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Crimes Involving Intangible Property

Thomas G. Field
Franklin Pierce Law Center (Founding Faculty Member)

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Crimes Involving Intangible Property

THOMAS G. FIELD, JR.*

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I. INTRODUCTION

A well-known cliché¹ came to life when “[t]he pope’s butler was convicted . . . of stealing the pontiff’s private documents and leaking them to a journalist”² His lawyer’s unsuccessful argument—that taking “only photocopies, not original documents” should not be criminal³—prompted this paper.

When tangible property is taken, owners retain nothing. When documents or equivalents are duplicated, however, even if owners retain originals, they suffer loss of control and may lose substantial present and potential advantages, not necessarily economic. Civil redress for such losses has therefore long been available through copyright and trade secret laws. Indeed, it has often been available when injuries occasioned by unauthorized

* Mr. Field, an unaffiliated scholar, was a founding faculty member of Franklin Pierce Law Center, as well as the founding Editor-in-Chief of RISK, the predecessor of the *University of New Hampshire Law Review*. As a full-time professor, he taught intellectual property courses for more than 40 years. He continues as the featured op-ed columnist of iP Frontline. Nearly 100 of his columns are linked from <http://www.ipfrontline.com/aboutsource.aspx?editorid=244> (visited June 10, 2013).

1. “The butler did it” has been called “the biggest cliché in mystery writing” and is “commonly attributed to Mary Roberts Rinehart. Her otherwise forgettable 1930 novel . . . in which the butler actually is the villain.” *Why do we think the butler did it?*, THE GUARDIAN, <http://www.guardian.co.uk/books/booksblog/2010/dec/09/why-we-think-the-butler-did-it> (last visited Dec. 9, 2012).

2. See Nicole Winfield, *Pope’s butler convicted in leaks, given 18 months* (Oct. 6, 2012), <http://news.yahoo.com/popes-butler-convicted-leaks-given-18-months-102852754.html> (last visited Nov. 24, 2012).

3. *Id.*

reproduction seem unrelated to goals traditionally advanced by either body of law.⁴ Thus, the way information is expressed may be protected by copyright and, until published, if it otherwise qualifies, information as such may also enjoy trade secret protection.⁵

When civil remedies are inadequate to deter theft and vindicate interests of owners and the public, civil remedies can be augmented with criminal penalties.⁶ Differences between tangibles and intangibles, however, are often seen to warrant different prosecutorial requirements and penalties.

The second part of this paper explains how federal courts, recognizing those differences, have come to find the National Stolen Property Act (“NSPA”)⁷ inapplicable to theft of at least some intangibles. Ones addressed there fall within the scope of the Federal Copyright Act (“FCA”)⁸ and the Economic Espionage Act of 1996 (“EEA”).⁹

State copyright jurisdiction is mostly preempted,¹⁰ so the third part of the paper focuses on state trade secret laws. It begins by noting that sources of civil trade secret law are nearly uniform whereas criminal law varies in important respects. Three noteworthy opinions then illustrate diverse state approaches. In one, the highest court in Massachusetts refuses to subject intangible property theft to provisions designed for tangible property.¹¹ In a second, an intermediate Florida appellate court endorses penalties for theft of both intangibles and tangibles where the overwhelming bulk of value resided in the former and the latter was subject to penalties three times larger.¹² In the third opinion, the New Hampshire Supreme Court affirms conviction for theft of intangibles in circumstances very much akin to those of concern to the Vatican tribunal in that only copies were stolen.¹³

The paper concludes, first, by echoing a suggestion that lack of uniformity in state law justifies federal penalties and expanded jurisdiction.¹⁴ It also advocates more uniformity and better articulation of the subject matter

4. See, e.g., *Religious Tech. Ctr. v. Netcom On-Line Commc’n. Servs., Inc.*, 923 F. Supp. 1231, 1239 (N.D. Cal. 1995) (alleging infringement of copyright in two sets of works and misappropriation of trade secrets in one set “which it alleges has been the subject of elaborate security measures”).

5. Compare 17 U.S.C. § 102(a) (West 2012) with 17 U.S.C. § 102(b) (West 2012). Only until information is published, is trade secret protection available for subject matter within the § 102(b) exclusion. Thus, in *U.S. v. Aleynikov (Aleynikov III)*, 676 F.3d 71, 73 (2d Cir. 2012), as discussed below, computer code that was protected by copyright also qualified for trade secret protection.

6. See, e.g., Irina D. Manta, *The Puzzle of Criminal Sanctions for Intellectual Property Infringement*, 24 HARV. J.L. & TECH. 469, 469 (2011).

7. 18 U.S.C. § 2314 (West 2012).

8. 17 U.S.C. §§ 101 *et seq.* (West 2012).

9. 18 U.S.C. §§ 1831–39 (West 2012).

10. See 17 U.S.C. § 301(a) (West 2012).

11. *Commonwealth v. Yourawski*, 425 N.E.2d 298 (Mass.1981).

12. *Taborsky v. State*, 659 So.2d 1112 (Fla. Dist. Ct. App. 1995).

13. *State v. Nelson*, 842 A.2d 83 (N.H. 2004).

14. See Peter J.G. Toren, *The Prosecution of Trade Secrets Thefts Under Federal Law*, 22 PEPP. L. REV. 59, 96 (1994).

contemplated by the term “intangibles” in, for example, the Model Penal Code.¹⁵ Finally, the paper argues that even when tangibles such as media are taken, courts should, for example, not base their value on the value of its intangible contents.

II. FEDERAL LAW

A. Copyrights

The FCA contains a key provision, unfortunately buried deeply:

On and after January 1, 1978, all legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106 in works of authorship that are fixed in a tangible medium of expression and come within the subject matter of copyright as specified by sections 102 and 103, whether created before or after that date and whether published or unpublished, are governed exclusively by this title. Thereafter, no person is entitled to any such right or equivalent right in any such work under the common law or statutes of any State.¹⁶

Thus, except for works not yet fixed,¹⁷ federal jurisdiction, both civil and criminal, is exclusive.

The Supreme Court, in *Dowling*, recounts the history of the latter through 1985.¹⁸ There, defendant had been convicted of selling unauthorized recordings of music that, itself, was covered by copyright.¹⁹ Yet “Congress did not extend federal copyright protection to sound recordings until the Sound Recording Act of 1971, and then only to sound recordings fixed after February 15, 1972. Therefore, most of the sound recordings involved in this case, as opposed to the musical compositions performed, are apparently not protected by copyright.”²⁰

After being convicted under the FCA,²¹ the NSPA,²² and the mail fraud

15. MODEL PENAL CODE § 223.0(6) (2011) (“‘property’ means anything of value, including real estate, tangible and intangible personal property . . .”).

16. 17 U.S.C. § 301(a) (West 2012).

17. *See id.* § 1101(d) (no preemption of state jurisdiction over rights in live musical performances).

18. *Dowling v. U.S.*, 473 U.S. 207, 218–21 (1985).

19. *Id.* at 208–09.

20. *Id.* at 211 n.4 (citations omitted).

21. 17 U.S.C. § 506 (1976).

22. 18 U.S.C. § 2314 (West 2012).

statute,²³ “Dowling appealed from all the convictions save those for copyright infringement, and the United States Court of Appeals for the Ninth Circuit affirmed in all respects.”²⁴ The Court, however, considers only the NSPA²⁵ “to resolve an apparent conflict among the Circuits concerning the application of the statute to interstate shipments of bootleg and pirated sound recordings”²⁶ where the stolen property consisted of copyright only.²⁷

Dowling begins by observing that copyrights are not ordinary chattels: “The infringer invades a statutorily defined province But he does not assume physical control over the copyright; nor does he wholly deprive its owner of its use.”²⁸ Turning to the NSPA itself, the Court concludes, following careful analysis of little interest here, that liability based on its language and origins is inappropriate.²⁹

The Court then states:

The history of copyright infringement provisions affords additional reason to hesitate Not only has Congress chiefly relied on an array of civil remedies to provide copyright holders protection against infringement, but in exercising its power to render criminal certain forms of copyright infringement, it has acted with exceeding caution.³⁰

Indeed, because the unauthorized sale of recordings in question occurred in 1979, the FCA did not cover them as such.³¹

After exploring that history at length, it notes:

The broad consequences of the Government’s theory . . . provide a final and dispositive factor against reading [the NSPA] in the manner suggested. For example, in *Harper & Row, Publishers, Inc. v. Nation Enterprises*, 471 U.S. 539 (1985), this Court very recently held that The Nation, a weekly magazine of political commentary, had infringed former President Ford’s copyright in the unpublished manuscript of his memoirs by verbatim excerpting of some 300 words from the

23. *Id.* § 1341 (mail fraud).

24. *Dowling*, 473 U.S. at 212.

25. *See id.* at 209 n.1.

26. *Id.* at 213 (footnote omitted).

27. *See id.* at 211 n.4 (“[T]he § 2314 counts rely solely on infringement of copyrights to musical compositions.”).

28. *Id.* at 216–17.

29. *Id.* at 217–18, 221.

30. *Dowling*, 473 U.S. at 221 (citations omitted).

31. *See id.* at 224 (recounting events leading up to the Piracy and Counterfeiting Amendments Act of 1982).

work. . . . [W]e would pause, in the absence of any explicit indication of congressional intention, to bring such conduct within the purview of a criminal statute making available serious penalties for the interstate transportation of goods “stolen, converted or taken by fraud.”³²

Moreover, as *Dowling* finds, “the field of copyright does not cabin the Government’s theory, which would as easily encompass the law of patents and other forms of intellectual property. . . . Thus . . . its view of the statute would readily permit its application to interstate shipments of patent-infringing goods.”³³ In the same vein, it mentions trademarks.³⁴

Until 1999,³⁵ the FCA penalized only infringement “for purposes of commercial advantage or private financial gain.”³⁶ With generic liability off the table, it became clear ten years later that even the most egregious private malefactors were immune from prosecution absent personal gain.³⁷ Thus, the portion of the statute most relevant here was amended to read:

(1) In general.— Any person who willfully infringes a copyright shall be punished as provided under section 2319 of title 18, if the infringement was committed—

(A) for purposes of commercial advantage or private financial gain;

(B) by the reproduction or distribution, including by electronic means, during any 180-day period, of 1 or more copies or phonorecords of 1 or more copyrighted works, which have a total retail value of more than \$1,000[.]³⁸

It might seem a stretch to apply copyright law to documents such as the papal papers, ones not intended for public exposure, much less reproduction

32. *Id.* at 226 (quoting the NSPA).

33. *Id.* at 226–27. No penal statute covers patent infringement; the only penalty applicable to patents is 35 U.S.C. § 292(a), amended by § 16(b) of the Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 (2011) (false marking).

34. *Dowling*, 473 U.S. at 227 n.20. Only trademark counterfeiting (a narrow subset of trademark infringement) carries federal criminal penalties. *See* 18 U.S.C. § 2320. It may also carry state criminal penalties. *See, e.g., Commonwealth v. Sow*, 860 A.2d 154, 154–55 (Pa. Super. Ct. 2004) (holding that federal law does not preempt the state’s ability to prosecute for trademark counterfeiting).

35. *See generally* Ting Ting Wu, *The New Criminal Copyright Sanctions: A Toothless Tiger?*, 39 IDEA: THE INTELLECTUAL PROPERTY LAW REVIEW 527 (1999) (explaining the significance of the 1999 change in the law).

36. *See Dowling*, 473 U.S. at 223.

37. *See U.S. v. LaMacchia*, 871 F. Supp. 535, 536, 545 (D. Mass. 1995).

38. 17 U.S.C. § 506(a) (West 2012).

and sale, but religious organizations have, indeed, obtained relief in similar circumstances.³⁹ Although copies neither intended for sale, nor sold, have no “retail” value in the hands of owners, the value to transferees would be expected to satisfy the requirement.

B. Trade Secrets

Although federal law provides no civil cause of action for trade secret misappropriation, prosecutors may seek penalties under the EEA.⁴⁰ Unless theft serves foreign interests,⁴¹ however, stolen secrets must be “related to or included in a product that is produced for or placed in interstate or foreign commerce.”⁴² That would cover most trade secret theft, but a recent case involving a former employee of Goldman Sachs & Company (“Goldman”) illuminates a serious gap.⁴³

After Sergey Aleynikov, a former Goldman employee, was indicted for theft of trade secrets in violation of the EEA, transporting stolen property in violation of NSPA, and unauthorized computer access under the Computer Fraud and Abuse Act,⁴⁴ he moved to dismiss each of these counts.⁴⁵

Aleynikov prevailed on the third because, although access was abused, the government conceded that it was authorized.⁴⁶ He was subsequently convicted under the NSPA and EEA for theft of proprietary computer source code,⁴⁷ but the Second Circuit reversed both.⁴⁸

The NSPA conviction was reversed based in part on *U.S. v. Bottone*,⁴⁹ a Second Circuit opinion that upholds a conviction under the NSPA despite the fact that, as claimed in the Vatican case,⁵⁰ purloined media were copies, not originals.⁵¹ The force of that part of the case is, however, weakened because

39. See, e.g., *Intellectual Reserve, Inc. v. Utah Lighthouse Ministry, Inc.*, 75 F. Supp. 2d 1290, 1291, 1295 (D. Ut. 1999) (halting links to a handbook); see also, e.g., *Religious Tech. Ctr. v. Netcom On-Line Commc'n. Servs., Inc.*, 923 F. Supp. 1231, 1239, 1258 (N.D. Cal. 1995) (copyright claim failed for different reasons).

40. 18 U.S.C. §§ 1831–39 (West 2012).

41. See *id.* § 1831(a).

42. *Id.* § 1832(a).

43. See generally *Aleynikov III*, 676 F.3d 71 (2d Cir. 2012).

44. 18 U.S.C. § 1030(a)(2)(C), 1030(c)(2)(B)(i)–(iii) (West 2012) As many will recall, an indictment under this statute recently led Aaron Swartz, an internet pioneer, to commit suicide sparking calls for amendment. See, e.g., Suzanne Choney, ‘Aaron’s Law’ to honor Internet activist, redefine computer fraud, NBC NEWS (Jan. 18, 2013), <http://www.nbcnews.com/technology/technolog/aarons-law-honor-internet-activist-redefine-computer-fraud-1B8005442> (last visited Jan. 18, 2013).

45. *U.S. v. Aleynikov (Aleynikov I)*, 737 F. Supp. 2d 173, 175–76 (S.D.N.Y. 2010).

46. *Id.* at 194.

47. *U.S. v. Aleynikov (Aleynikov II)*, 785 F. Supp. 2d 46, 51 (S.D.N.Y. 2011).

48. *Aleynikov III*, 676 F.3d at 73.

49. 365 F.2d 389 (2d Cir. 1966).

50. See Winfield, *supra* note 2.

51. See *Bottone*, 365 F.2d at 393.

the stolen cultures of microorganisms that clearly qualified as goods also moved in commerce, indeed, to Italy.⁵² Although the jury had not been asked to determine whether the cultures as well as the photocopies and the like had met the \$5000 statutory threshold,⁵³ the court seems to believe that it would have so found if asked. Moreover, it dismisses the significance of the threshold, saying:

“The only reason for the \$5,000 limitation is to avoid overtaxing the Department of Justice. There is no legitimate interest of (defendants) . . . which the Congress sought to protect by this requirement.”

We have not the slightest question that the jury would have properly convicted on all counts if only the transportation of cultures had been charged, and the papers had been relied on simply as demonstrating the scope of the criminal enterprise and as enhancing the value of the microorganisms.⁵⁴

That aside, *Bottone* says, “where no tangible objects were ever taken or transported, a court would be hard pressed to conclude that ‘goods’ had been stolen and transported within the meaning of 2314.”⁵⁵

Because Aleynikov took no media, the court echoes *Bottone* and concludes, “[s]ome tangible property must be taken from the owner for there to be deemed a ‘good’ that is ‘stolen’ for purposes of the NSPA.”⁵⁶ Moreover, that “reading of the NSPA is confirmed by the Supreme Court’s opinion in *Dowling*.”⁵⁷ Applying *Dowling*’s logic, if not its holding,⁵⁸ the Second Circuit therefore joins other Circuits to find theft of trade secrets outside the ambit of the NSPA.⁵⁹

The EEA conviction was reversed, too, because “Goldman’s [high-frequency trading] system was neither ‘produced for’ nor ‘placed in’ interstate or foreign commerce. Goldman had no intention of selling its HFT system or licensing it to anyone.”⁶⁰

It is difficult to imagine why Goldman’s computer source code was not

52. *See id.* at 392.

53. *See id.* at 394.

54. *Id.* (quoting *U.S. v. Schaffer*, 266 F.2d 435, 440 (2d Cir. 1959), *aff’d*, 362 U.S. 511 (1960)).

55. *U.S. v. Aleynikov (Aleynikov III)*, 676 F.3d 71, 77 (2d Cir. 2012) (quoting *Bottone*, 365 F.2d at 393).

56. *Aleynikov III*, 676 F.3d at 77.

57. *Id.*

58. *Id.* at 77 n.4.

59. *See id.* at 77–78 (citing 10th, 7th, and 1st Circuit cases).

60. *Id.* at 82 (citing a district court opinion and quoting § 2413).

also covered by copyright.⁶¹ It, therefore, seems remarkable that Aleynikov was not also indicted under FCA § 506(a)(1).⁶² Given that the jury found Aleynikov guilty of violating the NSPA and the EEA,⁶³ it is hard to believe that it would not also have found that Goldman's code was taken for "private financial gain" as forbidden by § 506(a)(1)(A). If so, conviction would have warranted imprisonment for up to ten years.⁶⁴

The problem revealed by *Aleynikov* has since been addressed "by striking 'or included in a product that is produced for or placed in' and inserting 'a product or service used in or intended for use in'" in § 1832(a) of the EEA.⁶⁵ It is remarkable that substituted language does not read, for example, "a product or service used in or intended for a use that affects."⁶⁶ Thus, the amendment seems not to go far enough.⁶⁷

In any event, information of the type misappropriated at the Vatican could now be covered by the EEA despite its being unrelated to any product. Nor would the value threshold noted in *Bottone* present a problem.⁶⁸ Possibly for reasons mentioned there,⁶⁹ no value threshold appears in the EEA's definition of trade secret⁷⁰ or in sections spelling out forbidden conduct.⁷¹ Such information would nevertheless be difficult to fit within the EEA's trade secret definition.⁷²

61. See, e.g., *Syntek Semiconductor Co., Ltd. V. Microchip Tech. Inc.*, 307 F.3d 775, 779, 782–83 (9th Cir. 2002).

62. The district court mentions that Aleynikov was "charged in a three count indictment," but he was tried on only two of the counts. *U.S. v. Aleynikov (Aleynikov II)*, 785 F. Supp. 2d 46, 51 (S.D.N.Y. 2011). The term, "copyright" appears repeatedly in that opinion, but no reference is found to the FCA.

63. *Aleynikov III*, 676 F.3d at 73.

64. 18 U.S.C. § 2319(b)(2) (West 2012).

65. Theft of Trade Secrets Clarification Act of 2012, Pub. L. No. 112-236, 126 Stat. 1627 (2012).

66. Compare 18 U.S.C. § 1832(a) (West 2012) with 18 U.S.C. § 2320 (West 2012) (trademark counterfeiting). The latter makes no reference to commerce, but Lanham Act § 45, 15 USC § 1127, says, "commerce" means all commerce which may lawfully be regulated by Congress." 15 U.S.C. § 1127 (West 2012). It is difficult to understand why an equivalent view of commerce would be inappropriate for federal trade secret legislation.

67. See Peter J. Toren, *An Analysis of Economic Espionage Act Prosecutions: What Companies Can Learn From It and What the Government Should Be Doing About It!*, 84 PAT. TRADEMARK & COPYRIGHT J. 884 (Bloomberg BNA, Sep. 21, 2012); see also Peter Toren, *Criminal Trade Secret*, PETERTOREN.COM, <http://petertoren.com/criminal-trade-secret/> (last visited Dec. 9, 2012) ("I was involved in the drafting of the EEA as a trial attorney with Computer Crime & Intellectual Property Section of the United States Department of Justice. Further, the legislative history of the EEA cited a law review article of mine that advocated for a federal criminal trade secrets law."). The article referenced in the quotation is not cited on the web page, but it is Peter J.G. Toren, *The Prosecution of Trade Secrets Thefts under Federal Law*, 22 PEPP. L. REV. 59, 96–98 (1994), and is discussed in Part III(A) below.

68. See *U.S. v. Bottone*, 365 F.2d 389, 394 (2d Cir. 1966) (quoting *U.S. v. Schaffer*, 266 F.2d 435, 440 (2d Cir. 1959), *aff'd*, 362 U.S. 511 (1960)).

69. See *id.*

70. See 18 U.S.C. § 1839(3) (West 2012).

71. See *id.* § 1831 (prohibited conduct that benefits foreign entities); and see *id.* § 1832 (prohibited conduct that benefits anyone other than owners).

72. As defined by § 1839(3), the term is limited to "financial, business, scientific, technical, economic or engineering information." 18 U.S.C. § 1839(3) (West 2012).

III. STATE LAW

A. Generally

State prosecution for copyright infringement is barred because state action to vindicate “legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright” is preempted.⁷³

Aleynikov’s prosecution for theft under the EEA failed in part for lack of a product “produced for or placed in interstate or foreign commerce.”⁷⁴ Despite that limitation, he could have been prosecuted under the law of several states, and, he is, in fact being prosecuted under New York state law.⁷⁵

It also warrants mention that preemptive limits on state jurisdiction have extended beyond copyrights since 1964, when a pair of cases suggested that any state’s prohibition of copying unpatented goods would be preempted by federal patent laws.⁷⁶ Not until the *Kewanee* decision in 1974 did it become clear that state trade secret jurisdiction is not barred.⁷⁷ Indeed, as Justice Marshall writes:

Unlike the Court, I do not believe that the possibility that an inventor with a patentable invention will rely on state trade secret law rather than apply for a patent is “remote indeed. . . .” I have no doubt that the existence of trade secret protection provides in some instances a substantial disincentive to entrance into the patent system

. . . State trade secret laws and the federal patent laws have co-existed for many, many years. During this time, Congress has repeatedly demonstrated its full awareness of the existence of the trade secret system Indeed, Congress has in a number of instances given explicit federal protection to trade secret information provided to federal

73. 17 U.S.C. § 301(a) (West 2012).

74. See *U.S. v. Aleynikov* (Aleynikov III), 676 F.3d 71, 79–80 (2d Cir. 2012) (interpreting 18 U.S.C. § 1832(a) (West 2012) in light of equivalent language in 18 U.S.C. § 1831 (West 2012)).

75. See Brian Mahoney, *Ex-Goldman Coder Can’t Collect \$2.4M in Attys’ Fees Yet*, LAW360 (Dec. 18, 2012), <http://www.law360.com/articles/402298> (“Aleynikov was arrested again in August and indicted by a New York State grand jury for offenses related to the alleged theft.”).

76. *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 232–33 (1964); *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234, 238 (1964) (holding that “if the design is not entitled to a design patent or other federal statutory protection, then it can be copied at will”).

77. *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 493 (1974).

agencies.⁷⁸

Limits nevertheless remain. Perhaps the most significant is *Kewanee's* observation that trade secret law “does not offer protection against discovery by fair and honest means, such as by independent invention, accidental disclosure, or by so-called reverse engineering.”⁷⁹ Potentially most significant is the suggestion that states could not, should they so desire, penalize someone who accidentally obtained a secret.

In support of a recommendation that appears to have led to creation of the EEA,⁸⁰ Peter Toren found that prosecuting trade secret theft to be difficult in thirty states.⁸¹ When he wrote, only eight explicitly forbade it.⁸² Perhaps following the Model Penal Code,⁸³ twelve states explicitly forbade theft of intangible property.⁸⁴ Toren, therefore, regarded conviction in the remaining thirty as problematic absent theft of something tangible.⁸⁵ Even among states that enable prosecution for trade secret theft, reported opinions are rare.⁸⁶ For example, none have been found outside of California, Florida,

78. *Id.* at 493–94 (Marshall, J., concurring). Subsequent enactment of the EEA certainly reinforces his view.

79. *Id.* at 476.

80. See Toren, *supra* note 14, at 96–98.

81. *Id.* at 95 n.257 (providing a list of states). Updating that list has proven difficult. BLOOMBERG LAW, CORPORATE PRACTICE SERIES PORTFOLIO 43-3D: TRADE SECRETS: PROTECTION AND REMEDIES, TRADE SECRETS, WORKSHEET 12 STATE STATUTES IMPOSING CRIMINAL SANCTIONS FOR TRADE SECRET MISAPPROPRIATION, available at <http://www.bloomberglaw.com> (listing 19 states); MELVIN F. JAGER, 1 TRADE SECRETS LAW § 4:4 n.16 (2012) (listing 24 states). None of those lists, however, contain UTAH CODE ANN. § 76-6-401(1) (2012), which includes, among property interests protected by the Utah Criminal Code, “trade secrets, meaning the whole or any portion of any scientific or technical information, design, process, procedure, formula or invention which the owner thereof intends to be available only to persons selected by him.”

82. *Id.* at 95 n.251.

83. MODEL PENAL CODE AND COMMENTARIES § 223.0(6) (American Law Institute) (Official Draft and Revised Comments 1980) (“‘property’ means anything of value, including real estate, tangible and intangible personal property . . .”).

84. Toren, *supra* note 14, at 95 n.251.

85. *Id.* at 94–95; see, e.g., Jun Yang, Kyunghye Park, *The Curious Case of Samsung's Missing TVs*, BLOOMBERG BUSINESSWEEK (Nov. 29, 2012), available at <http://www.bloomberglaw.com/document/ME9QGN3HBS3K> (“While it would be difficult to reverse-engineer the fundamentals of OLED technology from the missing televisions, simply understanding how Samsung packed the parts inside the superthin sets would be valuable information for thieves.”).

86. This is also true of state civil cases because the opinions of state trial courts are infrequently reported. See, e.g., David S. Almeling et al., *A Statistical Analysis of Trade Secret Litigation in State Courts*, 46 GONZ. L. REV. 57, 59 (2011); see also, David S. Almeling et al., *A Statistical Analysis of Trade Secret Litigation in Federal Courts*, 45 GONZ. L. REV. 291, 292 (2010) (“The theft of trade secrets is also big business, costing companies as much as \$300 billion per year.”). This, no doubt, accounts for the exponential growth of trade secret litigation in federal courts. “[T]rade secret cases doubled in the seven years from 1988 to 1995, and doubled again in the nine years from 1995 to 2004. At the projected rate, trade secret cases will double again by 2017.” *Id.* at 293 (footnotes omitted).

Georgia, and Texas within the past three decades.⁸⁷

Before theft of “trade secrets” can be penalized, the term must be defined. In the context of private torts, its definition has been relatively uniform since 1939: “A trade secret may consist of any formula, pattern, device or compilation of information which *is used* in one’s business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it.”⁸⁸

As noted in the Restatement (Third) of Unfair Competition, “Some early cases elevated use by the trade secret owner to independent significance.”⁸⁹ Now, however, “Use by the person asserting rights in the information is not a prerequisite to [trade secret] protection.”⁹⁰ That view is also reflected in the Uniform Trade Secrets Act (UTSA)⁹¹ and the EEA.⁹² Most states have adopted the UTSA,⁹³ but nothing equivalent exists for state prosecution of theft of intangibles, even when trade secrets are referenced explicitly.

Three opinions are considered below in chronological order. They seem ample to illustrate important problems that would be faced by state courts in dealing with situations similar to those illustrated by *Aleynikov*,⁹⁴ or the Vatican controversy.⁹⁵ Moreover, unlike most of the few cases that have been found,⁹⁶ the highest courts in the state issued the first and third opinions.

87. A Westlaw query (da(aft 1/1/1982) & “trade secret” & indict! convict! /s criminal, theft, steal, stolen in ALLSTATES database) yielded roughly a dozen relevant opinions among many results. Such a search would not, however, pick up prosecutions for theft of *tangibles* such as those discussed *supra* note 84.

88. RESTATEMENT (FIRST) OF TORTS § 757, cmt. b (1939) (emphasis added).

89. RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmt. e (1995).

90. *Id.*

91. UNIFORM TRADE SECRETS ACT § 1(4) (Nat’l Conference on Uniform State Laws) (1985) (protecting information that “derives independent economic value, *actual or potential*, from not being generally known” (emphasis added)); *see also* RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 (defining a trade secret as “any information that *can be used* in the operation of a business or other enterprise and that is sufficiently valuable and secret to afford an actual or potential economic advantage over others” (emphasis added)).

92. *See* 18 U.S.C. § 1839(3)(B) (1996) (protects information that “derives independent economic value, *actual or potential*, from not being generally known” (emphasis added)). But note that § 1832(a), quoted *supra* note 41, differs in that respect.

93. *See* PAUL GOLDSTEIN & R. ANTHONY REESE, SELECTED STATUTES AND INTERNATIONAL AGREEMENTS ON PATENT, COPYRIGHT, TRADEMARK, AND UNFAIR COMPETITION 28–29 (2012) (listing 48 states and other U.S. jurisdictions that have adopted the Act). Delaware is apparently the only state to incorporate by reference the UTSA definition in its criminal code. *See* DEL. CODE ANN. 11, § 857(9).

94. *See* U.S. v. Aleynikov (Aleynikov III), 676 F.3d 71, 79 (2d Cir. 2012).

95. *See* Winfield, *supra* note 2.

96. *See supra* note 87 and accompanying text.

B. *Yourawski*⁹⁷

On facts similar to those in *Dowling*,⁹⁸ *Yourawski* was prosecuted for larceny where the property in question was a motion picture on media not itself stolen.⁹⁹ Refusing to follow pre-*Dowling* federal opinions where such action was found within the scope of NSPA,¹⁰⁰ the opinion holds:

We do not read the definition of “property” in G.L. c. 266, § 30(2), as reaching the property interest that is alleged to have been stolen in this case. Certainly, the images and sounds captured on the cassette tapes are not within any of the items specified in § 30(2). We have [sic *not*] treated § 30(2)’s definition of property as all-inclusive, apart from items that were subject to larceny at common law. *Commonwealth v. Engleman*, *supra*, 336 Mass. [66] at 69, 142 N.E.2d 406. Thus, we have not read the word “property” in § 30(2) as broadly as the Federal courts have read the words “goods, wares (and) merchandise” in § 2314. For example, *United States v. Bottone*, [365 F.2d] at 393-394, held an intangible trade secret to be within § 2314, whereas *Commonwealth v. Engleman*, *supra*, held that theft of a trade secret was not a violation of our larceny statute.¹⁰¹

The court also points out that “the knowing receipt of stolen trade secrets” was added elsewhere in the statute in 1967.¹⁰²

It warrants mention that the court says:

In light of our conclusion that the intellectual property appearing on the cassette tapes is not property within the meaning of the definition appearing in G.L. c. 266, § 30(2), we need not consider the defendants’ further argument that the Commonwealth’s power to regulate conduct of the type alleged in these indictments is preempted¹⁰³

97. *Commonwealth v. Yourawski*, 425 N.E.2d 298 (Mass.1981).

98. *See Dowling v. U.S.*, 473 U.S. 207, 211 n.4 (1985) (citations omitted).

99. *Yourawski*, 425 N.E.2d at 298–99.

100. One was *U.S. v. Bottone*, 365 F.2d 389 (2d Cir. 1966), discussed above at notes 49–55.

101. *Yourawski*, 425 N.E.2d at 299. It is clear in context that the third sentence omits a critical “not.” *Id.*; *see also U.S. v. Aleynikov (Aleynikov III)*, 676 F.3d 71, 77 (2d Cir. 2012) (showing that *Bottone* is read otherwise in *Aleynikov III*). Moreover, any suggestion that *Bottone* might have countenanced convictions for record piracy under the NSPA is clearly overruled by *Dowling*. *See Dowling*, 473 U.S. at 218–22.

102. *Yourawski*, 425 N.E.2d at 299.

103. *Id.* at 300; *see also id.* n.4 (referencing 17 U.S.C. § 301).

C. *Taborsky*¹⁰⁴

Taborsky, approving a revocation of probation, is the last in a series of opinions addressing the same events.¹⁰⁵ Indeed, a related civil case offers useful information about the indictment: “*Taborsky* [who took] laboratory notebooks containing proprietary and confidential research . . . was charged with . . . one count of second degree grand theft and . . . one count of theft of trade secrets.”¹⁰⁶

On the trade secret count, he might have served five years;¹⁰⁷ on the grand theft count, he might have served fifteen.¹⁰⁸ In the opinions, no reference is found to anything tangible other than the notebooks, so the second count is apparently based on their being valued between \$20,000 and \$100,000.¹⁰⁹

Following repeated refusals to return the notebooks,¹¹⁰ resulting in repeated revocations of probation, *Taborsky* was imprisoned.¹¹¹ Although he served eighteen months,¹¹² he might have served fifteen years, triple the penalty for theft of secrets that overwhelming comprised the value of the notebooks.¹¹³ *Dowling*, for example, seems to stand for the proposition that, when two provisions might apply, the specific should prevail over the general.¹¹⁴ If the Florida legislature believed that a particular penalty should apply to a given crime, why would it regard a larger penalty as appropriate

104. *Taborsky v. State*, 659 So.2d 1112 (Fla. Dist. Ct. App. 1995).

105. *Id.* at 1113.

106. *Regents v. Taborsky*, 648 So.2d 748, 749 (Fla. Dist. Ct. App. 1994).

107. See FLA. STAT. ANN. § 812.081(3) (“Any person who . . . steals or embezzles an article representing a trade secret . . . is guilty of a felony of the third degree.”); see also FLA. STAT. ANN. § 775.082(d) (felony of the third degree punishable by “by a term of imprisonment not exceeding 5 years”).

108. See FLA. STAT. ANN. § 812.014(2)(b)(1) (stealing property valued between \$20,000 and \$100,000 is a felony of the second degree); see also FLA. STAT. ANN. § 775.082(c) (felony of the third degree punishable by “by a term of imprisonment not exceeding 15 years”).

109. *Taborsky*, 648 So.2d at 749–50.

110. Had *Taborsky* returned the notebooks, it would have made no difference under the Florida trade secret statute. See FLA. STAT. ANN. § 812.081(3) (“In a prosecution for a violation of the provisions of this section, it is no defense that the person so charged returned or intended to return the article so stolen, embezzled, or copied.”).

111. *Taborsky v. State*, 659 So.2d 1112 (Fla. Dist. Ct. App. 1995).

112. See IP Advocate, *Taborsky Case Study: Wastewater Treatment*, available at <http://www.ipadvocate.org/studies/taborsky/> (last visited Nov. 25, 2012) (“[*Taborsky*] was behind bars for a year and a half, four months of which were in a maximum security facility and two months of that on a chain gang. After his release in April 1997, [*Taborsky*] continued to pursue the overturn of his conviction.”). This is only one of many accounts found by searching for “*Petr Taborsky*.”

113. See *supra* notes 108–10.

114. See *Dowling v. U.S.*, 473 U.S. 207 (1985).

for essentially the same conduct?

D. *Nelson*¹¹⁵

The facts in the final case considered here most resemble those at issue in the Vatican.¹¹⁶ As the opinion recounts:

In early 2001, the defendant entered his tenants' apartment with their permission to install a ceiling fan. When the couple left, the defendant entered their bedroom and, without permission, took possession of several intimate photographs of the female tenant, which he found on top of a dresser. He brought the pictures to his nearby apartment, scanned them into his computer, and then returned them to their original location. Several months later, the tenants learned of the defendant's actions and reported the matter to the police. The defendant admitted what he had done when the police confronted him.¹¹⁷

As also related in the opinion, Nelson, in his appeal following conviction for receiving stolen property, argues that “the computer-scanned photographic images generated from the original photographs are not ‘property’ within the meaning of the theft chapter.”¹¹⁸ Additionally, “[h]e further contends that the State’s evidence, as a matter of law, did not establish either that the images he retained on his computer constituted ‘property of another,’ or that he had a ‘purpose to deprive’ the owner of the photographic images.”¹¹⁹

Rejecting Nelson’s argument that holding the images on his computer did not amount to receipt of stolen property,¹²⁰ the court turns to the statutory definition of property underlying such penalties.¹²¹ As stated there, “property” covers “anything of value, including . . . intangible personal property,” as well as services, and trade secrets.¹²² The court then concludes on a point highly relevant here:

Integral to ownership . . . is the right to exclude others from possessing, using and enjoying a particular item of property.

115. *State v. Nelson*, 842 A.2d 83 (N.H. 2004)

116. *See Winfield*, *supra* note 2.

117. *Nelson*, 842 A.2d at 84.

118. *Id.*

119. *Id.*

120. N.H. REV. STAT. ANN. 637.7(I) (1986).

121. *Nelson*, 842 A.2d at 84–85.

122. N.H. REV. STAT. ANN. 637.2 (1996).

Thus, the owner of the photographs at issue had the right to select who would have access to view them. Though the defendant returned the original photographs, he kept a computer reproduction of the captured images, without permission, and it is these images he was convicted of unlawfully retaining. Therefore, the evidence was sufficient as a matter of law¹²³

Nelson's attorney did not argue that theft of such images may only be prosecuted under the FCA.¹²⁴ Indeed, had federal prosecution been attempted, the need to demonstrate that the stolen images had a retail value exceeding \$1000 could have presented serious difficulty.¹²⁵

In any event, had preemption been argued, that too might have failed. Insofar as information in the photographs was apparently not intended for public viewing, it might as readily fall within the realm of trade secrets as copyrights. If so, state jurisdiction would not be defeated by federal preemption.

IV. SUMMARY AND CONCLUSIONS

Since January 1, 1978, copyright in documents, published or unpublished, is exclusively a matter of federal law.¹²⁶ After *Dowling*,¹²⁷ federal prosecutions based on generic penal statutes seem unlikely except for theft of media that happens to contain copyrighted subject matter.¹²⁸ Nor, in

123. *Nelson*, 842 A.2d at 86.

124. See 17 U.S.C. § 301(a); *supra* notes 16–17 and accompanying text.

125. See 17 U.S.C. § 506(a)(1)(B); *supra* notes 35–38 and accompanying text. It might seem strange that preemption was not argued, but two other related statutes may have led the attorney astray. The first, enacted in 1895, N.H. REV. STAT. ANN. § 352:1, reads as follows:

Whenever any person, firm, association or corporation is the owner of any literary, dramatic or musical composition and the rights of the author pertaining thereto, and such composition has not been copyrighted, printed or published, or of any map, charter, engraving, cut, print, photograph or negative thereof, statue, statuary, model or design, which has not been copyrighted or offered for sale, it shall be unlawful for any other person to publish, produce, print, or sell or offer to sell the same without first obtaining the consent of the owner thereof.

The other, N.H. REV. STAT. ANN. § 352:2, reads, “Whoever violates RSA 352:1 shall be guilty of a misdemeanor.” Those statutes do not facially cover photographic images, which is not surprising in light of their age, but they may not have been seen to offer any comparative advantage.

126. 17 U.S.C. § 301(a); *supra* note 16 and accompanying text.

127. *Dowling v. U.S.*, 473 U.S. 207, 220 (1985) (“Congress acted under its commerce power to assist the States’ efforts to foil the ‘roving criminal,’ whose movement across state lines stymied local law enforcement officials”) (citation omitted).

128. See *id.* at 214 (“[T]he Government does not suggest that Dowling wrongfully came by the phonorecords actually shipped or the physical materials from which they were made.”).

the latter instance, would anything seem to bar state prosecution.¹²⁹

Since 1996, federal prosecution for theft of trade secrets has been possible under the EEA.¹³⁰ As mentioned above, the facts of *Aleynikov*¹³¹ illustrate how prosecution under that act could easily overlap with prosecution under the FCA.¹³² Why the latter was not pursued is a mystery.¹³³ In any event, prosecution under both the NSPA and the EEA failed because no goods were involved.¹³⁴ The latter failure appears to have resulted from an inadvertent legislative gap apt now closed.¹³⁵

States clearly may prosecute those who steal goods,¹³⁶ but prosecution for theft of intangibles has long been based on an assortment of statutes,¹³⁷ at least one of which is preempted.¹³⁸ Published copyrightable subject matter is beyond the reach of state law, civil or penal, but little other than individual state's statutory limits¹³⁹ prevents the theft of unpublished information that might qualify as a trade secret.¹⁴⁰

Roughly half of the states penalize theft of trade secrets specifically,¹⁴¹ but those that do offer definitions may be difficult to reconcile with intangible property such as was stolen in the Vatican case.¹⁴² With regard to that, one opinion finds, "at least some precedent for granting trade secret status to works that are techniques for improving oneself (though not specifically spiritually). Conversely, there is no authority for excluding religious materials from trade secret protection because of their nature."¹⁴³ That opinion, however, concerns a civil dispute, giving cause to wonder whether courts would resolve the issue the same way in a criminal case.¹⁴⁴

129. See *id.* at 220 (noting that the NSPA was intended to supplement, not supplant state jurisdiction).

130. See 18 U.S.C. §§ 1831–39 (1996); *supra* notes 41–43 and accompanying text.

131. See *U.S. v. Aleynikov* (*Aleynikov I*), 737 F. Supp. 2d 173, 194 (S.D.N.Y. 2010); *supra* note 45 and accompanying text.

132. See *U.S. v. Bottone*, 365 F.2d 389, 393 (2d Cir. 1966).

133. See *generally id.*

134. See *U.S. v. Aleynikov* (*Aleynikov III*), 676 F.3d 71, 77 (2d Cir. 2012); *supra* note 55 and accompanying text.

135. See Theft of Trade Secrets Clarification Act of 2012, Pub. L. No. 112-236 (2012); *supra* notes 65–67 and accompanying text.

136. See *Dowling v. U.S.*, 473 U.S. 207, 220 (1985) (noting that the NSPA intended to supplement, not supplant state jurisdiction).

137. See *supra* notes 81–87 and accompanying text.

138. See N.H. REV. STAT. ANN. § 352:1, 2 which is preempted by 17 U.S.C. § 301(a); *supra* note 125 and accompanying text.

139. See also *Kewanee*, 416 U.S. at 476; *supra* note 77 and accompanying text.

140. *C.f.* RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 40(b)(4) (1995) (suggesting that one might be forbidden to use materials acquired as a result of "accident or mistake"). That is unlikely to come into play, however, unless accidental acquisition are regarded as made by "theft."

141. See *supra* note 67 and accompanying text.

142. See *Winfield*, *supra* note 2.

143. *Religious Tech. Ctr. v. Netcom On-Line Comm'n. Servs.*, 923 F. Supp. 1231, 1252 (N.D. Cal. 1995) (applying a version of the UTSA).

144. *But see* DEL. CODE ANN. tit. 11 § 857 (providing for use of the definition in that state's version of the UTSA).

Many states penalize theft of “intangible personal property,”¹⁴⁵ but no state definitions of that term have been found.¹⁴⁶ What might it cover other than information akin to trade secrets, possibly including non-economic as well as economic interests? Must it be alienable? Does it include domain names that are alienable?¹⁴⁷ Does it include trademark-related interests alienable but only when included with the sale of a related business?¹⁴⁸ What of rights of publicity?¹⁴⁹

In that respect, the facts in *Nelson*¹⁵⁰ press the limits of intangible property interests subject to state penal control. One might wonder how the New Hampshire court might have responded if copyright preemption been called to its attention.¹⁵¹ It seems even more of a stretch than with some religious documents¹⁵² to regard the contents of the photographs in issue as “trade secrets.”¹⁵³

Privacy seems to have been the victim’s central interest in *Nelson*,¹⁵⁴ and possibly also in the Vatican case.¹⁵⁵ It seems highly inappropriate to regard an invasion of privacy as theft of property.¹⁵⁶

Such issues seem ripe for careful legislative attention. Having that in mind, courts should consider such matters as whether a legislature would set, for whatever reason, the penalty for theft of trade secrets at five years, if it intended that the simultaneous theft of otherwise valueless media would warrant a fifteen year sentence.¹⁵⁷

145. See *supra* note 67 and accompanying text.

146. That issue was central, however, in *Doe v. Friendfinder Network, Inc.*, 540 F. Supp. 2d 288 (D.N.H. 2008). Details are of no consequence here, but the court found that “intellectual property” covered a violation of the right of publicity but not an invasion of a right of privacy because the latter is “a personal right, peculiar to the individual . . . which cannot be transferred like other property interests.” *Id.* at 302–03 (citations omitted).

147. See, e.g., § 43(d)(1)(B)(i)(VI) of the Lanham Act, 15 U.S.C. § 1125(d)(1)(B)(i)(IV) (making a domain name registrant’s intention to assign rather than use it one of several indicia of bad faith registration, or “cyberpiracy”).

148. See, e.g., Lanham Act § 10(a)(1), 15 U.S.C. § 1060(a)(1).

149. See *Friendfinder*, 540 F. Supp. 2d at 288.

150. See *State v. Nelson*, 842 A.2d 83, 84 (N.H. 2004); *supra* note 117 and accompanying text.

151. See N.H. REV. STAT. ANN. §§ 352.1-2; *supra* note 124 and accompanying text.

152. See *Religious Tech. Ctr. v. Netcom On-Line Commc’n. Servs.*, 923 F. Supp. 1231 (N.D. Cal. 1995); *supra* note 143 and accompanying text.

153. See *Nelson*, 842 A.2d at 84.

154. See *id.* at 86; *supra* note 124 and accompanying text.

155. See *Winfield*, *supra* note 2.

156. See *supra* note 133.

157. See FLA. STAT. ANN. § 812.081(3); FLA. STAT. ANN. § 812.014(2); *Regents v. Taborsky*, 648 So.2d 748 (Fla. Dist. Ct. App. 1994); *supra* notes 105–107 and accompanying text; see also *Dowling v. U.S.*, 473 U.S. 207, 213–14 (1985);

This paper only scratches the surface, but it should support the ultimate conclusion that much remains to be done at the state level if penalties are to be imposed, as well they should be, for crimes involving trade secrets and other intangible property.¹⁵⁸ If, as this author expects, it would foster better understanding and bring more state resources to bear on increasingly important criminal activity¹⁵⁹ something in the nature of a penal UTSA might result in more state prosecutions.¹⁶⁰

The rule that penal laws are to be construed strictly, is perhaps not much less old than construction itself. It is founded on the tenderness of the law for the rights of individuals; and on the plain principle that the power of punishment is vested in the legislative, not in the judicial department. It is the legislature, not the Court, which is to define a crime, and ordain its punishment. (quoting *United States v. Wiltberger*, 5 Wheat. 76 (1820)).

158. See Winfield, *supra* note 2.

159. See Yang, *supra* note 85 (“[T]he FBI says its pending caseload of espionage cases represents losses to the American economy of more than \$13 billion this fiscal year.”). It seems likely that many cases are too small to warrant federal attention.

160. See DEL. CODE ANN. tit. 11 § 857(9).