation.

Todd Pickles:

In that case before the criminal indictment was, was, um, returned that case actually ultimately settled. Uh, but nonetheless, the government then pursued the criminal charges after the settlement of that civil case. Ultimately, that was not as successful prosecution by the government. The case went to trial earlier this year against one of those former employees. The defendant in the case argued that one, there was no misappropriation. The fact that some of the information from the former employer was found on the defendant's computer was the result of just an automatic archiving of that information. And also that the information that was on the defendant's computer wasn't in fact, a trade secret, the jury agreed whether the defendant was actually acquitted, uh, in that case. And afterwards, the government decided to dismiss the charges against the remaining defendants from that are remaining former employers from that company employees from that company.

Jordan Grotzinger:

And, and that of course is illustrative of that high criminal burden. We were talking about, this is not, we're not in civil world where, uh, we get a call and our evidence is that, uh, a former employee downloaded a bunch of files and they're probably trade secrets. And we got to run into court and get an order, um, very fast and without analyzing everything in the file, in a criminal case. Um, and particularly if you go to trial and you really got, uh, connect the dots and, and prove not only that these assets were trade secrets, but that the defendant had the requisite intent and actually committed criminal misappropriation.

Todd Pickles:

Exactly. Uh, and certainly this was not a, you know, good and a positive result from the government's perspective. Although I should caution that, uh, the government has had some, uh, positive success in,

in these kinds of follow along criminal prosecutions. Uh, the government, uh, had brought, uh, brought a case against a former, uh, an engineer who formerly worked for a technology company alleging that that engineer misappropriated some autonomous driving technology that was brought to the new employer as with the, that fitness company. I mentioned there had been civil litigation and allegations of misappropriation, the case settled. And after the case settled, the government indicted the engineer in that case, uh, the government was successful. The engineer pleaded guilty to trade secret theft, uh, earlier this year in March. And then, uh, this past August, the defendant was sentenced in that case to 18 months in order to pay at both restitution fines, totaling over \$850,000. So both a significant criminal sentence, as well as they a significant penalty for someone who otherwise, uh, kind of had no prior criminal, uh, criminal exposure

Jordan Grotzinger:

As we discussed. If you're, if you're a trade secret defendant in a civil case, your exposure is it can be significant, but it's limited to civil remedies and junction damages, attorney's fees, double damages, all potentially really serious stuff. Talking about these successful prosecutions that stemmed from civil cases, defendants, uh, or putative, uh, trade secret defendants should keep in mind that while the civil remedies are what they are, it is possible, uh, depending on what you've done and what you've taken that the government could take note and you're, and you're facing much more serious exposure than civil remedies.

Todd Pickles:

That's exactly right. I think that, uh, you know, the fact of the matter is then these cases illustrate, you may think you're out of the woods because the civil case has gone away, but that doesn't mean the government, uh, necessarily is going to agree. And you might find yourself facing very significant criminal exposure. And certainly the loss of Liberty, uh, is the most significant, uh, aspect of that.

Jordan Grotzinger:

Yeah, it reminds me of a, uh, a lawyer comedy, which I won't name where, uh, the lawyer gets on the phone with the client and his advice is stop breaking the law. So putative defendants should take notes. So, uh, Todd you've listened to the podcast. And so, you know that at the end of each episode, we give our listeners hard takeaways, um, to, uh, to remember, and that hopefully will be useful. What's our first takeaway today.

Todd Pickles:

I think it's that the department of justice is very active when it comes to trade secret theft prosecutions involving potential ties to the people's Republic of China. And that would include Chinese owned or affiliated companies. And it's not all that certainly, uh, from my perspective that things are going to change much, even if there is, uh, a change in administration later this year. I think this is definitely an area where the department is going to remain active for, for some amount of time.

Jordan Grotzinger:

The second takeaway concerns, purely domestic trade secret theft. And that is, we were essentially going to have to wait and see if, if the recent activity by the justice department, particularly in the Northern district of California, which is where Silicon valley is located, is, uh, is a blip or a, or a longer trend, uh, especially given the mixed results. You just discussed



Todd Pickles:

That that's right. Uh, and I think a third takeaway kind of building on that is that overall the department of justice is indicating as much more willing to pursue criminal prosecutions of trade secrets theft, where before prosecutors might've just left it to the civil cases or the civil proceedings to provide a remedy.

Jordan Grotzinger:

And the fourth and final takeaway is, is what we just discussed, which is, um, both plaintiffs and defendants in civil trade secret cases should consider, uh, potential criminal enforcement because, uh, civil cases can lead to government prosecution where the risks are much higher.

Todd Pickles:

That's exactly right.

Jordan Grotzinger:

All right. So, uh, we're about half an hour in just like we thought, Todd, you really good at this? Um, you should start a podcast. I think

Todd Pickles:

I appreciate the vote of confidence. Yeah, let's

Jordan Grotzinger:

Do this. This was really interesting. Um, I'm glad that we finally got to the subject of, of criminal enforcement in this space. And this was a really, this was one of my favorite episodes. This was really interesting. I learned a lot. I hope that the audience does too. Thank you very much for being on and, uh, let's please do it. Yeah.

Todd Pickles:

I definitely would love to. All right,

Jordan Grotzinger:

Thanks everybody until next time.

Jordan Grotzinger:

Okay. That's a wrap. Thanks for joining us on this episode of the trade secret law evolution podcast as the law evolves, so will this podcast, so we value your feedback, let us know how we can be more helpful to you. Send us your questions and comments. You can reach me by email at [GROTZINGERJ@gtlaw.com](mailto:GROTZINGERJ@gtlaw.com) or on LinkedIn. And if you like, what you hear, please spread the word and feel free to review us. Also, please subscribe. We're on apple podcasts, Stitcher, Spotify, and other platforms. Thanks everybody. Until next time,

Speaker 4:

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