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HOUSE OF REPRESENTATIVES
REPORT
114–529

DEFEND TRADE SECRETS ACT OF 2016

APRIL 26, 2016.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. GOODLATTE, from the Committee on the Judiciary, submitted the following

R E P O R T

[To accompany S. 1890]

[Including cost estimate of the Congressional Budget Office]

The Committee on the Judiciary, to whom was referred the bill (S. 1890) to amend chapter 90 of title 18, United States Code, to provide Federal jurisdiction for the theft of trade secrets, and for other purposes, having considered the same, reports favorably thereon without amendment and recommends that the bill do pass.

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Purpose and Summary

S. 1890 amends the Economic Espionage Act of 1996 to provide a Federal civil remedy for the misappropriation of trade secrets, allowing trade secret owners to protect their innovations by seeking

redress in Federal court, just as owners of other forms of intellectual property, including copyrights, patents, and trademarks, can seek remedies in Federal court for violations of their rights. The bill provides for equitable remedies and the award of damages for the misappropriation of a trade secret, and models its definition of "misappropriation" on the Uniform Trade Secrets Act. It also provides for expedited relief on an ex parte basis in the form of seizure of property from the party accused of misappropriation only if necessary to preserve evidence or prevent the dissemination of a trade secret. Any ex parte seizure order issued by a court must minimize any interruption to the business operations of third parties, protect the property seized from disclosure, and set a hearing date at the earliest possible time. The bill also provides sanctions for an erroneous seizure.

Background and Need for the Legislation

Trade secrets, under U.S. law, consist of three parts: (1) information that is non-public; (2) the reasonable measures taken to protect that information; and (3) the fact that the information derives independent economic value from not being publicly known. This confidential business information can be protected for an unlimited time, unlike patents, and requires no formal registration process. But unlike patents, once this information is disclosed it instantly loses its value and the property right itself ceases to exist.

So there is a definite trade-off between securing patent protection or keeping an innovation as a trade secret. By seeking patent protection, an inventor agrees to disclose to the world their invention and how it works, furthering innovation and research. They also secure a 20 year exclusive term of protection, and the right to prevent others from making, using, selling, importing, or distributing a patented invention without permission. By maintaining it as a trade secret, an inventor could theoretically keep their invention secret indefinitely (ex: formula for Coca-Cola;[1] the KFC Colonel's Secret Recipe[2]). But the downside is there is no protection if the trade secret is uncovered by others through reverse engineering or independent development.

Trade secrets are the commercially valuable designs, processes, techniques and other forms of information kept confidential by companies because, by virtue of their secrecy, they give companies an edge in a competitive marketplace. Often developed at great cost and through years of research and development. In a global economy based on knowledge and innovation, trade secrets constitute some of any company's most valuable property.

Examples of trade secrets include confidential formulas, manufacturing techniques, and customer lists. Trade secret law offers protection from trade secret "misappropriation," which is the unauthorized acquisition, use, or disclosure of such secrets obtained by some improper means. But discovery of a trade secret by fair, law-

[1] http://www.coca-colacompany.com/press-center/press-releases/coca-cola-moves-its-secret-formula-to-the-world-of-coca-cola/—"It hasn't been moved in 86 years, but today the secret is out—The Coca-Cola Company has moved the 125-year-old secret formula for Coca-Cola to a new home at the World of Coca-Cola in Atlanta."

[2] https://www.kfc.com/menu/chicken/original-recipe—"Still freshly prepared in every restaurant, the Colonel's Original Recipe® chicken is seasoned with our secret blend of 11 herbs & spices and then hand breaded all day long by a certified cook."

ful methods, such as reverse engineering or independent development, is permitted.

Though states are allowed to develop their own trade secrets laws, most states have adopted the Uniform Trade Secrets Act (UTSA) as the basis for their trade secret laws. The Federal Government currently protects trade secrets through both the criminal and public civil enforcement sections of the Economic Espionage Act of 1996 ("EEA"), which is codified in 18 U.S.C. §§ 1831–39. Under section 1831, which deals with economic espionage, it is a felony to knowingly steal or misappropriate a trade secret to "benefit any foreign government, foreign instrumentality, or foreign agent." Section 1832 addresses the theft of trade secrets "related to or included in a product that is produced or placed in interstate or foreign commerce." It makes it a crime to knowingly steal or misappropriate a trade secret "to the economic benefit of anyone other than the owner thereof" if the accused party "intend[s] or know[s] that the offense will . . . injure any owner of that trade secret."

The trade secrets of American companies are increasingly at risk for misappropriation by thieves looking for a quick payday or to replicate the market-leading innovations developed by trade secret owners. Using ever-more sophisticated means of attack, these thieves aim to steal the know-how that has made American industry the envy of the world. The Commission on the Theft of American Intellectual Property found that the illegal theft of intellectual property is undermining the means and incentive for entrepreneurs to innovate, slowing the development of new inventions and industries that could raise the prosperity and quality of life for everyone.[3]

The threat is significant: Trade secrets are an integral part of a company's competitive advantage in today's economy, and with the increased digitization of critical data and increased global trade, this information is highly susceptible to theft.[4] The United States Department of Defense has found that every year, "an amount of intellectual property larger than that contained in the Library of Congress is stolen from networks maintained by U.S. businesses, universities, and government departments and agencies."[5] General Keith Alexander, former head of the National Security Agency and U.S. Cyber Command, estimated that U.S. companies lose $250 billion per year due to the theft of their intellectual property.[6] More recently, the Center for Responsible Enterprise and Trade, along with PwC, issued a report estimating that trade secret theft exacts

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[3] Report of the Commission of the Theft of American Intellectual Property, at 1, 10 (May 2013), *available at* http://www.ipcommission.org/report/IP_Commission_Report_052213.pdf.

[4] *See Trade Secrets: Promoting and Protecting American Innovation, Competitiveness and Market Access in Foreign Markets: Hearing Before the Subcomm. on Courts, Intellectual Property, and the Internet of the H. Comm. on the Judiciary,* 113th Cong (2014), Statement of Richard Hertling, Of Counsel, Covington & Burling LLP, at *2; *see also id,* Statement of Chris Moore, Senior Director, International Business Policy, National Association of Manufacturers, at 2; Statement of David M. Simon, Senior Vice President for Intellectual Property, salesforce.com, Inc., at *2–3; Statement of Thaddeus Burns, Senior Counsel, Intellectual Property & Trade, General Electric, on behalf of Intellectual Property Owners Association, at *2. Because the record of the June 24, 2014 hearing has not been published as of the publication of this report, citations to the testimony in that record are to the material submitted, rather than to the pages of the GPO print, and are identified by asterisks.

[5] Dep't of Defense, *Strategy for Operating in Cyberspace,* at 4 (July 2011), *available at* http://www.defense.gov/news/d20110714cyber.pdf.

[6] Josh Rogin, *NSA Chief: Cybercrime Constitutes the "Greatest Transfer of Wealth in History,"* The Cable, July 9, 2012, *available at* http://thecable.foreignpolicy.com/posts/2012/07/09/nsa_chief_cybercrime_constitutes_the_greatest_transfer_of_wealth_in_history.

a cost on U.S. companies of between one and 3 percent of GDP annually, roughly a cost of between $160 and $480 million each year.[7] And in the 112th Congress, this Committee recognized the "significant and growing threat presented by criminals who engage in espionage on behalf of foreign adversaries and competitors."[8]

Companies have taken a number of measures to combat this threat, including strengthening their cybersecurity measures, encrypting key documents, examining their supply chains for weak points, employing strong contractual protections to safeguard their trade secrets in business relationships, and increasing the physical security of their plants and offices. When thefts do occur, companies turn to either state civil laws, which vary by jurisdiction, or the Federal Economic Espionage Act ("EEA").[9]

The EEA, enacted in 1996 and codified at 18 U.S.C. §§ 1831 *et seq.,* makes it a Federal criminal offense to misappropriate a trade secret that has an interstate or foreign nexus. This Committee's Report on the EEA found that trade secrets form "an integral part of America's economic well-being."[10] As the first Federal statute to protect trade secrets, the EEA has enabled the FBI to investigate cases of trade secret theft, including, for example, the case of a former engineer at Ford Motor Co. who stole 4,000 documents and went to work at a competitor, causing losses to Ford estimated at $50 million. However, the FBI does not have the resources to investigate every case of trade secret theft. And the EEA, as a criminal statute, is not suited to making whole the victims of misappropriation.

Companies facing a trade secret theft also turn to state trade secret laws, many of them based on the Uniform Trade Secrets Act ("UTSA"). While 48 states have adopted variations of the UTSA, the state laws vary in a number of ways and contain built-in limitations that make them not wholly effective in a national and global economy. First, they require companies to tailor costly compliance plans to meet each individual state's law. Second, trade secret theft today is often not confined to a single state. The theft increasingly involves the movement of secrets across state lines, making it difficult for state courts to efficiently order discovery and service of process. Finally, trade secret cases often require swift action by courts across state lines to preserve evidence and keep a trade secret thief from boarding a plane and taking the secret beyond the reach of American law. In a globalized and national economy, Federal courts are better situated to address these concerns.

In the 112th Congress the Judiciary Committee helped enact two pieces of legislation to improve the protection of trade secrets.

- Public Law 112–236—The Theft of Trade Secrets Clarification Act of 2012 (S. 3642), closed a loophole in the Economic Espionage Act that had allowed the theft of valuable trade secret source code.[10] This legislation was introduced in response to the Second Circuit decision in United States v.

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[7] Center for Responsible Enterprise and Trade & PwC, *Economic Impact of Trade Secret Theft: a Framework for Companies to Safeguard Trade Secrets and Mitigate Potential Threats,* at 7–9 (February 2014), *available at* https://create.org/wp-content/uploads/2-14/07/CREATe.org-PwC-Trade-Secret-Theft-FINAL-Feb-2014_01.pdf.

[8] H.R. Rep. No. 112–610, Foreign and Economic Espionage Penalty Enhancement Act of 2012, at 1 (2012).

[9] Economic Espionage Act of 1996, Pub. L. No. 104–294, 110 Stat. 3488 (1996).

[10] H.R. Rep. No. 104–788, Economic Espionage Act of 1996, at 4 (1996)

Aleynikov, 676 F.3d 71 (2d Cir. 2012), which overturned a verdict that found that the defendant violated 18 U.S.C. § 1832(a) by stealing proprietary computer code, a trade secret, from his employer.

- Public Law 112–269—The Foreign and Economic Espionage Penalty Enhancement Act of 2012 (H.R. 6029/S. 678), bolstered criminal penalties for economic espionage and directed the Sentencing Commission to consider increasing offense levels for trade secret crimes. Its passage is an important step in ensuring that penalties are commensurate with the economic harm inflicted on trade secret owners.

In the 113th Congress, multiple bills were introduced in the House and Senate pertaining to trade secret misappropriation. The 114th Congress has seen the reintroduction and Senate-passage of S. 1890, the Defend Trade Secrets Act.

In 2014, a House bill (H.R.5233, the "Trade Secrets Protection Act") introduced by Rep. Holding and Rep. Nadler and 16 other cosponsors, 13 of whom were Judiciary Committee members, amended the Economic Espionage Act of 1996 to create a Federal civil remedy for trade secret misappropriation. That bill passed out of committee on September 10, 2014. In 2015, the House introduced a bill (H.R. 3326, the "Defend Trade Secrets Act of 2015") similar to the one that previously passed out of Committee. The Senate introduced a companion bill, the "Defend Trade Secrets Act of 2015" (S. 1890), which the Senate Judiciary Committee considered on January 28, 2016. The Senate passed this bill by a vote of 87–0 on April 4, 2016. The House Judiciary Committee marked up and passed the Senate-passed bill, S. 1890, on April 20, 2016.

The Act's definition of misappropriation is modeled on the Uniform Trade Secrets Act, versions of which have been adopted by 48 states. The Act does not pre-empt these state laws and offers a complementary Federal remedy if the jurisdictional threshold for Federal jurisdiction is satisfied. The Act defines misappropriation as acquisition of a trade secret by improper means, disclosure or use of a trade secret by a person who had reason to know that the trade secret was acquired by improper means or under circumstances giving rise to a duty of secrecy, or disclosure or use of a trade secret by a person who had reason to know it was disclosed by accident or mistake.

The Act also provides for equitable remedies and the award of damages, and for double damages for a willful and malicious misappropriation, and has a 3-year statute of limitations.

The Act also provides for the ex parte seizure of property from the party accused of misappropriation if necessary to preserve evidence or prevent the dissemination of a trade secret. The applicant for the seizure order must show it is likely to succeed in showing that the party receiving the order misappropriated the trade secret and would not comply with an injunction, that irreparable injury would occur in the absence of a seizure, and that the harm to the applicant outweighs the legitimate interests of the party receiving the order. The order must minimize any interruption to the business operations of third parties, protect the seized property from disclosure, and set a hearing date at the earliest possible time and not later than 7 days after the order has issued.

America's strength has always been found in the innovation and ingenuity of its people—its inventors, creators, engineers, designers, developers, and doers. American businesses that compete globally will lose their competitive edge if they cannot quickly pursue and stop thieves looking to shortcut the innovative products, designs, and processes that have fueled our economy. This bill will equip companies with the additional tools they need to protect their proprietary information, to preserve and increase jobs and promote growth in the United States, and to continue to lead the world in creating new and innovative products, technologies, and services.

The Defend Trade Secrets Act of 2016 (S. 1890) offers a needed update to Federal law to provide a Federal civil remedy for trade secret misappropriation. Carefully balanced to ensure an effective and efficient remedy for trade secret owners whose intellectual property has been stolen, the legislation is designed to avoid disruption of legitimate businesses, without preempting State law. This narrowly drawn legislation will provide a single, national standard for trade secret misappropriation with clear rules and predictability for everyone involved. Victims will be able to move quickly to Federal court, with certainty of the rules, standards, and practices to stop trade secrets from winding up being disseminated and losing their value. As trade secret owners increasingly face threats from both at home and abroad, the bill equips them with the tools they need to effectively protect their intellectual property and ensures continued growth and innovation in the American economy.

Hearings

The Committee on the Judiciary did not hold a legislative hearing on S. 1890. The Committee held an oversight hearing on "Trade Secrets: Promoting and Protecting American Innovation, Competitiveness and Market Access in Foreign Markets" on June 24, 2014. The Committee heard testimony from Mr. Thaddeus Burns, Senior Counsel, Intellectual Property & Trade, General Electric; Mr. Richard A. Hertling, Of Counsel, Covington & Burling LLP, on behalf of the Protect Trade Secrets Coalition; Mr. Christopher Moore, Senior Director, International Business Policy, National Association of Manufacturers; and Mr. David Simon, Senior Vice President, Intellectual Property, Salesforce.com.

Committee Consideration

On April 20, 2016, the Committee met in open session and ordered the bill S. 1890 favorably reported, without amendment, by voice vote, a quorum being present.

Committee Votes

In compliance with clause 3(b) of rule XIII of the Rules of the House of Representatives, the Committee advises that there were no recorded votes during the Committee's consideration of S. 1890.

Committee Oversight Findings

In compliance with clause 3(c)(1) of rule XIII of the Rules of the House of Representatives, the Committee advises that the findings

and recommendations of the Committee, based on oversight activities under clause 2(b)(1) of rule X of the Rules of the House of Representatives, are incorporated in the descriptive portions of this report.

New Budget Authority and Tax Expenditures

Clause 3(c)(2) of rule XIII of the Rules of the House of Representatives is inapplicable because this legislation does not provide new budgetary authority or increased tax expenditures.

Congressional Budget Office Cost Estimate

In compliance with clause 3(c)(3) of rule XIII of the Rules of the House of Representatives, the Committee sets forth, with respect to the bill, S. 1890, the following estimate and comparison prepared by the Director of the Congressional Budget Office under section 402 of the Congressional Budget Act of 1974:

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, April 26, 2016.

Hon. BOB GOODLATTE, CHAIRMAN,
Committee on the Judiciary,
House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the enclosed cost estimate for S. 1890, the "Defend Trade Secrets Act of 2016."

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Marin Burnett, who can be reached at 226-2860.

Sincerely,

KEITH HALL,
DIRECTOR.

Enclosure

cc: Honorable John Conyers, Jr.
Ranking Member

S. 1890—Defend Trade Secrets Act of 2016.

As ordered reported by the House Committee on the Judiciary on April 20, 2016.

S. 1890 would establish a Federal remedy for individuals seeking relief from the misappropriation of trade secrets. Under the bill, an owner of a trade secret could file a civil action in a district court and the court could issue an order to seize any property necessary to preserve evidence for the civil action. The legislation would require information gathered or stored during a legal proceeding related to trade secrets to be secured to protect its confidentiality. The bill also would increase the fines that may be collected in the event of the theft of a trade secret. Finally, the legislation would require the Department of Justice (DOJ) and the Federal Judicial Center to submit periodic reports concerning the theft of trade secrets in the United States.

Based on information from DOJ and the Administrative Office of the U.S. Courts, CBO estimates that implementing S. 1890 would have no significant effect on the Federal budget. Because enacting S. 1890 would affect direct spending and revenues, pay-as-you-go procedures apply. Specifically, the bill would affect the collection of fees for civil court filings and potentially increase certain fines, which are recorded in the budget as revenues. A portion of those revenues would be spent without further appropriation. On net, CBO estimates that the budgetary effect of those provisions would be negligible for each year and over the 2016-2026 period.

CBO estimates that enacting S. 1890 would not increase net direct spending or on-budget deficits in any of the four consecutive 10-year periods beginning in 2027.

S. 1890 would preempt State laws that govern matters of individual liability when trade secrets are disclosed to governmental officials during the course of an investigation or legal proceeding. That preemption would be a mandate as defined in the Unfunded Mandate Reform Act (UMRA) because it would limit the authority of States to apply their own laws. However, CBO estimates that the preemption would not affect the budgets of State, local, or tribal governments because it would impose no duty on States that would result in additional spending or loss of revenue.

S. 1890 would impose a private-sector mandate as defined in UMRA by extending civil and criminal liability protection to individuals who disclose trade secrets to government authorities during the course of an investigation or legal proceeding. By providing such liability protection, the bill would prevent entities from seeking compensation for damages from those individuals under trade secret laws. The cost of the mandate would be the forgone value of judgements and compensation for damages for such disclosures that entities would be awarded under a trade secrets claim. The available literature suggests that few of those types of lawsuits have been brought against individuals under current law. Consequently, CBO estimates that the cost of the mandate would probably fall below the annual threshold established in UMRA for private-sector mandates ($154 million in 2016, adjusted annually for inflation).

On February 25, 2016, CBO transmitted a cost estimate for S. 1890 as ordered reported by the Senate Judiciary Committee on January 28, 2016. The two versions of the legislation are identical and CBO's cost estimates are the same.

The CBO staff contacts for this estimate are Marin Burnett (for Federal costs), Rachel Austin (for intergovernmental mandates), and Logan Smith (for private-sector mandates). The estimate was approved by Theresa A. Gullo, Assistant Director for Budget Analysis.

Duplication of Federal Programs

No provision of S. 1890 establishes or reauthorizes a program of the Federal Government known to be duplicative of another Federal program, a program that was included in any report from the Government Accountability Office to Congress pursuant to section 21 of Public Law 111–139, or a program related to a program identified in the most recent Catalog of Federal Domestic Assistance.

Disclosure of Directed Rule Makings

The Committee estimates that S. 1890 specifically directs to be completed no specific rule makings within the meaning of 5 U.S.C. § 551.

Performance Goals and Objectives

The Committee states that pursuant to clause 3(c)(4) of rule XIII of the Rules of the House of Representatives, S. 1890 will provide for civil jurisdiction in Federal court for the misappropriation of a trade secret, providing companies with an essential tool to prevent the disclosure of their valuable trade secrets and to obtain equitable remedies and damages in the event of trade secret theft.

Advisory on Earmarks

In accordance with clause 9 of rule XXI of the Rules of the House of Representatives, S. 1890 does not contain any congressional earmarks, limited tax benefits, or limited tariff benefits as defined in clause 9(e), 9(f), or 9(g) of Rule XXI.

Section-by-Section Analysis

Section 1. Short Title.

Section 1 provides that the short title of S. 1890 is the "Defend Trade Secrets Act of 2016."

Sec. 2. Federal Jurisdiction for Theft of Trade Secrets.

Section 2(a) amends § 1836 of title 18 by striking subsection (b), which provides that the Federal district courts have exclusive jurisdiction over civil actions brought by the Attorney General for trade secret misappropriation. In its place, the new provision creates a Federal civil remedy for private parties for trade secret misappropriation.

In General.

The new § 1836(b) in paragraph (1) authorizes the owner of a trade secret that is misappropriated to bring a civil action in Federal court if the trade secret is related to a product or service used in, or intended for use in, interstate or foreign commerce. This jurisdictional nexus to interstate or foreign commerce is identical to the existing language required for Federal jurisdiction over the criminal theft of a trade secret under § 1832(a).

Civil Seizure.

The new § 1836(b) authorizes a Federal court to issue an order, in extraordinary circumstances and upon an ex parte application based on an affidavit or verified complaint, to provide for seizure of property necessary to preserve evidence or to prevent the propagation or dissemination of the trade secret. Ex parte seizures will issue only when the prerequisites for the issuance of a seizure order are present. The issuance of a seizure order is limited to "extraordinary circumstances." Subparagraph (A)(ii) lists requirements for issuing a seizure order. For example, this authority is not available if an injunction under existing rules of civil procedure would be sufficient. The ex parte seizure provision is expected to be used

in instances in which a defendant is seeking to flee the country or planning to disclose the trade secret to a third party immediately or is otherwise not amenable to the enforcement of the court's orders.

Subparagraph (A)(ii) contains numerous limitations, described below, and is not intended to affect the authority of the Federal courts to provide equitable relief and issue appropriate orders pursuant to Rule 65 of the Federal Rules of Civil Procedure, the All Writs Act (28 U.S.C. § 1651), or any other authority, including the court's inherent authority.

Subparagraph (A)(ii) of § 1836(b) specifies that that a court may not grant a seizure order unless it finds that it clearly appears from specific facts that (1) a temporary restraining order issued pursuant to Federal Rule of Civil Procedure 65(b) would be inadequate because the party to which the order would be issued would evade, avoid, or otherwise not comply with it; (2) immediate and irreparable injury will occur if the seizure is not ordered; (3) the harm to the applicant of denying the application outweighs the harm to the legitimate interests of the person against whom the seizure is ordered and substantially outweighs the harm to any third parties; (4) the applicant is likely to succeed in showing that the person against whom the seizure is ordered misappropriated the trade secret by improper means, or conspired to misappropriate the trade secret by improper means, and is in actual possession of it and any property to be seized; (5) the applicant describes with reasonable particularity the matter to be seized and, to the extent reasonable, identifies the location where the matter is to be seized; (6) the person against whom the seizure would be ordered, or those working in concert with that person, would destroy, move, hide, or otherwise make such matter inaccessible if the applicant were to provide that person notice; and (7) the applicant has not publicized the requested seizure.

Before granting an ex parte seizure order, it is the Committee's expectation that courts will require applicants to describe the trade secret that would be the subject of the order with sufficient particularity so that the court may evaluate the request. The requirement of actual possession contained in clause (V) serves to protect third-parties from seizure. For instance, the operator of a server on which another party has stored a misappropriated trade secret, or an online intermediary such as an Internet service provider, would not be subject to seizure because their servers, and the data stored upon them, would not be in the actual possession of the defendant against whom seizure was ordered. While the court may not order a seizure against the third party under this provision, the court may decide to issue a third-party injunction preventing disclosure of the trade secret using its existing authority to provide equitable relief. The requirement relating to improper means is intended to prevent the seizure provision from being used against a party who may know it is in possession of a trade secret that was misappropriated, but did not use, or conspire to use, improper means to acquire such trade secret.[11] Seizure of a trade secret that was stolen

[11] The Act's protections against the misappropriation of trade secrets—and the remedies it provides against such misappropriation—are not intended to displace or restrict protections for members of the press recognized under the First Amendment. The Act should be applied consistently with the First Amendment and with the Supreme Court's decision in *Bartnicki v. Vopper,*

by one party and handed off to an accomplice is allowed under the clause.

Subparagraph (B) of new § 1836(b)(2) provides that a seizure order shall (i) set forth findings of fact and conclusions of law required for the order; (ii) provide for the narrowest seizure of property necessary to protect the trade secret, in a manner that minimizes any interruption of the business operations of third parties and, to the extent possible, does not interrupt the legitimate business operations of the person accused of misappropriating the trade secret; (iii) be accompanied by an order protecting the seized property from disclosure by prohibiting access by the applicant or the person against whom the order is directed, and prohibiting any copies of the seized property, until such parties have an opportunity to be heard in court (iv) provide guidance to law enforcement officials executing the seizure that clearly delineates the scope of their authority, including the hours during which the seizure may be executed and whether force may be used to access locked areas; (v) set a date for a hearing at the earliest possible time, and no later than 7 days after the order has issued, unless parties involved consent to another date; and (vi) require the person obtaining the order to provide the security determined adequate by the court for payment of damages that person may be entitled to recover as a result of a wrongful or excessive seizure, or attempted seizure.

Subparagraph (C) of new § 1836(b)(2) requires a court, in issuing a seizure order, to take appropriate action to protect the target of the order from publicity, by or at the behest of the person obtaining the order, about such order and any seizure under such order.

Subparagraph (D) states that any materials seized pursuant to an order shall be taken into the custody of the court, which shall secure the material from physical and electronic access. In implementing this subparagraph, unless there is consent from the parties, the court should be careful to keep any electronic data or storage media secure and disconnected from any network or the Internet, thereby increasing security of the materials. The court shall take appropriate measures to protect the confidentiality of seized materials that are unrelated to the trade secret, unless the person against whom the order is entered consents to the disclosure of the material. The court may appoint a special master, bound by a nondisclosure agreement approved by the court, to locate and isolate all misappropriated trade secret information and facilitate the return of unrelated property and data to the person from whom the property was seized.

Subparagraph (E) requires service of the court's order and the submissions of the applicant on the party against whom the order is directed. The order must be carried out by a Federal law enforcement officer. The court may allow State and local law enforcement officials to participate but may not allow the applicant or its agents to participate. At the request of law enforcement, the court may ap-

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532 U.S. 514 (2001). That case held that the First Amendment protects members of the press against liability (including in civil actions) for disclosing information, even if the information was improperly or illegally obtained by another party in the first instance, particularly if the information relates to a matter of public concern. Indeed, *Bartnicki* recognized that the Supreme Court "has repeatedly held that 'if a newspaper lawfully obtains truthful information about a matter of public significance then state officials may not constitutionally punish publication of the information, absent a need . . . of the highest order.'" *See Bartnicki,* 532 U.S. at 528 (quoting *Smith v. Daily Mail Publ'g Co.,* 443 U.S. 97, 102 (1979)).

point a neutral technical expert, bound by a nondisclosure agreement, to assist in the seizure if the court determines that the expert's participation would minimize the burden of the seizure.

Subparagraph (F) provides that the court shall hold a hearing at which the party who obtained the order shall have the burden to prove the facts supporting the findings of fact and conclusions of law necessary to prove the order. If a party fails to meet the burden for its proposed seizure, the seizure order shall be dissolved or modified appropriately. A party against whom the order has been issued, or any person harmed by the order, may move the court at any time to dissolve or modify the order.

Subparagraph (G) provides that a person who suffers damage by reason of a wrongful or excessive seizure has a cause of action against the applicant for the order under which the seizure was made, to recover damages, including punitive damages, and reasonable attorney's fees.

Subparagraph (H) provides that a party or other person who claims to have an interest in the subject matter seized may move to encrypt any seized materials.

Remedies.

Paragraph (3) of new § 1836(b) provides the remedies for the misappropriation of a trade secret.

Subparagraph (A) specifies the equitable relief available and is drawn directly from § 2 of the Uniform Trade Secrets Act ("UTSA"), which forms the basis of trade secrets law in almost every State. Provided an order does not prevent a person from entering into an employment relationship or otherwise conflict with applicable State laws prohibiting restraints on trade, a court may grant an injunction to prevent any actual or threatened misappropriation. Any conditions placed by a court on employment must be based on evidence of threatened misappropriation, and not merely on information a person knows.[12] These limitations on injunctive relief were included to protect employee mobility, as some have expressed concern that the injunctive relief authorized under the bill could override State-law limitations that safeguard employee mobility and thus could be a substantial departure from existing law in those states. If determined appropriate, a court may require affirmative actions to be taken to protect the trade secret, and, in exceptional circumstances that render an injunction inequitable, may condition future use of the trade secret upon payment of a reasonable royalty for no longer than the period of time for which such use would have been prohibited.

Section (3)(A)(i)(1)(I) reinforces the importance of employment mobility and contains some limitations on injunctive relief that may be ordered. However, if a State's trade secrets law authorizes additional remedies, those State-law remedies will still be available. Some courts have found, based on the information possessed by the employee alone, that an injunction may issue to enjoin a

[12] The Committee notes that courts interpreting State trade secret laws have reached different conclusions on the applicability of the inevitable disclosure doctrine. *Compare PepsiCo, Inc. v. Redmond,* 54 F.3d 1262, 1269 (7th Cir. 1995) ("[A] plaintiff may prove a claim of trade secret misappropriation by demonstrating that [the] defendant's new employment will inevitably lead him to rely on the plaintiff's trade secrets"), *with Whyte v. Schlage Lock Co.,* 125 Cal. Rptr. 2d 277, 281 (Ct. App. 2002) (rejecting explicitly the inevitable disclosure doctrine under California law).

former employee from working in a job that would inevitably result in the improper use of trade secrets. Consistent with the overall intent of the Defense Trade Secret Act and, in particular, § (2)(f), which provides that the bill does not "preempt any other provision of law," the remedies provided in § (3)(A)(i)(1)(I) are intended to coexist with, and not to preempt, influence, or modify applicable State law governing when an injunction should issue in a trade secret misappropriation matter.

Subparagraph (B), drawn directly from § 3 of the UTSA, specifies the damage award that a court may issue. Specifically, it authorizes an award of damages for the actual loss and any unjust enrichment caused by the misappropriation of the trade secret, or, in lieu of damages measured by any other method, an award of a reasonable royalty. It is not the Committee's intent to encourage the use of reasonable royalties to resolve trade secret misappropriation. Rather, the Committee prefers other remedies that, first, halt the misappropriator's use and dissemination of the misappropriated trade secret and, second, make available appropriate damages.[13]

Subparagraph (C) authorizes an award of exemplary damages, not exceeding twice the compensatory damages awarded, if the trade secret is willfully and maliciously misappropriated. This provision is similar to § 3(b) of the UTSA.

Subparagraph (D) allows that attorney's fees may be awarded to the prevailing party if a claim of misappropriation is made in bad faith, there is willful and malicious misappropriation, or a motion to terminate an injunction is made or opposed in bad faith. This provision is modeled on § 4 of the UTSA.

Jurisdiction.

Subsection (c) of new § 1836 provides that Federal district courts shall have original jurisdiction of civil actions brought under the section. This is identical to current subsection (b).

Period of Limitations.

Subsection (d) of new § 1836 provides a 3-year period of limitations in which to bring a claim under the section. This limitations period is now identical to the limitations period of the UTSA, although a number of States have modified the limitations period in enacting the UTSA.

Definitions; Rule of Construction; Conforming Amendments.

Section 2(b) of the Act amends § 1839 of title 18 to add three new definitions.

The intent of § 2(b)(1)(A)—striking "the public" and inserting "another person who can obtain economic value from the disclosure or use of the information"—is to bring the Federal definition of a trade secret in conformity with the definition used in the Uniform Trade Secrets Act ("UTSA"). Both the Court of Appeals for the Seventh Circuit, in *United States v. Lange,* 312 F.3d 263, 267 (7th Cir. 2002), and the Court of Appeals for the Third Circuit, in *United*

[13] The Committee notes that courts interpreting the UTSA's analogous provision have held that the award of reasonable royalties is a remedy of last resort. S*ee e.g., Progressive Prod., Inc. v. Swartz,* 258 P.2d 969, 979–80 (Kan. 2011) (citing the comment to § 2 of the UTSA and explaining that an award of royalties is reserved for "special situation[s]," including "exceptional circumstances" in which an overriding public interest makes an injunction untenable).

States v. Hsu, 155 F.3d 189, 196 (3d Cir. 1998), have identified this difference between the UTSA and the Federal definition of a trade secret as potentially meaningful. While other minor differences between the UTSA and Federal definition of a trade secret remain, the Committee does not intend for the definition of a trade secret to be meaningfully different from the scope of that definition as understood by courts in States that have adopted the UTSA.

First, "misappropriation" is defined identically in all relevant respects to the definition of misappropriation in § 1(2) of the UTSA. The Committee intentionally used this established definition to make clear that this Act is not intended to alter the balance of current trade secret law or alter specific court decisions.

Second, the subsection defines "improper means." The definition contained in subparagraph (A) is identical to the definition in § 1(1) of the UTSA and includes theft, bribery, misrepresentation, breach, or inducement of a breach of a duty to maintain secrecy, or espionage though electronic or other means. Subparagraph (B) serves to clarify that reverse engineering and independent derivation of the trade secret do not constitute improper means.

Third, the subsection defines "Trademark Act of 1946," commonly called the Lanham Act, which provides the basis for recovery by a party harmed by a wrongful or excessive seizure.

Subsection 2(c) of the Act ensures that nothing in the legislation is read to create a private right of action for conduct of a governmental entity or (following the amendment of 18 U.S.C. § 1833 by section 7 of this Act) for disclosing trade secret information to the Government or in a court filing in accordance with new 18 U.S.C. § 1833(b).

Subsection 2(d) of the Act is a conforming amendment that updates the title of § 1836 in the section heading and table of sections based on the changes made by this Act.

Subsection 2(e) provides that amendments made by section 2 of the Act shall apply to any misappropriation for which any act occurs on or after the date of enactment of the Act.

Subsection 2(f) of the Act clarifies that nothing in this Act modifies the rule of construction in § 1838 of title 18, and, as a result State trade secret laws are not preempted or affected by this Act. Further, nothing in this Act affects an otherwise lawful disclosure under the Freedom of Information Act.

Subsection 2(g) of the Act also specifies that the new civil remedy created by this Act is not to be construed as a law pertaining to intellectual property for purposes of any other Act of Congress.

Sec. 3. Trade Secret Theft Enforcement.

Subsection 3(a) of the Act amends § 1832(b) of title 18 by revising the maximum penalty for a violation under § 1832(a) to be the greater of $5,000,000 or three times the value of the stolen trade secret to the organization, including expenses for research and design and other costs that the organization has thereby avoided.

Subsection 3(a) also amends § 1835 of title 18 by adding a new subsection (b), which provides that the court may not direct the disclosure of any material the owner asserts to be a trade secret unless the court allows the owner to file a submission under seal describing the interest of the owner in keeping the information confidential. The provision or disclosure of information relating to a

trade secret to the United States or to the court in connection with a prosecution does not constitute waiver of trade secret protection unless the owner expressly consents to such waiver. The provision is also intended to ensure that in a prosecution for conspiracy related to the alleged theft of a trade secret, the actual trade secret itself is not subject to disclosure to the defense, because the actual secrecy of the information that is the object of the conspiracy is not relevant to the prosecution of a conspiracy charge.

Subsection 3(b) of the Act amends § 1961(1) of title 18 to include sections 1831 and 1832 relating to economic espionage and theft of trade secrets as predicate offenses for the Racketeer Influenced and Corrupt Organizations (RICO) Act.

Sec. 4. Report on Theft of Trade Secrets Occurring Abroad.

Section 4 of the Act requires, not later than 1 year after the date of enactment of this act and biannually thereafter, a report by the Attorney General, in consultation with the Intellectual Property Enforcement Coordinator, the Director of the United States Patent and Trademark Office, and the heads of other appropriate agencies, to the Committees on the Judiciary of the Senate and the House of Representatives, on:

(1) the scope and breadth of trade secret theft from United States companies occurring outside the United States;

(2) the extent to which trade secret theft occurring outside of the United States is sponsored by foreign governments, agents, or instrumentalities;

(3) the threat posed by trade secret theft occurring outside of the United States;

(4) the ability and limitations of trade secret owners to prevent the trade secret misappropriation of trade secrets outside of the United States, to enforce judgment against foreign entities for such theft, and to prevent imports based on theft of trade secrets overseas;

(5) the trade secret protections afforded United States companies by each country that is a trading partner of the United States and specific information about enforcement efforts available and undertaken in each such country, including a list of specific countries where trade secret theft is a significant problem for United States companies;

(6) instances of the Federal Government working with foreign countries to investigate, arrest, and prosecute entities and individuals involved in the theft of trade secrets outside of the United States;

(7) specific progress made under trade agreements and treaties, including any new remedies enacted by foreign countries, to protect United States companies from trade secret theft outside the United States; and

(8) recommendations for legislative and executive branch actions that may be undertaken to (A) reduce the threat of and economic impact caused by the theft of the trade secrets of United States companies occurring outside of the United States; (B) educate United States companies regarding threats to their trade secrets when taken outside of the United States; (C) provide assistance to United States companies to reduce the risk of loss of their trade secrets when taken outside of the United States; and (D) provide

a mechanism for United States companies to confidentially or anonymously report the theft of trade secrets occurring outside the United States.

Sec. 5. Sense of Congress.

Section 5 of the Act provides that it is the sense of Congress that trade secret theft occurs domestically and around the world, and that it is harmful to United States companies that own and depend on trade secrets. The Economic Espionage Act of 1996 protects trade secrets from theft under the criminal law. In enacting a civil remedy, it is important when seizing information to balance the need to prevent or remedy misappropriation with the need to avoid interrupting the legitimate interests of the party against whom a seizure is issued, and the business of third parties.

Sec. 6. Best Practices.

Section 6 directs the Federal Judicial Center to develop recommended best practices for seizure, storage, and security of information under this Act, within 2 years of the enactment. A copy of the recommendations and any updates made shall be provided to the Committees on the Judiciary of the Senate and the House of Representatives.

Sec. 7. Immunity from Liability for Confidential Disclosure of a Trade Secret to the Government or in a Court Filing.

Section 7 of the Act amends § 1833 of title 18 by adding a new subsection (b). The new § 1833(b)(1) provides for criminal and civil immunity for anyone who discloses a trade secret under two circumstances. Subparagraph (A) addresses disclosures in confidence to a Federal, State, or local government official, or to an attorney, for the purpose of reporting or investigating a suspected violation of the law. Subparagraph (B) applies to disclosure in a complaint or other document filed under seal in a judicial proceeding. The Committee stresses that this provision immunizes the act of disclosure in the limited circumstances set forth in the provision itself; it does not immunizes acts that are otherwise prohibited by law, such as the unlawful access of material by unauthorized means.

Section 1833(b)(2) created by this Act provides that an individual who files a lawsuit against an employer for retaliation for reporting a suspected violation of the law may disclose a trade secret to an attorney for use in the proceeding, provided the individual files any document containing the trade secret under seal and does not disclose the trade secret other than pursuant to a court order.

Section 1833(b)(3) requires notice of the immunity in this subsection to be set forth in any employment contract that governs the use of trade secrets, although an employer may choose to provide such notice by reference to a policy document setting forth the employer's reporting policy for a suspected violation of the law that provides notice of the immunity. An employer may not be awarded exemplary damages or attorney's fees under this Act against an employee to whom such notice was not provided. The notice requirements apply to contracts entered into or updated after the date of enactment of this subsection.

Section 1833(b)(4) defines the term "employee" to include any individual performing work as a contractor or consultant.

Section 1833(b)(5) is a conforming amendment to update § 1838 of title 18 in the section heading and table of sections based on the changes made by this Act.

Agency Views

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

April 4, 2016
(Senate)

STATEMENT OF ADMINISTRATION POLICY

S. 1890 – Defend Trade Secrets Act of 2016
(Sen. Hatch, R-UT, and 64 cosponsors)

The Administration strongly supports Senate passage of S. 1890, the Defend Trade Secrets Act of 2016, and appreciates the bipartisan effort that led to the formulation of this bill. Effective protection of trade secrets promotes innovation that is the engine of the Nation's economy and minimizes threats to American businesses, the U.S. economy, and national security interests. S. 1890 would establish a Federal civil private cause of action for trade secret theft that would provide businesses with a more uniform, reliable, and predictable way to protect their valuable trade secrets anywhere in the country.

The Administration has placed high priority on mitigating and combating the theft of trade secrets, as exemplified in the Administration's Joint Strategic Plan on Intellectual Property Enforcement, the Administration's Strategy on Mitigating the Theft of U.S. Trade Secrets, and Executive Order 13694 authorizing sanctions on those who perpetrate cyber-enabled trade secret theft. S. 1890 would provide important protection to the Nation's businesses and industries, including through the establishment of a Federal civil cause of action for trade secret misappropriation which would effectively build upon current Federal law and various State laws that have largely adopted the Uniform Trade Secrets Act. As such, the Administration strongly supports the Defend Trade Secrets Act of 2016 and looks forward to working with the Congress on this important piece of legislation as it moves through the legislative process.

* * * * * * *

Changes in Existing Law Made by the Bill, as Reported

In compliance with clause 3(e) of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italics, and existing law in which no change is proposed is shown in roman):

TITLE 18, UNITED STATES CODE

* * * * * * *

PART I—CRIMES

* * * * * * *

CHAPTER 90—PROTECTION OF TRADE SECRETS

Sec.
1831. Economic espionage.
* * * * * * *
[1836. Civil proceedings to enjoin violations.]
1836. Civil proceedings.
* * * * * * *

§ 1832. Theft of trade secrets

(a) Whoever, with intent to convert a trade secret, that is related to a product or service used in or intended for use in interstate or foreign commerce, to the economic benefit of anyone other than the owner thereof, and intending or knowing that the offense will, injure any owner of that trade secret, knowingly—

(1) steals, or without authorization appropriates, takes, carries away, or conceals, or by fraud, artifice, or deception obtains such information;

(2) without authorization copies, duplicates, sketches, draws, photographs, downloads, uploads, alters, destroys, photocopies, replicates, transmits, delivers, sends, mails, communicates, or conveys such information;

(3) receives, buys, or possesses such information, knowing the same to have been stolen or appropriated, obtained, or converted without authorization;

(4) attempts to commit any offense described in paragraphs (1) through (3); or

(5) conspires with one or more other persons to commit any offense described in paragraphs (1) through (3), and one or more of such persons do any act to effect the object of the conspiracy,

shall, except as provided in subsection (b), be fined under this title or imprisoned not more than 10 years, or both.

(b) Any organization that commits any offense described in subsection (a) shall be fined not more than [$5,000,000] *the greater of $5,000,000 or 3 times the value of the stolen trade secret to the organization, including expenses for research and design and other*

costs of reproducing the trade secret that the organization has thereby avoided.

§ 1833. Exceptions to prohibitions

[This chapter**]** *(a) IN GENERAL.—This chapter* does not prohibit *or create a private right of action for—*

(1) any otherwise lawful activity conducted by a governmental entity of the United States, a State, or a political subdivision of a State; or

(2) **[**the reporting of a suspected violation of law to any governmental entity of the United States, a State, or a political subdivision of a State, if such entity has lawful authority with respect to that violation**]** *the disclosure of a trade secret in accordance with subsection (b).*

(b) IMMUNITY FROM LIABILITY FOR CONFIDENTIAL DISCLOSURE OF A TRADE SECRET TO THE GOVERNMENT OR IN A COURT FILING.—

(1) IMMUNITY.—An individual shall not be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of a trade secret that—

(A) is made—

(i) in confidence to a Federal, State, or local government official, either directly or indirectly, or to an attorney; and

(ii) solely for the purpose of reporting or investigating a suspected violation of law; or

(B) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal.

(2) USE OF TRADE SECRET INFORMATION IN ANTI-RETALIATION LAWSUIT.—An individual who files a lawsuit for retaliation by an employer for reporting a suspected violation of law may disclose the trade secret to the attorney of the individual and use the trade secret information in the court proceeding, if the individual—

(A) files any document containing the trade secret under seal; and

(B) does not disclose the trade secret, except pursuant to court order.

(3) NOTICE.—

(A) IN GENERAL.—An employer shall provide notice of the immunity set forth in this subsection in any contract or agreement with an employee that governs the use of a trade secret or other confidential information.

(B) POLICY DOCUMENT.—An employer shall be considered to be in compliance with the notice requirement in subparagraph (A) if the employer provides a cross-reference to a policy document provided to the employee that sets forth the employer's reporting policy for a suspected violation of law.

(C) NON-COMPLIANCE.—If an employer does not comply with the notice requirement in subparagraph (A), the employer may not be awarded exemplary damages or attorney fees under subparagraph (C) or (D) of section 1836(b)(3) in an action against an employee to whom notice was not provided.

(D) APPLICABILITY.—This paragraph shall apply to contracts and agreements that are entered into or updated after the date of enactment of this subsection.

(4) EMPLOYEE DEFINED.—For purposes of this subsection, the term "employee" includes any individual performing work as a contractor or consultant for an employer.

(5) RULE OF CONSTRUCTION.—Except as expressly provided for under this subsection, nothing in this subsection shall be construed to authorize, or limit liability for, an act that is otherwise prohibited by law, such as the unlawful access of material by unauthorized means.

* * * * * * *

§ 1835. Orders to preserve confidentiality

[In any prosecution**]** *(a) IN GENERAL.—In any prosecution* or other proceeding under this chapter, the court shall enter such orders and take such other action as may be necessary and appropriate to preserve the confidentiality of trade secrets, consistent with the requirements of the Federal Rules of Criminal and Civil Procedure, the Federal Rules of Evidence, and all other applicable laws. An interlocutory appeal by the United States shall lie from a decision or order of a district court authorizing or directing the disclosure of any trade secret.

(b) RIGHTS OF TRADE SECRET OWNERS.—The court may not authorize or direct the disclosure of any information the owner asserts to be a trade secret unless the court allows the owner the opportunity to file a submission under seal that describes the interest of the owner in keeping the information confidential. No submission under seal made under this subsection may be used in a prosecution under this chapter for any purpose other than those set forth in this section, or otherwise required by law. The provision of information relating to a trade secret to the United States or the court in connection with a prosecution under this chapter shall not constitute a waiver of trade secret protection, and the disclosure of information relating to a trade secret in connection with a prosecution under this chapter shall not constitute a waiver of trade secret protection unless the trade secret owner expressly consents to such waiver.

[§ 1836. Civil proceedings to enjoin violations]

§ 1836. Civil proceedings

(a) The Attorney General may, in a civil action, obtain appropriate injunctive relief against any violation of this chapter.

[(b) The district courts of the United States shall have exclusive original jurisdiction of civil actions under this section.**]**

(b) PRIVATE CIVIL ACTIONS.—

(1) IN GENERAL.—An owner of a trade secret that is misappropriated may bring a civil action under this subsection if the trade secret is related to a product or service used in, or intended for use in, interstate or foreign commerce.

(2) CIVIL SEIZURE.—

(A) IN GENERAL.—

(i) APPLICATION.—Based on an affidavit or verified complaint satisfying the requirements of this paragraph, the court may, upon ex parte application but

only in extraordinary circumstances, issue an order providing for the seizure of property necessary to prevent the propagation or dissemination of the trade secret that is the subject of the action.

(ii) REQUIREMENTS FOR ISSUING ORDER.—The court may not grant an application under clause (i) unless the court finds that it clearly appears from specific facts that—

(I) an order issued pursuant to Rule 65 of the Federal Rules of Civil Procedure or another form of equitable relief would be inadequate to achieve the purpose of this paragraph because the party to which the order would be issued would evade, avoid, or otherwise not comply with such an order;

(II) an immediate and irreparable injury will occur if such seizure is not ordered;

(III) the harm to the applicant of denying the application outweighs the harm to the legitimate interests of the person against whom seizure would be ordered of granting the application and substantially outweighs the harm to any third parties who may be harmed by such seizure;

(IV) the applicant is likely to succeed in showing that—

(aa) the information is a trade secret; and

(bb) the person against whom seizure would be ordered—

(AA) misappropriated the trade secret of the applicant by improper means; or

(BB) conspired to use improper means to misappropriate the trade secret of the applicant;

(V) the person against whom seizure would be ordered has actual possession of—

(aa) the trade secret; and

(bb) any property to be seized;

(VI) the application describes with reasonable particularity the matter to be seized and, to the extent reasonable under the circumstances, identifies the location where the matter is to be seized;

(VII) the person against whom seizure would be ordered, or persons acting in concert with such person, would destroy, move, hide, or otherwise make such matter inaccessible to the court, if the applicant were to proceed on notice to such person; and

(VIII) the applicant has not publicized the requested seizure.

(B) ELEMENTS OF ORDER.—If an order is issued under subparagraph (A), it shall—

(i) set forth findings of fact and conclusions of law required for the order;

(ii) provide for the narrowest seizure of property necessary to achieve the purpose of this paragraph and direct that the seizure be conducted in a manner that

minimizes any interruption of the business operations of third parties and, to the extent possible, does not interrupt the legitimate business operations of the person accused of misappropriating the trade secret;

(iii)(I) be accompanied by an order protecting the seized property from disclosure by prohibiting access by the applicant or the person against whom the order is directed, and prohibiting any copies, in whole or in part, of the seized property, to prevent undue damage to the party against whom the order has issued or others, until such parties have an opportunity to be heard in court; and

(II) provide that if access is granted by the court to the applicant or the person against whom the order is directed, the access shall be consistent with subparagraph (D);

(iv) provide guidance to the law enforcement officials executing the seizure that clearly delineates the scope of the authority of the officials, including—

(I) the hours during which the seizure may be executed; and

(II) whether force may be used to access locked areas;

(v) set a date for a hearing described in subparagraph (F) at the earliest possible time, and not later than 7 days after the order has issued, unless the party against whom the order is directed and others harmed by the order consent to another date for the hearing, except that a party against whom the order has issued or any person harmed by the order may move the court at any time to dissolve or modify the order after giving notice to the applicant who obtained the order; and

(vi) require the person obtaining the order to provide the security determined adequate by the court for the payment of the damages that any person may be entitled to recover as a result of a wrongful or excessive seizure or wrongful or excessive attempted seizure under this paragraph.

(C) PROTECTION FROM PUBLICITY.—The court shall take appropriate action to protect the person against whom an order under this paragraph is directed from publicity, by or at the behest of the person obtaining the order, about such order and any seizure under such order.

(D) MATERIALS IN CUSTODY OF COURT.—

(i) IN GENERAL.—Any materials seized under this paragraph shall be taken into the custody of the court. The court shall secure the seized material from physical and electronic access during the seizure and while in the custody of the court.

(ii) STORAGE MEDIUM.—If the seized material includes a storage medium, or if the seized material is stored on a storage medium, the court shall prohibit the medium from being connected to a network or the Internet without the consent of both parties, until the

hearing required under subparagraph (B)(v) and described in subparagraph (F).

(iii) PROTECTION OF CONFIDENTIALITY.—The court shall take appropriate measures to protect the confidentiality of seized materials that are unrelated to the trade secret information ordered seized pursuant to this paragraph unless the person against whom the order is entered consents to disclosure of the material.

(iv) APPOINTMENT OF SPECIAL MASTER.—The court may appoint a special master to locate and isolate all misappropriated trade secret information and to facilitate the return of unrelated property and data to the person from whom the property was seized. The special master appointed by the court shall agree to be bound by a non-disclosure agreement approved by the court.

(E) SERVICE OF ORDER.—The court shall order that service of a copy of the order under this paragraph, and the submissions of the applicant to obtain the order, shall be made by a Federal law enforcement officer who, upon making service, shall carry out the seizure under the order. The court may allow State or local law enforcement officials to participate, but may not permit the applicant or any agent of the applicant to participate in the seizure. At the request of law enforcement officials, the court may allow a technical expert who is unaffiliated with the applicant and who is bound by a court-approved non-disclosure agreement to participate in the seizure if the court determines that the participation of the expert will aid the efficient execution of and minimize the burden of the seizure.

(F) SEIZURE HEARING.—

(i) DATE.—A court that issues a seizure order shall hold a hearing on the date set by the court under subparagraph (B)(v).

(ii) BURDEN OF PROOF.—At a hearing held under this subparagraph, the party who obtained the order under subparagraph (A) shall have the burden to prove the facts supporting the findings of fact and conclusions of law necessary to support the order. If the party fails to meet that burden, the seizure order shall be dissolved or modified appropriately.

(iii) DISSOLUTION OR MODIFICATION OF ORDER.—A party against whom the order has been issued or any person harmed by the order may move the court at any time to dissolve or modify the order after giving notice to the party who obtained the order.

(iv) DISCOVERY TIME LIMITS.—The court may make such orders modifying the time limits for discovery under the Federal Rules of Civil Procedure as may be necessary to prevent the frustration of the purposes of a hearing under this subparagraph.

(G) ACTION FOR DAMAGE CAUSED BY WRONGFUL SEIZURE.—A person who suffers damage by reason of a wrongful or excessive seizure under this paragraph has a cause of action against the applicant for the order under which such seizure was made, and shall be entitled to the same

relief as is provided under section 34(d)(11) of the Trademark Act of 1946 (15 U.S.C. 1116(d)(11)). The security posted with the court under subparagraph (B)(vi) shall not limit the recovery of third parties for damages.

(H) MOTION FOR ENCRYPTION.—A party or a person who claims to have an interest in the subject matter seized may make a motion at any time, which may be heard ex parte, to encrypt any material seized or to be seized under this paragraph that is stored on a storage medium. The motion shall include, when possible, the desired encryption method.

(3) REMEDIES.—In a civil action brought under this subsection with respect to the misappropriation of a trade secret, a court may—

(A) grant an injunction—

(i) to prevent any actual or threatened misappropriation described in paragraph (1) on such terms as the court deems reasonable, provided the order does not—

(I) prevent a person from entering into an employment relationship, and that conditions placed on such employment shall be based on evidence of threatened misappropriation and not merely on the information the person knows; or

(II) otherwise conflict with an applicable State law prohibiting restraints on the practice of a lawful profession, trade, or business;

(ii) if determined appropriate by the court, requiring affirmative actions to be taken to protect the trade secret; and

(iii) in exceptional circumstances that render an injunction inequitable, that conditions future use of the trade secret upon payment of a reasonable royalty for no longer than the period of time for which such use could have been prohibited;

(B) award—

(i)(I) damages for actual loss caused by the misappropriation of the trade secret; and

(II) damages for any unjust enrichment caused by the misappropriation of the trade secret that is not addressed in computing damages for actual loss; or

(ii) in lieu of damages measured by any other methods, the damages caused by the misappropriation measured by imposition of liability for a reasonable royalty for the misappropriator's unauthorized disclosure or use of the trade secret;

(C) if the trade secret is willfully and maliciously misappropriated, award exemplary damages in an amount not more than 2 times the amount of the damages awarded under subparagraph (B); and

(D) if a claim of the misappropriation is made in bad faith, which may be established by circumstantial evidence, a motion to terminate an injunction is made or opposed in bad faith, or the trade secret was willfully and maliciously

misappropriated, award reasonable attorney's fees to the prevailing party.

(c) JURISDICTION.—The district courts of the United States shall have original jurisdiction of civil actions brought under this section.

(d) PERIOD OF LIMITATIONS.—A civil action under subsection (b) may not be commenced later than 3 years after the date on which the misappropriation with respect to which the action would relate is discovered or by the exercise of reasonable diligence should have been discovered. For purposes of this subsection, a continuing misappropriation constitutes a single claim of misappropriation.

* * * * * * *

§ 1838. Construction with other laws

[This chapter**]** *Except as provided in section 1833(b), this chapter* shall not be construed to preempt or displace any other remedies, whether civil or criminal, provided by United States Federal, State, commonwealth, possession, or territory law for the misappropriation of a trade secret, or to affect the otherwise lawful disclosure of information by any Government employee under section 552 of title 5 (commonly known as the Freedom of Information Act).

§ 1839. Definitions

As used in this chapter—

(1) the term "foreign instrumentality;" means any agency, bureau, ministry, component, institution, association, or any legal, commercial, or business organization, corporation, firm, or entity that is substantially owned, controlled, sponsored, commanded, managed, or dominated by a foreign government;

(2) the term "foreign agent" means any officer, employee, proxy, servant, delegate, or representative of a foreign government;

(3) the term "trade secret" means all forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing if—

(A) the owner thereof has taken reasonable measures to keep such information secret; and

(B) the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, **[**the public**]** *another person who can obtain economic value from the disclosure or use of the information*; **[**and**]**

(4) the term "owner", with respect to a trade secret, means the person or entity in whom or in which rightful legal or equitable title to, or license in, the trade secret is reposed**[**.**]***;*

(5) the term "misappropriation" means—

(A) acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or

(B) disclosure or use of a trade secret of another without express or implied consent by a person who—

(i) used improper means to acquire knowledge of the trade secret;

(ii) at the time of disclosure or use, knew or had reason to know that the knowledge of the trade secret was—

(I) derived from or through a person who had used improper means to acquire the trade secret;

(II) acquired under circumstances giving rise to a duty to maintain the secrecy of the trade secret or limit the use of the trade secret; or

(III) derived from or through a person who owed a duty to the person seeking relief to maintain the secrecy of the trade secret or limit the use of the trade secret; or

(iii) before a material change of the position of the person, knew or had reason to know that—

(I) the trade secret was a trade secret; and

(II) knowledge of the trade secret had been acquired by accident or mistake;

(6) the term "improper means"—

(A) includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means; and

(B) does not include reverse engineering, independent derivation, or any other lawful means of acquisition; and

(7) the term "Trademark Act of 1946" means the Act entitled "An Act to provide for the registration and protection of trademarks used in commerce, to carry out the provisions of certain international conventions, and for other purposes, approved July 5, 1946 (15 U.S.C. 1051 et seq.) (commonly referred to as the 'Trademark Act of 1946' or the 'Lanham Act')".

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CHAPTER 96—RACKETEER INFLUENCED AND CORRUPT ORGANIZATIONS

§ 1961. Definitions

As used in this chapter—

(1) "racketeering activity" means (A) any act or threat involving murder, kidnapping, gambling, arson, robbery, bribery, extortion, dealing in obscene matter, or dealing in a controlled substance or listed chemical (as defined in section 102 of the Controlled Substances Act), which is chargeable under State law and punishable by imprisonment for more than one year; (B) any act which is indictable under any of the following provisions of title 18, United States Code: Section 201 (relating to bribery), section 224 (relating to sports bribery), sections 471, 472, and 473 (relating to counterfeiting), section 659 (relating to theft from interstate shipment) if the act indictable under section 659 is felonious, section 664 (relating to embezzlement

from pension and welfare funds), sections 891-894 (relating to extortionate credit transactions), section 1028 (relating to fraud and related activity in connection with identification documents), section 1029 (relating to fraud and related activity in connection with access devices), section 1084 (relating to the transmission of gambling information), section 1341 (relating to mail fraud), section 1343 (relating to wire fraud), section 1344 (relating to financial institution fraud), section 1351 (relating to fraud in foreign labor contracting), section 1425 (relating to the procurement of citizenship or nationalization unlawfully), section 1426 (relating to the reproduction of naturalization or citizenship papers), section 1427 (relating to the sale of naturalization or citizenship papers), sections 1461-1465 (relating to obscene matter), section 1503 (relating to obstruction of justice), section 1510 (relating to obstruction of criminal investigations), section 1511 (relating to the obstruction of State or local law enforcement), section 1512 (relating to tampering with a witness, victim, or an informant), section 1513 (relating to retaliating against a witness, victim, or an informant), section 1542 (relating to false statement in application and use of passport), section 1543 (relating to forgery or false use of passport), section 1544 (relating to misuse of passport), section 1546 (relating to fraud and misuse of visas, permits, and other documents), sections 1581-1592 (relating to peonage, slavery, and trafficking in persons)., *sections 1831 and 1832 (relating to economic espionage and theft of trade secrets),* section 1951 (relating to interference with commerce, robbery, or extortion), section 1952 (relating to racketeering), section 1953 (relating to interstate transportation of wagering paraphernalia), section 1954 (relating to unlawful welfare fund payments), section 1955 (relating to the prohibition of illegal gambling businesses), section 1956 (relating to the laundering of monetary instruments), section 1957 (relating to engaging in monetary transactions in property derived from specified unlawful activity), section 1958 (relating to use of interstate commerce facilities in the commission of murder-for-hire), section 1960 (relating to illegal money transmitters), sections 2251, 2251A, 2252, and 2260 (relating to sexual exploitation of children), sections 2312 and 2313 (relating to interstate transportation of stolen motor vehicles), sections 2314 and 2315 (relating to interstate transportation of stolen property), section 2318 (relating to trafficking in counterfeit labels for phonorecords, computer programs or computer program documentation or packaging and copies of motion pictures or other audiovisual works), section 2319 (relating to criminal infringement of a copyright), section 2319A (relating to unauthorized fixation of and trafficking in sound recordings and music videos of live musical performances), section 2320 (relating to trafficking in goods or services bearing counterfeit marks), section 2321 (relating to trafficking in certain motor vehicles or motor vehicle parts), sections 2341-2346 (relating to trafficking in contraband cigarettes), sections 2421-24 (relating to white slave traffic), sections 175-178 (relating to biological weapons), sections 229-F (relating to chemical weapons), section 831 (relating to nuclear materials),(C) any act which is indictable under title 29, United States Code,

section 186 (dealing with restrictions on payments and loans to labor organizations) or section 501(c) (relating to embezzlement from union funds), (D) any offense involving fraud connected with a case under title 11 (except a case under section 157 of this title), fraud in the sale of securities, or the felonious manufacture, importation, receiving, concealment, buying, selling, or otherwise dealing in a controlled substance or listed chemical (as defined in section 102 of the Controlled Substances Act), punishable under any law of the United States, (E) any act which is indictable under the Currency and Foreign Transactions Reporting Act, (F) any act which is indictable under the Immigration and Nationality Act, section 274 (relating to bringing in and harboring certain aliens), section 277 (relating to aiding or assisting certain aliens to enter the United States), or section 278 (relating to importation of alien for immoral purpose) if the act indictable under such section of such Act was committed for the purpose of financial gain, or (G) any act that is indictable under any provision listed in section 2332b(g)(5)(B);

(2) "State" means any State of the United States, the District of Columbia, the Commonwealth of Puerto Rico, any territory or possession of the United States, any political subdivision, or any department, agency, or instrumentality thereof;

(3) "person" includes any individual or entity capable of holding a legal or beneficial interest in property;

(4) "enterprise" includes any individual, partnership, corporation, association, or other legal entity, and any union or group of individuals associated in fact although not a legal entity;

(5) "pattern of racketeering activity" requires at least two acts of racketeering activity, one of which occurred after the effective date of this chapter and the last of which occurred within ten years (excluding any period of imprisonment) after the commission of a prior act of racketeering activity;

(6) "unlawful debt" means a debt (A) incurred or contracted in gambling activity which was in violation of the law of the United States, a State or political subdivision thereof, or which is unenforceable under State or Federal law in whole or in part as to principal or interest because of the laws relating to usury, and (B) which was incurred in connection with the business of gambling in violation of the law of the United States, a State or political subdivision thereof, or the business of lending money or a thing of value at a rate usurious under State or Federal law, where the usurious rate is at least twice the enforceable rate;

(7) "racketeering investigator" means any attorney or investigator so designated by the Attorney General and charged with the duty of enforcing or carrying into effect this chapter;

(8) "racketeering investigation" means any inquiry conducted by any racketeering investigator for the purpose of ascertaining whether any person has been involved in any violation of this chapter or of any final order, judgment, or decree of any court of the United States, duly entered in any case or proceeding arising under this chapter;

(9) "documentary material" includes any book, paper, document, record, recording, or other material; and

(10) "Attorney General" includes the Attorney General of the United States, the Deputy Attorney General of the United States, the Associate Attorney General of the United States, any Assistant Attorney General of the United States, or any employee of the Department of Justice or any employee of any department or agency of the United States so designated by the Attorney General to carry out the powers conferred on the Attorney General by this chapter. Any department or agency so designated may use in investigations authorized by this chapter either the investigative provisions of this chapter or the investigative power of such department or agency otherwise conferred by law.

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