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GUEST COLUMN

Trade secret theft could snare corporate wrongdoers

By Peter Kirwan

Is there ever a good outcome to trade secret theft? Federal prosecutors seem to think that bad acts might produce good results. In Northern California and a few other jurisdictions across the country, U.S. Attorneys offices are betting that trade secret scofflaws will voluntarily testify against unscrupulous companies in exchange for immunity from criminal prosecution.

Last March, the Northern District of California launched a Whistleblower Pilot Program (WPP) designed to track down corporate malfeasance. Individuals who steal trade secrets could become eligible for non-prosecution agreements (NPAs) if they are able to help the government identify and prosecute certain forms of corporate wrongdoing.

Under the program, immunity may be granted to individuals who report, among other things, "criminal conduct undertaken by or through public or private entities or organizations, including corporations, partnerships, non-profits, exchanges, financial institutions, investment advisers, or investment funds involving . . . intellectual property theft and related violations."

To be eligible for an NPA, the whistleblower must share information not already public or known by authorities, and the disclosure must be voluntary. Most importantly, the target of the investigation must be equally or more culpable than the whistleblower.

A month before the Northern District's pilot was rolled out, a similar program was launched by the U.S. Attorney's Office for the Southern District of New York (SDNY). Since then, U.S. Attorney's Offices for the District of New Jersey, Eastern District of Virginia, District of Columbia, Southern District of Florida, Eastern District of New York, and Northern District of Illinois have launched their own whistleblower non-prosecution pilot programs.

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Clearly, federal officials see benefits to working with infringers. The pilot programs are still in their infancy, but they could significantly change the way trade secrets are managed and valued. The consequences of trade secret theft - for both alleged thieves and their corporate targets - may be completely upended.

Trade secrets: Promise and peril

California is home to some of the world's most valuable IP; the Northern District consistently ranks among the top jurisdictions for trade secret litigation. Trade secrets are the Achilles heel of even the most careful companies. Unlike patents, which erect a government shield around valuable IP, trade secrets derive their value solely from their secrecy. If properly protected, they can have an infinite life; if lost, businesses may cease to exist.

It doesn't take much to lose a trade secret. Formulas, source code, customer lists, processes, and much more can be lifted and shared by employees and contractors who have access and opportunity. To prevail in a trade secret theft case, a business must show that it took reasonable steps to keep the information secret and that such information had independent economic value precisely because it was secret.

Trade secret theft is charged as a federal crime under 18 U.S. Code Section 1832 if the product or service is used for interstate or foreign commerce. Individuals could face substantial jail time and steep penalties. Organizations could be fined "not more than the greater of $5,000,000 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."

Whistleblowing

Whistleblowing has been part of official toolkits for centuries. Inside information can be invaluable for identifying and prosecuting criminal conduct. In 2016, Congress enacted the Defend Trade Secrets Act (DTSA) to encourage whistleblowers to come forward with information about suspected violations of the law. Individuals who disclosed trade secrets to the government for this purpose could be entitled to immunity from both criminal and civil liability.

Unlike the WPP, the DTSA will not protect individuals who have wrongfully acquired trade secrets

or who use them against their owner. "Except as expressly provided for under this subsection, nothing in this subsection shall be construed to authorize, or limit liability for, an act that is otherwise prohibited by law, such as the unlawful access of material by unauthorized means." (See *FirstEnergy Corp. v. Pircio*, 524 F. Supp. 3d 732, 741 (N.D. Ohio 2021))

In April 2024, the Criminal Division of the U.S. Department of Justice (DOJ) announced a Pilot Program on Voluntary Self-Disclosures for Individuals, extending NPAs to corporate executives who share information about potential criminal conduct in which they were involved. Like the WPP, the DOJ pilot relies on wrongdoers to choose immunity from prosecution over any potential gain from their wrongful acts.

Another whistleblower pilot was announced by the DOJ Criminal Division on Aug. 1. The Corporate Whistleblower Awards Pilot Program, offers monetary compensation to whistleblowers who provide original information to the government about specific types of corporate misconduct. Unlike the other pilots, it will not reward wrongdoers with immunity from prosecution.

The WPP and similar pilots provide wrongdoers with a means of evading liability for their own criminal activity. They may, therefore, create an incentive for those who misappropriate trade secrets to become whistleblowers about corporate misdeeds. Given the high stakes involved, immunity from criminal prosecution would seem to be an attractive proposition for most trade secret thieves. They must disgorge any ill-gotten gain from their acts, but they could avoid serious jail time by cooperating with the government. Is this enough?

Civil liability

The big unanswered question for potential whistleblowers is whether they could still face civil liability for trade secret theft. The WPP may provide a clean criminal slate to offenders, but it will not, by itself, bar trade secret owners from seeking monetary redress for their losses.

Could blowing the whistle reduce the risk of a civil lawsuit against a trade secret thief? By cooperating with investigators, whistleblowers may have placed themselves directly in the crosshairs of lawsuits by trade secret owners. Considering that they might otherwise have faced both civil and criminal liability, blowing the whistle could be the lesser of two evils. If misdeeds would have been discovered anyway, it may make sense to limit the damage by eliminating potential criminal liability.

For trade secret owners, there may be a similar calculation. If trade secrets have been misappropriated, the harm they have suffered could be incalculable. Even if the company has engaged in improper, unethical or criminal activity, the nexus between such activity and misappropriated trade secrets may be nebulous or nonexistent. By filing a lawsuit against an individual violator, a trade secret owner could open itself up to criminal exposure and investigation.

With the shifting sands created by the WPP, parties may do best to mediate trade secret disputes. There will always be a huge divide between parties' valuation of a trade secret, but they will be better positioned to reach a consensus when there is a candid and confidential exchange of information. Outside of a courtroom and divorced from any criminal proceeding, both sides can arrive at a resolution that reflects their respective roles and risks.

Conclusion

Trade secret theft is an ongoing problem for companies in Northern California and across the country, but the WPP and other whistle-blower pilot programs now provide incentives for violators to report corporate wrongdoing. In response, companies should commit to strengthening their internal audit systems, as well as their trade secret protection and compliance programs. A good audit system should not only identify and remediate gaps in trade secret protection but also uncover any illegal or unethical activities within the corporation.

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