

## **Trade secret theft: approach US prosecutors with caution**

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When White & Case partner Mike Songer meets company executives who suspect their proprietary information has been stolen, he always opens with the same question: “Do you want to call the FBI?”

Companies that fall victim to trade secret theft are immediately placed at a crossroads, and Songer’s question presents a thorny problem they must grapple with: whether alerting the authorities will harm or help efforts to protect the stolen information.

US prosecutors are eager to receive tip offs about economic espionage, particularly when it appears linked to the Chinese government or other foreign state actors. Officials from the Justice Department’s National Security Division have even made public pleas to the corporate world for cooperation.

“We [the DOJ] believe it is in your interest and the interest of your clients to work with us collaboratively in this effort,” David Burns, the principal deputy assistant attorney general of the National Security Division, told a room of investigations lawyers at GIR Live DC in May to highlight the role the private sector can play in combatting the threat from China.

US lawyers say federal prosecutors sharpened their focus on protecting intellectual property after the enactment of the Defend Trade Secret Theft Act in 2016. The Justice Department’s recently released China Initiative added further resources to targeting trade secret cases but also invited criticism about its potential to politicise the enforcement of US laws.

Announced by then-US Attorney General Jeff Sessions in November 2018, the initiative explicitly states that clamping down on Chinese economic espionage is a Justice Department priority. Burns said its publication caused a “shift” in companies’ willingness to disclose crimes to the agency.

Generally, lawyers say approaching US authorities with a case is a gamble. It can cause lengthy delays to a company’s attempt to seize stolen information or obtain financial compensation, if prosecutors decline to look into the matter. On the flip side, a sophisticated attack by a state actor may leave companies with few options other than to rely on the US government.

With US authorities more eager than ever to work with the private sector to protect American intellectual property, GIR spoke to lawyers about the considerations to make before calling them in.

“You lose all control”

At the centre of the complicated evaluation of whether to notify the authorities are the diverging goals of prosecutors and companies. While prosecutors may have recently preached that they can help a company mitigate its losses, lawyers still have reservations about their motives.

"Their [authorities'] priority is going to be the prosecution, not necessarily the integrity of the trade secret," said Benjamin Fink at Berman Fink Van Horn in Atlanta.

There is a commonly held belief within the US legal community that alerting the government puts a trade secret at risk of no longer being one. The involvement of prosecutors can leave lawyers impotent to keep their client's proprietary information from the public.

"You lose all control," Barak Cohen at Perkins Coie in Washington, DC told GIR. "You just hope to retain some influence," he added, referring to informal negotiations between defence lawyers and prosecutors to keep proprietary information under wraps.

A company's worst nightmare is a criminal prosecution that reveals the proprietary information to competitors. In civil litigation, the parties will fight to keep documents pertaining to a trade secret filed under seal or even have private hearings. While lawyers say prosecutors are amenable to attempts to protect a company's secret, they're far less dogged in their efforts.

"In a civil case you can sue somebody and put the protection in place that your trade secret will not be disclosed publicly, whereas in a criminal trial you don't have any say" over whether the proprietary information is made public, Fink said.

A criminal case will almost always trump any civil litigation that a company has on the boil, lawyers said. US courts are likely to stay a company's attempt to sue the alleged thief for financial damages or to return the information until prosecutors are finished with their case.

Bringing in the government could also put a ceiling on any potential blockbuster civil settlement that companies could negotiate. "Your ability to get a big settlement is potentially compromised," said Jeff Pade at Paul Hastings in Washington, DC. "All of a sudden you're splitting the pot of money with the DOJ. If they weren't involved, you'd get all of it," he added.

"Inviting a vampire in"

Solving the most elaborate trade secret theft cases may require the might of US prosecutors' investigative power, including wiretaps, grand jury subpoenas and search warrants.

"I'm never going to get a court in a civil case to authorise those things, so you can find out more," said Mark Klapow at Crowell & Moring in Washington, DC. "In sophisticated cases, where the perpetrator knows enough to hide their tracks, it can be helpful to use the broader investigative tools available to the DOJ and FBI," he added.

Bringing in prosecutors can reduce the investigative burden on a company in its attempts to track down the thief. "One advantage is that they [prosecutors] can do the work for you – it can result in a cost saving," said Fink.

The presence of law enforcement can also raise the stakes of the case, according to Fink. "The gravity of a potential conviction is also something that will get the attention of a perpetrator more than an angry letter from a law firm," he said.

However, other lawyers warned that the potential financial benefit of abdicating investigative responsibility to US authorities is offset by the cost of having to respond to enquiries from prosecutors as they dig into the matter.

Companies that alert authorities to trade secret theft must also consider the prosecutorial scrutiny they're bringing upon themselves. "It's a bit like inviting a vampire in, when you ask the government to investigate, you're also giving them access to your business," Cohen said.

### Saving face

Losing a precious piece of information can cause significant damage to the reputation of a company among shareholders and customers alike, and could result in costly lawsuits. Lawyers say that tipping off the authorities is a clear way to indicate to the market that a breach of systems is being dealt with.

"It sends a message that you're a corporation that takes intellectual property rights seriously and also warns former employees and shareholders that you're not going to take this behaviour lying down," Klapow said.

### Getting prosecutors' attention

Not every instance of trade secret theft will pique prosecutors' interest, however. While there is no official guidance on what kind of cases will interest the US authorities, lawyers say that at the moment it isn't hard to guess.

"A foreign entity or a state-sponsored actor, specifically China, is more likely to get attention than anything else," Klapow said.

Companies based near epicentres of American industry are also more likely to find a sympathetic US attorney's office to hear their case. "If you're in a jurisdiction where the US attorney has made it clear they're interested – such as in San Francisco, Chicago, New York or Houston – it is more likely to get taken up," Klapow said.

However, enthusiastic US prosecutors have several other sources of information – they can be tipped off by press reports or scour court dockets – that could lead them to potential cases. And, with the trade secret theft crackdown high up on the US government's agenda, lawyers concede that it may ultimately be difficult to keep prosecutors at bay. Court dockets show little success for drugmakers in blocking direct purchasers from obtaining class certification in pay-for-delay cases. So defence counsel had particular reason to celebrate this week when a judge rejected class status for the pharmaceutical wholesalers seeking damages from reverse-payment settlements for Androgel.