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The Revival of a Four Year—Old Trade Secrets Prosecution May Shed Light on Whether the U.S. Government Can Effect Service on Foreign Corporations Without a U.S. Presence

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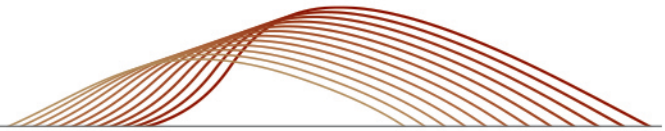
Combating the theft of trade secrets remains a top priority for the United States government. The Senate Judiciary Committee continues to discuss the Defend Trade Secrets Act, S. 1890, a bill that would create a federal civil cause of action for trade secret theft. The White House has focused on diplomatic efforts to increase cooperation with foreign governments related to the protection of trade secrets, and the United States Department of Justice ("DOJ") continues to prosecute alleged trade secret violations, even against foreign-based corporations and nationals. For example, earlier this month, prosecutors filed a Third Superseding Indictment (the "TSI") against Pangang Group Co., Ltd. and related overseas affiliates ("Pangang") alleging, among other things, that Pangang engaged in a conspiracy to steal, and did steal, trade secrets related to E.I. du Pont de Nemours & Co.'s ("DuPont") development of chloride-route titanium oxide ("TiO2"), a pigment used in paints, varnishes, and paper products to make them appear whiter. All of these reflect the U.S. government's continued and increasing focus on trade secrets investigations and prosecutions.

The *Pangang* TSI is particularly instructive for what it suggests about the DOJ's views regarding the ongoing debate concerning the U.S. government's ability to effect service on foreign corporations without a U.S. presence. The return of the TSI in *Pangang* comes after several years of litigation, the conviction and sentencing of individual defendants, nearly 1000 court filings, and a prior court order finding that the DOJ could not serve a federal criminal summons on Pangang. Aside from signaling the persistence of federal prosecutors in investigating and charging trade secrets cases, the filing of the TSI is interesting because of the U.S. government's repeated—but unsuccessful—attempts to serve the criminal summons, a precondition to the exercise of the court's jurisdiction over the Chinese state-owned enterprise. Those efforts were unsuccessful because the U.S. government could not establish compliance with the requirements of Federal Rule of Criminal Procedure 4 ("Criminal Rule 4"), which mandates delivery of the summons to an officer or agent of the company and mailing a copy of the summons to the defendant's principal place of business in the U.S. Significantly, the cover page of the TSI contains a handwritten note indicating that the "summonses for the corporate defendants [shall demand … an appearance on] December 16, 2016 at 9:30am[.]" But, what is so magical about December 16, 2016?



The timing of the request for issuance of the summons and an appearance date is not coincidental. There is no appellate guidance on the threshold question of whether, barring the application of an alter ego, general manager, or other agency theory, Criminal Rule 4 permits the U.S. government to summon an organizational defendant from abroad; and, only a handful of district courts have addressed the issue. As such, and as we have previously profiled, the U.S. Judicial Conference's Advisory Committee on the Federal Rules of Criminal Procedure (the "Advisory Committee") is currently considering a proposal by the DOJ to amend Criminal Rule 4 to provide for service on foreign defendants. Assuming the rule is amended, it is expected to take effect on or about December 1, 2016, and prosecutors in *Pangang* are paying close attention to this development because it would give them about two weeks to perfect service on Pangang before an initial appearance date.[1] Indeed, the deliberate decision to specify a return date after the presumptive effective date of the amended Criminal Rule 4 suggests that the DOJ (or, at least, the *Pangang* prosecutors) remain(s) skeptical of its (their) ability to effect lawful service absent amendment to the existing Rules.

Because the DOJ continues to actively pursue trade secrets matters, including where the alleged theft implicates foreign organizational defendants, defendants and their counsel should continue to monitor the rulemaking process, which would expressly authorize alternative means of serving foreign corporations that have no agent or principal place of business in the U.S. Further, defendants also may consider the potential impact of the Sixth Amendment on the decision to postpone service-related matters pending the contemplated amendment of the rule.

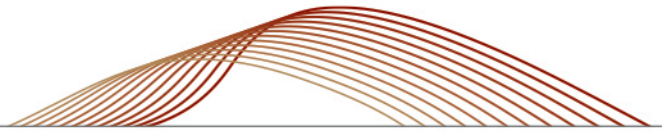
Background

Criminal Rule 9 governs service of a summons on an indictment, and requires compliance with Criminal Rule 4 when serving the summons on a criminal defendant.[2] Criminal Rule 4, however, appears to restrict the scope of extraterritorial service in significant respects.

First, Criminal Rule 4(c)(2) provides that a "warrant may be executed, or a summons served, within the jurisdiction of the United States or anywhere else a federal statute authorizes an arrest."[3] The plain language of Criminal Rule 4(c)(2), therefore, appears to limit service of a summons to the territorial jurisdiction of the United States, absent a "federal statute authoriz[ing] an arrest [abroad]" (such as in the instance of criminal laws applicable to U.S. military personnel and contractors abroad, where there are provisions authorizing overseas arrests for violations of such laws).

Criminal Rule 4 contains additional requirements to perfect service upon organizational defendants. The U.S. government must (i) deliver the criminal summons "to an officer, to a managing or general agent, or to another agent appointed or legally authorized to receive service of process" (the "Delivery Requirement"), and (ii) it "must also" mail a copy of the summons to the corporation's "last known address within the district or to its principal place of business elsewhere in the United States" (the "Mailing Requirement").[4]

Compliance with Criminal Rule 4 is critical because, without it, a defendant may argue that personal jurisdiction does not attach, that service of the summons should be quashed, and even that the indictment should be dismissed. There has always been uncertainty, however, regarding whether immediate review of a district court's refusal to quash service could be obtained, either via the collateral order doctrine (which permits appeals on issues that are separate from the merits in limited circumstances) or via a petition for a writ of mandamus.[5]



District Court Authority

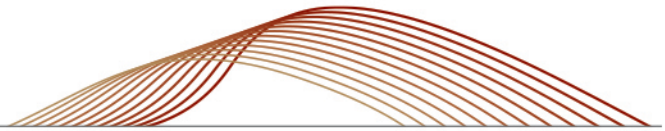
Only a handful of district courts have examined the question of whether service of a criminal summons can be effected on a foreign defendant consistent with Criminal Rule 4. Primarily, these decisions turn on an application of the alter ego doctrine, where the government has argued that the Delivery and Mailing Requirements have been satisfied through service on a domestic subsidiary.[6]

Much of this litigation has revolved around whether the Mailing Requirement is, in fact, a jurisdictional prerequisite or an additional notice provision. In other words, because a foreign company may not have a "last known address" within the judicial district in which the indictment was filed or a "principal place of business elsewhere in the United States," the U.S. government has argued that a domestic mailing is not a mandatory component of service. Generally, courts have enforced the rule in accordance with its plain terms and have quashed service where the government failed to comply with the Mailing Requirement.[7] Thus, in *United States v. Pangang Group Co.*, No. 3:11-cr-00573-JSW (N.D. Cal. Apr. 8, 2013) (order on Defendants' Second Motion to Quash Service of Summons at 6) ("*Pangang II*"), the court seized on the "must also" language of the rule, concluding that it "connotes a mandatory requirement, rather than a hortatory or precatory requirement." *Id*. at 9. The *Pangang II* court then ruled that the "United States must be able to show that it has complied with the mailing requirement to effect service on [the Chinese defendant]." *Id*. at 10. Nonetheless, and despite the fact that two of the individual defendants in *Pangang* have been sentenced and jailed (for 15 years and 2.5 years, respectively), and a third defendant has been sentenced to probation and ordered to pay nearly $6 million in restitution, prosecutors have not abandoned their claims against Pangang and other individuals. The TSI notes that "summonses for the corporate defendants [shall demand … an appearance on] December 16, 2016 at 9:30am[.]"

While it quashed service on other grounds, including the rejection of service on a domestic subsidiary under the alter ego theory, at least one court has ruled that the Mailing Requirement is not a mandatory component of service.[8] *United States v. Kolon Indus., Inc.*, No. 3:12-cr-137 (E.D. Va. Feb. 22, 2013) (Memorandum Opinion on Defendant's Motion to Quash Service and to Dismiss Indictment at 12). The court reasoned that a textual reading of Criminal Rule 4(c)(3)(C) in its entirety teaches that service under the rule is to be accomplished through the Delivery Requirement, and that the Mailing Requirement merely provides for an additional means of notifying a defendant of a pending criminal matter. The *Kolon* court found that the adequacy of criminal service was not exclusively governed by the textual requirements of Criminal Rule 4, but could also be satisfied if effected in compliance with the terms of operative international treaties, such as the Mutual Legal Assistance Treaty ("MLAT") between the U.S. and South Korea. Apart from the questionable propriety of the *Kolon* court's extraordinary conclusion (which no other court has yet adopted), we note that the ruling has no application to service on foreign corporate defendants located in countries (including China) with whom the U.S. has no comparable MLAT in place. The *Kolon* court further held that a literal interpretation of the Mailing Requirement would produce an absurd result if a prosecution were thwarted by the failure to execute a domestic mailing.[9]

Appellate Authority

In late February 2015, the Ninth Circuit agreed to hear an interlocutory appeal in *United States v. The Public Warehousing Co. KSC*, No. 14-80157. The issue there is whether service may be perfected on a foreign parent corporation through a domestic subsidiary, provided such subsidiary constitutes a "general manager" of the overseas parent. Although *Public Warehousing* is a civil case, the Ninth Circuit's analysis concerning the service requirements in the parent-subsidiary situation may have implications in the criminal context as well. Subject to the Ninth Circuit's guidance, that analysis



requires a consideration of the underlying harm alleged and whether the subsidiary was involved in the harm for purposes of service.

Moreover, on July 23, 2015, the Seventh Circuit issued a ruling in *United States v. Sinovel Wind Group Co., Ltd.*,[10] a trade secrets matter involving a Chinese wind turbine manufacturer in which the U.S. government claimed to have served the Chinese parent through its alleged alter ego, an affiliated entity in the U.S. The court of appeals ultimately declined to address the service question, concluding that it lacked appellate jurisdiction and that the case did not meet the demanding standard of mandamus. By doing so, the Seventh Circuit confirmed federal appellate courts' unwillingness to undertake an early review of whether the U.S. government has properly served a foreign corporate defendant with criminal process, even though the court did not foreclose the availability of such review via mandamus in exceptional circumstances.

By refusing to exercise appellate jurisdiction until the criminal proceedings have been completed, the Seventh Circuit left open the question of what restrictions the current Criminal Rules impose on the service of process on foreign corporate defendants, particularly under the "alter ego" theory. Thus, there remains no appellate guidance on when the Criminal Rules permit the U.S. government to summon a foreign organizational defendant from abroad, including by serving the defendant's domestic subsidiary. In the wake of the Seventh Circuit's ruling, foreign companies facing potential service of criminal summonses should consider carefully their options for challenging such service, but should not expect an early appellate review, barring unusually compelling circumstances.

Actions of the Advisory Committee on the Federal Rules of Criminal Procedure

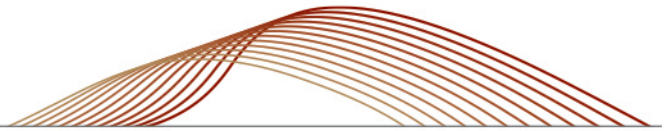
In view of its increased enforcement efforts, particularly involving foreign companies, the DOJ has petitioned the Advisory Committee to amend Criminal Rule 4 to allow service of a criminal summons on foreign organizational defendants from abroad. Both the Advisory Committee and the DOJ have labeled the current version of Criminal Rule 4 as an "obstacle" to the prosecution of foreign organizations that have no last known address or principal place of business in the U.S.

Following the DOJ's proposal in October 2012, the Advisory Committee determined that further study was warranted. Afterwards, in August 2014, the Advisory Committee published its proposed amendments for public comment. The proposal would amend Criminal Rule 4 to: (i) authorize service outside a judicial district of the United States; (ii) limit Criminal Rule 4(c)(3)(C)'s Mailing Requirement to service on an organization within the United States, where the organization is served through a particular type of statutory agent; and (iii) provide for methods of service for a foreign corporation outside the United States.

The Advisory Committee held public hearings on the proposed amendments, and received a variety of comments by the February 17, 2015 deadline. The proposed amendments, if approved, would become effective on or about December 1, 2016.

Conclusion

The U.S. government continues to invest resources into the investigation and prosecution of trade secrets offenses, including with respect to foreign companies. The language in the TSI in *Pangang* related to service of the summons and appearance of the organizational defendants is an interesting development that may signal the prosecutors' confidence that the proposed amendments to Criminal Rule 4 will be adopted and take effect on or about December 1, 2016. It also may signal the prosecutors' reticence to attempt to effect service on an exclusively foreign-based organizational



defendant under the existing version of Criminal Rule 4. Regardless, foreign companies facing potential service of criminal summonses should consider carefully the evolving case law on when such service is proper under the current Criminal Rules, as well as continue to follow the rulemaking process for key developments.

Finally, such defendants should also consider the potential impact of the Sixth Amendment on any apparent decision made by the DOJ to postpone service until after the proposed amendments to Criminal Rule 4 become effective in December 2016. Prolonged delay in the initiation of a prosecution attributable to the DOJ's lack of diligence (as opposed to a defendant's deliberate choice to contest the adequacy of service efforts) may provide a potential defense to any defendant seemingly prejudiced by such delay.

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[1] Prosecutors have been quoted as follows: "If the rule is amended as currently proposed and based on the existing timeline, the government believes that amended Rule 4 will take effect in December 2016 and the government will attempt service on the Pangang Group thereafter[.]" Y. Peter Kang, *Chinese Steel Co. Hit With New DuPont Espionage Claims*, Law360, Jan. 7, 2016.

[2] Fed. R. Crim. P. 9(c)(1)(A).

[3] Fed. R. Crim. P. 4(c)(2).

[4] Fed. R. Crim. P. 4(c)(3)(C).

[5] In a non-precedential decision, the Eleventh Circuit has previously disallowed an appeal by a foreign corporation from a denial of its motion to quash service of process with respect to a criminal indictment, where the company argued that the district court improperly upheld service (made on a domestic subsidiary) under the alter ego theory. *United States v. Agility DGS Logistics Servs. Co.*, No. 11-11652-C, 2011 WL 2791284 (11th Cir. July 12, 2011); *see also United States v. The Public Warehousing Co.*, No. 1:09-cr-490-TWT, 2011 WL 1126333, at *5-9 (N.D. Ga. Mar. 28, 2011). The Eleventh Circuit stressed that "[t]here has been no final judgment entered in the criminal proceedings[,] . . ." and that the collateral order exception in criminal cases did not apply to denials of motion to quash service of process. *Agility*, 2011 WL 2791284, at *1.

[6] *See, e.g., United States v. Johnson Matthey Plc*, No. 2:06-cr-169, 2007 U.S. Dist. LEXIS 56510, at *6-7 (D. Utah Aug. 2, 2007) (turning on "alter ego" assessment); *United States v. Chitron Elecs. Co.*, 668 F. Supp. 2d 298, 304 (D. Mass. 2009) (same); *United States v. Alfred L. Wolff GMBH*, No. 08-CR-417, 2011 WL 4471383, at *4 (N.D. Ill. Sep. 26, 2011) (same).

[7] See*, e.g., United States v. Pangang Group Co.*, 879 F. Supp. 2d 1052, 1063 (N.D. Cal. 2012) ("*Pangang I*"); *United States v. Pangang Group Co.*, No. 3:11-cr-00573-JSW (N.D. Cal. April 8, 2013) ("*Pangang II*"); *Johnson Matthey Plc*, No. 2:06-cr-169, 2007 U.S. Dist. LEXIS 56510, at *6-7. *See also United States v. Dotcom*, No. 1:12-cr-3, 2012 WL 4788433, at *1 (E.D. Va. Oct. 5, 2012) (affirming that Criminal Rule 4 "unambiguously requires a mailing").

[8] Paul Hastings LLP, including authors of this article, represents Kolon in this proceeding, which remains pending.

[9] Ultimately, the *Kolon* court determined that, apart from the requirements of Criminal Rules 4 and 9, extraterritorial service of the summons was authorized by the U.S.-Korean Mutual Legal Assistance Treaty. *Kolon*, No. 3:12-cr-137 (E.D. Va. Dec. 23, 2014) (Order on Mot. to Quash Service of Summonses at 2-9). The U.S. Court of Appeals, without providing reasons, denied a petition for mandamus.

[10] 764 F.3d 787 (7th Cir. 2015), *reh'g en banc denied* Sep. 17, 2015.