By Professor Thomas G. Field Jr

The Risks of Buying Secrets

Two trade secret stories received considerable media attention recently. One featured Apple® Computer's decision to drop an appeal in a case involving two online journalists who published company secrets. The other reported federal indictment of a former Coca-Cola® secretary and associates who offered to sell secrets to Pepsi®.

Neither involved a whistle-blower's exposing corporate misbehavior. Nothing suggests differences in the value of the information. Rather, both cases apparently relate to harm associated with premature notice of new products.

Yet, people who published what they knew to be Apple's secrets have been praised for refusing to reveal sources, whereas Pepsi employees have been praised for refusing an offer to buy secrets. Moreover, after the FBI intervened in the latter case, the Coke® secretary and associates were indicted. Two, denied bail, are in jail.

The Economic Espionage Act of 1996 (EEA), 18 U.S.C. § 1832(a)(1)-(2) prohibits both carrying secrets away and knowingly accepting them. Why was the receiver praised in one case; the providers jailed in the other? — Probably because the Coke case would be more easily prosecuted. Cash changed hands, and § 1831(a) is satisfied if intent to confer an economic benefit on the receiver can be shown.

That section is also satisfied if intent to cause injury or knowledge of subsequent injury can be shown, but neither seems easily accomplished in the Apple situation. Although injury might be presumed in civil actions, criminal liability should require proof of objective harm as well as subjective understanding. The first requirement could probably be met, but the second, under reported circumstances, might well be a hard sell.

Thus, anyone at Pepsi who agreed to accept, much less pay for, Coke secrets would more surely face serious consequences. Those include unspecified fines and imprisonment up to ten years. If the firm were found responsible, under § 1832(b), it would face fines up to $5 million.

An AP reporter observed in the context of one case that: "Stealing trade secrets is not uncommon in a competitive corporate culture where heavy premiums are placed on [being first in the market]." Harry R. Weber, *Coke leak spotlights trade secret security*, July 10, 2006. Yet, anyone aware of the EEA seems unlikely to engage in such practices. Indeed, if foreign transferees are involved, under § 1831, sanctions are more serious. Jail terms may reach fifteen years and fines on organizations, $10 million.

My take on those situations, however, is mostly influenced by another that long predates the EEA. I learned of it when in-house counsel in another state called seeking local counsel. As he related, a recently-departed employee had already filed several patent applications. The firm wished to take over prosecution. Given the clear advantages of being able to invest prosecutorial resources appropriate to the inventions' value to the company, I was not surprised.

I've yet to figure out how such objectives might be best accomplished, but I have figured out how, despite 35 U.S.C. § 122, it learned of those pending applications. Because the PTO would have been required to keep them in confidence, a competitor surely relayed the information.

Thus, when the former employee offered rights, the competitor's lawyers became suspicious. After investigation, they realized that the truth would come out should any patents issue. Thus, professional ethics and corporate morality aside, they wouldn't have been interested in the patent applications.

Yet, they had no obligation to do more than say "no." Why did they inform a competitor about the activities of its former employee?

I credit enlightened self-interest. Reflecting on the Pepsi case, I suspect that such self-interest, rather than risk of prosecution under the EEA, accounts for what happened after Pepsi was offered Coke's secrets.

It is one thing to reverse engineer competitors' products or even to hire someone to take aerial photos of a competitor's plant under construction. (See, E. I. duPont deNemours & Co. v. Christopher, 431 F.2d 1012 (5th Cir. 1970).) To foster a culture in which firms buy secrets from competitors' employees is, however, very different. As most Intellectual Property lawyers would appreciate, the consequences of such practices are far more serious and will come back to bite sooner or later.