Recent Trade Secret Cases Show Sentencing Disparities

By **Steven Lee** (June 28, 2022)

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In criminal trade secret cases, do the sentencing guidelines provide for what the U.S. Supreme Court described in its 1991 Payne v. Tennessee decision as a "very precise calibration of sentences, depending upon a number of factors"?[1]

Based on the current landscape of the law, the answer is no.

Sentencing disparities in trade secret cases have surfaced across the nation over the last several years. For example, in March, the U.S. Attorney's Office in the Northern District of California issued a press release stating that a former CEO of a JHL Biotech was sentenced to 12 months and one day for a trade secrets case exceeding $101 million.[2]

In January 2022, however, the U.S Attorney's Office in the Northern District of Florida announced that a former certified Florida teacher who conspired to steal content from state certification examinations was sentenced to 10 months, despite the restitution amount only totaling $135,000.[3]

A few months earlier, a former General Electric Co. engineer was sentenced to 24 months in the Northern District of New York when the restitution amount totaled $1.4 million.[4]

A sentence in a federal criminal case is often determined by intended loss, a term defined in the U.S. Sentencing Guidelines as the "pecuniary harm that the defendant purposely sought to inflict."[5] The guidelines require only a "reasonable" estimate of intended loss within broad ranges, and the court must provide reasons to justify the estimate.[6]

Practitioners should know that courts have found that the intended loss does not necessarily equal the cost of development of stolen trade secrets or the defendant's intended gain from misappropriating stolen trade secrets.

Instead, as the U.S. District Court for the Eastern District of Pennyslvania wrote in the 2020 U.S. v. Yu Xue decision:

> Intended loss analysis, as the name suggests, turns upon how much loss the defendant actually intended to impose' on the victim, regardless of whether the loss actually materialized or was even possible.[7]

As such, practitioners should undertake an intensive factual analysis of any communications that may exist in the discovery provided by the government. Are there any emails or text messages that indicate how much financial harm the client — or any co-conspirators, if any exist — intended to cause the victim company?

Has the client provided any voluntary statements regarding the goals of his trade secret theft? Additionally, if the client had achieved his goals, how would that have affected the victim company's finances?

In the 2012 U.S. v. Pu decision, the U.S. Court of Appeals for the Seventh Circuit concluded that it was clearly erroneous to automatically equate the defendant's intended loss to the

cost of developing the stolen trade secrets.[8]

The court held that the government must prove how much the defendant intended the victim company to actually suffer financially.[9]

Since the government's theory at sentencing was that the intended loss equaled the cost of development, the court held the government was required to prove it was more likely than not that the defendant intended to cause a loss to the victims that equaled the cost of development.[10]

Similarly, in U.S. v. Yu Xue, the Eastern District of Pennsylvania held that the government failed to prove the intended loss when it only produced evidence of the fair market value and development cost of the stolen information without showing that the defendants purposefully sought to inflict that amount of harm upon the victim company.[11]

The government even sought to go a step beyond Pu by arguing that the defendants' intended gain was reflected in their marketing brochures, business plans and the letter from a co-defendant.

The court held, however, intended gain was not a suitable proxy for showing the defendants' intent to harm the victim company, because a trade secret theft "may permit a thief to profit without an equal and opposite loss to the victim."[12]

Since the law placed the burden on the government to show the intended loss and the government failed to carry its burden, the court concluded that the intended loss was zero.[13]

But in the May 3 U.S. v. You decision, the U.S. District Court for the Eastern District of Tennessee determined the intended loss by calculating the market share the defendant would have presumably taken away from the victim company by assessing the market share the defendant intended to gain where the victim company formed a monopoly in the market.[14]

The court rejected unreliable projections based on puffery and speculation, such as the defendant's profit and tax estimates put forth in presentations and grant applications, and instead relied on a conservative estimate of the defendant's intended gains in the market based on witness testimony about the market itself.[15]

Furthermore, the court in You found that this calculation was based on the "amount of loss Defendant intended to inflict, not an amount of loss she 'might have possibly and potentially contemplated.'"[16]

While persuasive authority exists on the method of calculating the defendant's intended loss in trade secrets cases, the issue has not yet surfaced in multiple circuits, including the U.S. Court of Appeals for the Eleventh Circuit. Furthermore, additional uncertainty may ensue in trying to calculate loss figures in prospective trade secret cases, because courts are required to exercise discretion in deciding what sentences to impose on defendants, whether within the guidelines range or outside it.

Thus, practitioners would also be best served to present any mitigating evidence to the court at sentencing, because the court always has the discretion to sentence outside the guideline range.

For example, in the 2020 U.S. v. Isler decision, the U.S. Court of Appeals for Eighth Circuit held the district court did not abuse its discretion by varying upward in imposing its sentence after the government was unable to prove the defendant's intended loss in a trade secrets case.[17]

In Isler, the government presented evidence of a number of loss calculations, including evidence of lost sales revenue to the victim company, the development costs of the stolen trade secrets and the defendant's pecuniary gain after joining a competitor of the victim company.[18]

Although the defendant had admitted his theft of trade secrets had a financial impact on the victim company, the district court concluded "calculating the loss to the victim for purposes of computing an advisory guideline range with any degree of accuracy is just not possible."[19]

Instead of calculating an intended loss amount, the district court varied upward because "the seriousness of the crime [was] not captured in the advisory guideline calculation." [20]

At a minimum, the loss calculation in any trade secrets case is determined on a case-by-case basis as any calculation requires a fact-intensive investigation on the amount of loss the defendant intended to inflict on the holder of the trade secrets. In the world of trade secrets, it particularly comes down to the facts.

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[1] Payne v. Tennessee , 501 U.S. 808, 820 (1991)

[2] https://www.justice.gov/usao-ndca/pr/former-ceo-and-coo-jhl-biotech-sentenced-conspiring-steal-trade-secrets-and-commit-wire

[3] https://www.justice.gov/usao-ndfl/pr/owners-florida-teacher-certification-preparation-company-sentenced-federal-prison

[4] https://www.justice.gov/usao-ndny/pr/former-ge-engineer-sentenced-24-months-conspiring-steal-trade-secrets

[5] U.S.S.G. § 2B1.1 cmt. n.3(A)

[6] Id.

[7] United States v. Yu Xue , 2020 U.S. Dist. LEXIS 173410, at *40-*42 (E.D. Pa. 2020) (citing United States v. Pu, 814 F.3d 818, 824 (7th Cir. 2016)) (citations partially omitted.)

[8] United States v. Pu , 814 F.3d 818 (7th Cir. 2016)

[9] Id.

[10] Id.

[11] United States v. Yu Xue, 2020 U.S. Dist. LEXIS 173410 (E.D. Pa. 2020)

[12] Id. at *53.

[13] Id.

[14] United States v. You , 2022 U.S. Dist. LEXIS 80032 (E.D. Tenn. 2022)

[15] Id. at *11-*14.

[16] Id. (citing United States v. Manatau , 647 F.3d 1048, 1050 (10th Cir. 2011))

[17] United States v. Isler , 983 F.3d 335 (8th Cir. 2020)

[18] Id. at *340.

[19] Id.

[20] Id.