DORSEY
DORSEY & WHITNEY LLP

WHITE COLLAR CRIME AND CIVIL FRAUD UPDATE

A PUBLICATION OF THE WHITE COLLAR CRIME AND CIVIL FRAUD PRACTICE GROUP OF DORSEY & WHITNEY LLP

This Update is part of a series which will be published three times per year (Spring, Summer and Fall). If you have comments, questions or suggestions for future topics, please contact Ed Magarian at magarian.edward@dorsey.com or (612) 340-7873.

This issue focuses on the Economic Espionage Act (EEA), yet another tool in a prosecutor's arsenal. The EEA allows prosecutors to target companies who find themselves in possession of trade secrets belonging to a competitor. Because federal authorities have become more interested in prosecuting alleged violations of the EEA, understanding the EEA, and how it can be a double-edged sword, has become important for any company interested in avoiding criminal exposure for a violation of the Act.

The Economic Espionage Act:
The Double-edged Sword

By Nick Akerman, Dorsey & Whitney LLP
Previously published in the *National Law Journal*

For corporate America, the Economic Espionage Act is a double-edge sword. It can be used to protect a company's valuable intellectual property by prosecuting dishonest competitors who steal a company's trade secrets, but it can also be used against a company that finds itself with trade secrets belonging to a competitor.

Congress enacted the Economic Espionage Act in 1996 making it a federal crime to steal trade secrets. 18, U.S.C. § 1831 seq. The definition of trade secrets in the statute mirrors the broad definition in state trade secret laws to include "all forms and types of financial, business, scientific, technical, economic, or engineering information" that "derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, the public." 18 U.S.C. ¶ 1839(3). The maximum penalty for violating the Economic Espionage Act is 15 years in prison, a $500,000 fine and a maximum corporate fine of $10 million.

United States v. Lange, 312 F.3d 263 (7th Cir. 2002) is a classic example of using the statute to protect a victim company. There, RAPCO, a manufacturer of aircraft parts, learned that Lange, a disgruntled former employee, had been offering to sell its secret manufacturing processes to third parties. RAPCO reported Lange to the FBI, and the FBI arrested him in a "sting operation" in which Lange negotiated with an undercover FBI Agent for a data copy of RAPCO's manufacturing processes. Lange was convicted and sentenced to 30 months in prison.

Legal Updates – On Your Desktop

If you received this issue of the White Collar Crime and Civil Fraud Update by mail and would prefer to receive future issues electronically via e-mail, please send an e-mail to Sheri Linden at linden.sheri@dorsey.com.

Please write "WCC Newsletter" in the subject line. In the body of the email, please include your name and company affiliation, if any.

If you have colleagues who you believe would benefit from these Updates, please pass this publication along to them and encourage them to sign up for electronic distribution.

A company, however, can expose itself to potential criminal liability under the Economic Espionage Act when it hires an employee from a competitor for the purpose of gaining access to its competitor's trade secrets. A criminal complaint filed in June of this year charged two former Managers of Boeing Co., Kenneth Branch and William Erskine, for stealing more than 25,000 pages of trade secret protected pricing information belonging to its chief competitor Lockheed Martin Corp. Erskine, a Boeing engineer in 1996, had recruited Branch, a Lockheed Martin engineer, to leave Lockheed Martin to work for Boeing. Branch was allegedly lured to Boeing with the offer of a higher salary in return for his inside information on Lockheed Martin's pricing.

Armed with this pricing information, Boeing was able to outbid Lockheed Martin on 19 out of 28 Air Force contracts relating to rocket launching vehicles worth approximately $2 billion. Another Boeing employee reported this conduct to Boeing management which immediately conducted an internal investigation and discharged both Branch and Erskine. While Boeing itself has not been criminally prosecuted, the Air Force has cancelled approximately $1 billion in rocket contracts with Boeing and has suspended Boeing from performing future rocket contracts.

The RAPCO and Boeing cases highlight three serious issues for companies to consider in relation to the Economic Espionage Act. Under what circumstances should a company report the theft of intellectual property to the FBI? What steps can a company take to make it more likely that a theft will actually be investigated and prosecuted by the Department of Justice? What steps can a company take to avoid criminal liability when new hires bring their former employers' trade secrets into the workplace?

When a company finds itself the victim of a trade secrets theft, it has three active options. First, it can handle the matter itself through a civil lawsuit seeking an injunction under the applicable state trade secret law to have a court enjoin the thief from using or disclosing the trade secrets and ordering the immediate return of the stolen information to the company. Second, it can report the matter to the FBI for criminal prosecution under the Economic Espionage Act. Or third, it can do both. Which option a company should choose depends on the circumstances of the theft and an understanding of the advantages and limitations of each option.

The first option of the civil legal process has the obvious advantage of quick action at a time and place to be chosen by the company. This option also allows the company to maintain total control over the matter. Conversely, the second option of reporting the theft to the FBI has the disadvantage of ceding total control to the government with the hope that the FBI will investigate the matter immediately and present it to the local United States Attorney's Office who will then decide to prosecute. There is no guarantee that the overworked local FBI and U.S. Attorney's office will have the time or inclination to prosecute the matter over other pressing matters. For that reason, the third option of bringing a civil case while simultaneously pressing for criminal prosecution may often times result in the U.S. Attorney's declining prosecution on the theory that the victim has an adequate civil remedy

The circumstances, however, change dramatically where the thieves are outsiders and the company cannot readily identify the thieves. For example, in United States v. Hsu, 40 Supp.2d 623 (E.D. Penn. 1999) an organized ring was prosecuted for attempting to steal a company's research and development information by secretly bribing a company employee. Private employers are generally not well equipped to prosecute such third party thieves. They do not, like the government, have the ability short of a civil lawsuit to subpoena witnesses and records. Likewise, they never have the investigative option to wiretap telephones or grant individuals immunity.

Start Your Day Off Right with a Breakfast Briefing and Panel Discussion

Dorsey Presents

Insider Trading: After Martha Stewart

Please join us for a complimentary breakfast and a panel discussion on the latest legal developments in insider trading. Sponsored by Dorsey's White Collar Crime and Civil Fraud practice group. We will apply for CLE credit.

Wednesday, May 19, 2004
Registration: 7:30 a.m.
Program: 8:00 a.m. – 9:00 a.m.
Location: Radisson Plaza Hotel Minneapolis
35 South 7th Street

RSVP: Vicki Twogood
twogood.victoria@dorsey.com
(612) 492-5314

Space is limited. Reserve your seat today!

Despite the egregiousness of a particular theft, the Department of Justice will not be interested in prosecuting a case on behalf of a private company unless it can meet the requirement of the Economic Espionage Act that "the owner . . . [of the trade secrets that were stolen] has taken reasonable measures to keep such information secret." Title 18, U.S.C. § 1839 (3)(A). Department of Justice guidelines make this factor a key consideration in whether to prosecute a case:

> prosecutors should determine the extent of the security used to protect the trade secret, including physical security and computer security, as well as the company's policies on sharing information with third-parties, including sub-contractors and licensed vendors.

http://www.usdoj.gov/criminal/cybercrime/ipmanual/08ipma.htm#VIII.B.2.

The Court's finding in United States v. Lange, 312 F.3d at 266, that "RAPCO took 'reasonable measures to keep such information secret,'" is instructive to understanding this legal standard. The factors relied upon by the Court were:

1. *The trade secrets in question were physically secured.* "RAPCO stores all of its drawings and manufacturing data in its CAD room, which is protected by a special lock, an alarm system, and a motion detector." Id. at 266.

2. *Documentation describing the trade secret was limited.* "The number of copies of sensitive information is kept to a minimum; surplus copies are shredded." Id. at 266.

3. *The number of employees with access to the trade secret was limited.* "Some information in the plans is coded, and few people know the key to these codes." Id. at 266.

4. *Employees were notified they were working with confidential information and warnings were placed on trade secret information.* "Drawings and other manufacturing information contain warnings of RAPCO's intellectual-property rights; every employee receives a notice that the information with which he works is confidential." Id. at 266.

5. *Vendors were only provided with partial information of the trade secret so they could not replicate it.* "None of RAPCO's subcontractors receives full copies of the schematics; by dividing the work among vendors, RAPCO ensures that none can replicate the product." Id. at 266.

This listing is of course not exhaustive and other measures such as confidentiality agreements, employee training programs and dissemination of the confidential information on a "need to know" basis are traditionally relied upon by the courts in finding reasonable measures in the civil trade secret context and apply with equal force to the Economic Espionage Act. Keep in mind, however, that these measures must be taken before a theft occurs – otherwise a major theft becomes a losing prosecution in the eyes of the Department of Justice.

While it is important to be proactive to take advantage of the Economic Espionage Act, it is equally important to establish company policies and procedures to prevent an employee from infecting the workplace with his former employer's trade secrets. The company should impress upon all new employees who are hired from a competitor that they are being hired for their general background, education and expertise and not because they are knowledgeable about confidential information belonging to their former employers. Such a company policy should be memorialized in offer letters, recruiting brochures, and new employee training programs as well as the Company's code of ethics.

Special care should be taken to ensure that new employees who come from a competitor will not be in a position or given an assignment that could be interpreted as an effort to steal the competitor's confidential information. New employees should be specifically instructed that they are not to use or disclose any confidential information from their former employer. New employees should also raise any question as to whether particular information would be considered confidential information belonging to their former employer to the company's legal counsel or human resources professional, not with the business people who could benefit from receiving the information.

As part of the company's compliance and training programs, all officers and employees should be sensitized to the problems that can arise from hiring someone from a competitor and the care that must be taken in finding the appropriate position for such a new employee in the organization to avoid the new employee from using his former employer's confidential information.

Finally, employees must be encouraged to report potential violations so they can be investigated and resolved promptly. There can be little doubt that a major factor in Boeing not being charged was its immediate investigation and subsequent remedial action. Again, as with positioning the company to be able to report violations of the Economic Espionage Act, advance planning is critical to sound defensive policies to avoid liability under the statute. ■

Dorsey's White Collar Crime and Civil Fraud Practice Group assists domestic and foreign clients in a broad range of representations arising out of grand jury and other law enforcement investigations, administrative agency enforcement proceedings, Congressional inquiries and private civil fraud actions.

Attorneys in this group have represented a wide variety of clients, including, for example, foreign and domestic broker/dealers, hedge funds and other securities industry companies before the CFTC and SEC. Members of this group have also defended qui tam false claims actions; companies and individuals in campaign finance abuse investigations; hospitals and other health care providers in federal health care fraud investigations; individuals under investigation for alleged import/export violations; companies and individuals in Foreign Corrupt Practices Act investigations; companies and individuals in connection with criminal antitrust allegations and alleged violations of the Economic Espionage Act; mortgage companies in connection with HUD lending fraud investigations; and developed compliance programs for companies in government-regulated industries.

White Collar Crime and Civil Fraud Group

GROUP CHAIRS

Carter, Zachary W.
250 Park Avenue
New York, NY 10177-1500
(212) 415-9345
carter.zachary@dorsey.com

Magarian, Ed
50 South Sixth Street, Suite 1500
Minneapolis, MN 55402-1498
(612) 340-7873
(612) 702-1640 (cell)
(612) 709-5924 (cell)
magarian.edward@dorsey.com

MINNEAPOLIS

Brown, B. Andrew
(612) 340-5612
brown.andrew@dorsey.com

Cattanach, Robert E.
(612) 340-2873
cattanach.robert@dorsey.com

Ginsburg, Roy A.
(612) 340-8761
ginsburg.roy@dorsey.com

Hammell, Joseph W.
(612) 340-7897
hammell.joe@dorsey.com

Magnuson, Roger J.
(612) 340-2738
magnuson.roger@dorsey.com

Palmer, Brian E.
(612) 340-2797
palmer.brian@dorsey.com

Schwartzbauer, Robert A.
(612) 340-2782
schwartzbauer.bob@dorsey.com

Wilson, Perry M., III
(612) 340-8722
wilson.perry@dorsey.com

Cesaretti, Gina
(612) 492-6960
cesaretti.gina@dorsey.com

D'Emanuele, Ross C.
(612) 343-2161
d.emanuele.ross@dorsey.com

Fuhrman, Kimberly
(612) 340-5670
fuhrman.kimberly@dorsey.com

Granberg, Mitchell
(612) 752-7307
granberg.mitchell@dorsey.com

Jancik, Thomas
(612) 492-6952
jancik.thomas@dorsey.com

Lainsbury, Daniel F.
(612) 492-6962
lainsbury.daniel@dorsey.com

Shaheen, Christopher T.
(612) 340-2886
shaheen.christopher@dorsey.com

Soshnik, John T.
(612) 343-8295
soshnik.john@dorsey.com

NEW YORK

Akerman, Nathaniel H.
(212) 415-9217
akerman.nick@dorsey.com

Bellinger, G. Michael
(212) 415-9357
bellinger.michael@dorsey.com

Sullivan, Mark S.
(212) 415-9245
sullivan.mark@dorsey.com

Allgor, Joseph P.
(212) 415-9287
allgor.joseph@dorsey.com

Catalano, Benjamin J.
(212) 415-9346
catalano.benjamin@dorsey.com

Cohen, Derek A.
(212) 735-0771
cohen.derek@dorsey.com

Parravani, James V.
(212) 415-9253
parravani.jim@dorsey.com

Sarbakhsh, Samira
(212) 415-9286
sarbakhsh.samira@dorsey.com

WASHINGTON D.C.

Sugiyama, George Y.
(202) 442-3530
sugiyama.george@dorsey.com

Bedell, Kevin B.
(202) 442-3543
bedell.kevin@dorsey.com

Hall, Munford Page, II
(202) 442-3666
hall.page@dorsey.com

SEATTLE

Hineline, Curt Roy
(206) 903-8853
hineline.curt@dorsey.com

SOUTHERN CALIFORNIA

Lyons, Margaret M.
(949) 932-3642
lyons.margaret@dorsey.com

FARGO

Page, Adele H.
(701) 271-8885
page.adele@dorsey.com

GREAT FALLS, MT

Strong, Keith
(406) 771-6806
strong.keith@dorsey.com

LONDON

Whitehead, Simon
+44 (20) 7826 4581
whitehead.simon@dorsey.com

Airey, Simon
+44 (20) 7826 4582
airey.simon@dorsey.com

TOKYO

Nelson, Steven C.
+81 3 5473-5153
nelson.steve@dorsey.com

Dorsey in the News

Zachary Carter nominated to join Marsh & McLennan Cos.' Board of Directors. Financial and professional services giant Marsh & McLennan has nominated Dorsey partner and former U.S. Attorney Zachary W. Carter for election to the company's board of directors. A group of institutional investors, who have been critical of Marsh & McLennan, suggested Carter as a nominee after urging the company to elect independent board members. "We are delighted that [the investors] brought Mr. Carter to our attention, "Said Marsh Chairman and Chief Executive Jeffery Greenberg. "And we are pleased to nominate such a highly qualified individual."

Wall Street Journal Quotes Derek Cohen on Tyco Case. In an article on jury deliberations in the trial of Tyco International Ltd.'s former top executive, Dennis Kozlowski, the *Wall Street Journal* turned to Dorsey attorney, and member of the White Collar Crime and Civil Fraud practice group, Derek Cohen for analysis. Jurors requested further instructions from Judge Michael Obus, seeking to clarify the term criminal intent. "There's no question [Tyco executives] got the money," Cohen told the *Journal*. "It's whether they were entitled to it. I think the jury has homed in on the key issue."

Victory for Cisco Systems. Dorsey obtained a complete summary judgment win for Cisco Systems, Inc. in a corporate raiding and misappropriation of trade secrets case involving $450 million in claimed damages. In a September 25, 2003, opinion, Judge Joan Ericksen (Minnesota Federal District Court) dismissed all claims against Cisco in *Storage Technology Corporation v. Cisco Systems, Inc.* The dismissal was the culmination of three years of highly contentious litigation, involving more than 90 depositions and the exchange of millions of documents. Cisco was represented by a team of Dorsey lawyers lead by Roy Ginsburg and Joe Hammell. Storage Technology has filed an appeal with the Eighth Circuit.

Pro Bono Award. Dorsey is the recipient of the *National Law Journal's* Pro Bono Award for 2003. Dorsey earned special recognition among large law firms for its study of immigration reform on behalf of the American Bar Association. The ABA study involved more than 60 legal professionals in six offices, and the expenditure of more than 2500 hours over five months. The Dorsey team examined hundreds of immigration cases to gather valuable data on the effects of recent immigration reforms. Dorsey has met or exceeded the ABA's "Pro Bono Challenge" by contributing at least 3% of its annual billable hours to pro bono work each year since 1992.

Stay Informed with Dorsey Publications

White Collar Crime and Civil Fraud Update offers news and insights on the latest legal developments. Dorsey also produces newsletters and updates on a wide range of legal topics: intellectual property, corporate compliance, health care and more.

To receive additional newsletters from Dorsey, please visit us online at www.dorsey.com.

Click on our "Publications" page, then on "Newsletter Sign-up".

WHITE COLLAR CRIME AND CIVIL FRAUD UPDATE

A PUBLICATION OF THE WHITE COLLAR CRIME AND CIVIL FRAUD PRACTICE GROUP OF DORSEY & WHITNEY LLP

USA Canada Europe Asia

DORSEY
DORSEY & WHITNEY LLP

Suite 1500
50 South Sixth Street
Minneapolis, MN 55402-1498