A Tale of Two Secrets

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Many departing employees take company materials with them, such as business information, technical documents, experimental protocols or computer code. They may be unaware of the consequences to themselves and their new employers if these materials are proprietary trade secrets. A departing employee could be liable for a breach of their employment contract. The employee and new company may also be liable under common law for misappropriation of the trade secrets. There could also be criminal consequences under federal or state laws. Two recent U.S. cases demonstrate the wide assortment of potential liability for taking trade secrets. Both cases involve an ex-employee accused of taking computer code from their prior employer to their new job. However, the legal consequences for these defendants could not be more different.

United States vs. Aleynikov

The first case illustrates the criminal liability of unlawfully taking trade secrets. It also shows the persistence of the U.S. criminal justice system in trying to find ways to make old laws fit new situations. In *United States vs. Aleynikov*, the defendant was accused of taking computer code relating to high-frequency trading from his former job at Goldman Sachs to his new job at a start-up company, Teza Technologies. Aleynikov was indicted by a *federal* grand jury on counts of 1) theft of trade secrets, 2) transportation of stolen goods, and 3) illicit obtainment of data from a protected computer. A federal jury convicted the defendant under counts (1) and (2), and he was sentenced to 8 years in prison and a $12,500 fine. The Second Circuit for the U.S. Court of Appeals reversed the conviction on the basis that the taken source code did not meet the definition of "stolen good" or "product produced for interstate or foreign commerce" within the relevant statues on which the conviction was based.

Aleynikov was then re-arrested and charged in the *state* court of New York in *People vs. Aleynikov*. The charges were (1) unlawful use of secret scientific material, and (2) unlawful duplication of computer-related material under state laws. The defendant lost his motion to dismiss the charges for double jeopardy based on the acquittal at federal court. The state jury convicted Aleynikov under count (2). However, the trial judge reversed the conviction in a post-trial motion finding that no rational jury could convict him of those charges. The state appealed to the Appellate Division of the N.Y. Supreme Court who reinstated the conviction on that count. Aleynikov, now facing up to four years in prison, is seeking leave to appeal to the U.S. Supreme Court.

ZeniMax v. Oculus VR

The second case illustrates the potential civil liability arising from departing employees and independent contractors unlawfully taking trade secrets. In *ZeniMax v. Oculus*, ZeniMax sought $6 billion for the defendants' alleged misappropriation of trade secrets, breach of a non-disclosure agreement (NDA), and copyright infringement relating to a high-end consumer virtual reality system. ZeniMax allegedly provided access to proprietary information including copyrighted computer code and trade secrets under an NDA with an independent contractor named Luckey. Luckey later incorporated Oculus VR, which also developed virtual reality headsets. A former employee of ZeniMax left to be the CTO of Oculus, eventually followed by five other ZeniMax employees.

In March of 2014, Facebook offered $2.3B in cash and stock to acquire Oculus VR. ZeniMax filed suit two months later, and Facebook completed the acquisition. There were no criminal charges arising from this situation. At court, ZeniMax produced evidence that after leaving ZeniMax for Oculus VR, Carmack tweeted about the drudgery of rewriting code he previously made at ZeniMax. Ultimately, the Dallas jury found there was no misappropriation of trade secrets, but did award $500 million to ZeniMax for breach of the NDA and copyright infringement. Oculus intends to appeal the decision. ZeniMax has since filed for an injunction to stop Oculus from using the copyright infringing code, which is found in the software developer kits that Oculus distributes.

These cases are cautionary tales for employees moving between employers. They show that there can be both civil and criminal liability for misappropriating the trade secrets of a former employer. Best practice is to refrain from taking any materials, digital or physical, from your former employer, especially if you will be performing related activities at your new job. Companies should conduct

exit interviews with departing employees to remind them of obligations of confidentiality. New employers should require employees not to disclose trade secrets from prior employers.