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'Agrawal' Allays Concerns About Trade Secret Protection

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On April 11, 2012, the U.S. Court of Appeals for the Second Circuit issued its opinion in *United States v. Aleynikov*,[1] vacating the Southern District of New York convictions of a former Goldman Sachs computer programmer who stole source code related to Goldman's confidential trading system under the National Stolen Property Act[2] (NSPA) and the Economic Espionage Act[3] (EEA). At the time, commentators expressed concern that the opinion would severely limit the ability of prosecutors to enforce companies' trade secrets under the NSPA and EEA in cases, like *Aleynikov*, in which the stolen source code was not a good intended for resale (the court's basis for holding that the EEA did not apply) and was taken by intangible means (the court's basis for holding that the NSPA did not apply).

Courtwatchers expected further guidance to arrive in *United States v. Agrawal*, a case pending in the Second Circuit at the time *Aleynikov* was decided. Like *Aleynikov*, *Agrawal* was an appeal in a trade secrets case from convictions in the Southern District of New York under the NSPA and EEA. The fact patterns of the two cases were similar, yet different in ways that could allow the court to explore the reach of the *Aleynikov* decision. The Second Circuit did not issue its decision in *Agrawal* until last month, approximately 14 months after the case was argued—and over 8 months after the defendant completed his prison term. But in its decision, the court—in a partially split decision—noted the limits of the *Aleynikov* decision and upheld Agrawal's convictions under both the NSPA and EEA. Although the ultimate significance of the decision remains to be seen, the case—as well as other developments that have taken place in the year since *Aleynikov* was decided—should allay some of the concerns expressed after *Aleynikov* about the strength of trade secret rights in the Second Circuit.

Second Circuit's 2012 Decision in 'Aleynikov'

The *Aleynikov* decision arose from a fact pattern worthy of a law school

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exam. In his last day as a computer programmer at Goldman Sachs, Sergey Aleynikov stole proprietary source code for Goldman's high-frequency trading system by uploading it onto a server in Germany so that he could later retrieve it and use it for the benefit of his new employer, which also sought to develop such a trading system. Aleynikov was arrested and ultimately convicted of violating the EEA (which at the time criminalized the theft of trade secrets "related to or included in a product that is produced for or placed in interstate or foreign commerce") and the NSPA (which criminalized the interstate transportation of stolen property).

The Second Circuit reversed Aleynikov's convictions under both statutes. The computer code, the court reasoned, was purely intangible property and thus the theft of it by uploading it onto a server in Germany did not constitute the sort of theft of "goods, wares" or "merchandise" that the NSPA criminalizes. The court also found no violation of the EEA, which—at the time of the decision—only applied to products "produced for" or "placed in" interstate or foreign commerce. Goldman's high-frequency trading system, by contrast, was so valuable that its source code was not for sale but was for internal use only.[4] In a concurring opinion, Judge Guido Calabresi recognized the apparent gap in the law's coverage for invaluable property, and "express[ed] the hope that Congress will return to the issue and state, in appropriate language, what [he] believe[d] they meant to make criminal in the EEA."[5]

Developments in the Wake of 'Aleynikov'

Within months of the *Aleynikov* decision, Congress appeared to respond to Calabresi's recommendation and amended the EEA so as to "correct[] the [Second Circuit's] narrow reading to ensure that our federal criminal laws adequately address the theft of trade secrets related to a product or service used in interstate commerce."[6] Congress passed the Theft of Trade Secrets Clarification Act of 2012 on Dec. 18, 2012, which expanded the scope of the EEA from the theft of objects "produced for" or "placed in interstate or foreign commerce" to those "product[s] or service[s] *used in* or *intended for use*" in interstate or foreign commerce.[7] The EEA now covers systems like that of Goldman Sachs that are used to conduct trades impacting interstate commerce even if the systems themselves are not offered for sale outside the company.

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Showing even further support for strengthened trade secret protection laws, Congress amended the EEA again weeks later, increasing the maximum fines for misappropriating trade secrets to benefit a foreign government to $5 million for individuals and the greater of $10 million or three times the value of the stolen trade secrets for organizations.[8] Congress also considered additional bills that would: explicitly cover government-sponsored hacking within the scope of the EEA; clarify that trade secrets laws apply to individuals illicitly accessing American computers even if they are never physically present in the United States; establish the theft of trade secrets as a predicate offense of the RICO statute[9] and provide for a private right of action by companies against those who steal their trade secrets.[10]

At the same time that Congress sought to clarify the scope of the EEA, the Obama Administration in February 2013 released its Strategy on Mitigating the Theft of U.S. Trade Secrets,[11] announcing its intention to make the protection of trade secrets belonging to U.S. companies a federal law enforcement priority.

And after the Second Circuit reversed Aleynikov's conviction last year, the New York County District Attorney's Office demonstrated its commitment to prosecuting the theft of trade secrets, charging Aleynikov himself in state court with unlawful use of secret scientific material.[12] Aleynikov moved to dismiss those claims on double jeopardy grounds, and that motion was denied on April 5, 2013. The court noted that successive federal and state prosecutions for the same conduct are permitted and that the cases were charged under different statutes.[13] That case appears to be moving forward.[14]

'United States v. Agrawal'

Despite hearing argument in the case in June 2012, the Second Circuit did not issue its decision in *United States v. Agrawal* until Aug. 1, 2013.[15] The facts of *Agrawal* were facially similar to those in *Aleynikov*, involving the theft of confidential source code by a bank programmer for use by his next employer. Nevertheless, the court, in a partially split decision, noted two differences that provided the bases to uphold Agrawal's convictions.

First, the court noted that unlike Aleynikov, the property that Agrawal had stolen was "tangible"—reams of paper containing print-outs of the confidential source code. The court concluded that Agrawal's argument challenging his NSPA convictions failed "because it ignore[d] *Aleynikov*'s emphasis on the format in which intellectual property is taken."[16] As a result, it was "irrelevant" that the code had been in an intangible form before Agrawal took it from the offices of his former employer.[17] While the court noted that the distinction between stealing by printing and stealing by uploading to a server was of little moment from the perspective of moral

culpability, it held that it nonetheless "makes all the difference" for purposes of the NSPA.[18]

Second, the court distinguished *Aleynikov* on the basis that the government there took the position at trial that the trading system itself was the "product" produced for or placed in interstate commerce under the EEA, but in *Agrawal* the government considered the traded securities themselves to be the relevant products (and the source code to be "related to" the securities).[19] The difference, then, between the two cases was one of pleading. Judge Rosemary S. Pooler, who served on both the *Aleynikov* and *Agrawal* panels, dissented with regard to the court's EEA findings, accusing the majority of effectively applying the broader, amended version of the EEA to the conduct at issue, despite the fact that the amendments were not retroactive to the earlier conduct.[20] Pooler concluded that even if the traded securities were the relevant "product," it was an impermissible stretch to say that the stolen code "related to" those securities; in any event, however, Pooler found that the government had actually alleged that the trading system, and not the securities, was the relevant "product" under the EEA.[21]

While the decision in *Agrawal* appears to place limits on the earlier decision in *Aleynikov*, the practical significance of the decision may actually be narrow. With respect to the NSPA, the Second Circuit has clarified that the theft of computer code that has been reduced to writing or copied to a thumb drive will be covered by the statute. Of course, while this may provide a basis for enforcement in some cases, it stands to reason that most computer code thieves—even those who were not intentionally trying to evade the NSPA—would use electronic means to commit their crime. And, with respect to the EEA, while the conclusion in *Agrawal* that prosecutors could essentially plead around the jurisdiction defect in *Aleynikov* is significant, it, of course, only applies to pre-amendment conduct and not to any cases brought in response to conduct after Congress' amendment of the EEA in December 2012. For cases brought under the EEA in response to conduct after that date, Congress' swift legislative action undid the Second Circuit's work in *Aleynikov* well before the *Agrawal* case was decided.

Conclusion

Although Agrawal was released from prison in November 2012—over eight months before the Second Circuit issued its decision upholding his convictions—he continues to fight the charges against him and is now seeking en banc review of the panel's decision. Pending resolution of his petition, *Agrawal* is the law of the circuit, and should allay some of the fears that the *Aleynikov* decision signified a weakening in trade secret protection. And lest there be any doubt of the government's commitment to enforcing trade secrets, Congress' swift amendment of the EEA in response to *Aleynikov*, as well as the New York County district attorney's decision to prosecute Aleynikov in state court for the same conduct for which he was charged federally, provide a strong indication of the trajectory of enforcement in this area. As future prosecutions in this area are likely, courts will have ample opportunity to explore the contours of the federal statutes protecting trade secrets and the recent Second Circuit decisions interpreting them.

1. 676 F.3d 71 (2d Cir. 2012).
2. 18 U.S.C. §2314.
3. 18 U.S.C. §1832.
4. *Aleynikov*, 676 F.3d at 82.
5. Id. at 83 (Calabresi, J., concurring).
6. Press Release, Statement of Senator Patrick Leahy (Nov. 27, 2012), available at http://www.leahy.senate.gov/press/senate-approves-leahy-bill-to-address-trade-secret-theft.
7. Pub. L. No. 112-236, 126 Stat. 1627 (emphasis added).
8. Foreign and Economic Espionage Penalty Enhancement Act of 2012, Pub. L. No. 112-269, 126 Stat. 2442.
9. Whitehouse-Graham Discussion Draft, 113th Cong. (2013), http://www.whitehouse.senate.gov/download/?id=bfff5944-bb28-47f8-a309-b5bb3dd729ef.
10. Private Right of Action Against Theft of Trade Secrets Act of 2013, H.R. 2466, 113th Cong.
11. Administration Strategy on Mitigating the Theft of U.S. Secrets (2013), available at http://www.whitehouse.gov//sites/default/files/omb/IPEC/admin_strategy_on_mitigating_the_theft_of_u.s._trade_secrets.pdf.
12. N.Y. Penal Law §165.07.
13. *People v. Aleynikov*, No. 04447/2012, slip op. at 16-20 (N.Y. Sup. Ct. April 5, 2013).
14. In his exposé on Aleynikov published in this month's issue of Vanity Fair, Michael Lewis reported that while the District Attorney's Office offered Aleynikov a plea deal that would not result in him serving additional jail time, Aleynikov's counsel swiftly rejected it. Michael Lewis, "Goldman's Geek Tragedy," Vanity Fair, September 2013, at 312, 360.
15. No. 11-1074-CR, 2013 WL 3942204 (2d Cir. Aug. 1, 2013).
16. Id. at *13.
17. Id. at *14.
18. Id. at *13-15.
19. Id. at *8-10.
20. Id. at *23 (Pooler, J., concurring in part and dissenting in part).
21. Id. at *24-28 (Pooler, J., concurring in part and dissenting in part).