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DEFEND TRADE SECRETS ACT OF 2016

MARCH 7, 2016.—Ordered to be printed

Mr. GRASSLEY, 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 which 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, with an amendment, and recommends that the bill, as amended, do pass.

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I. BACKGROUND AND PURPOSE OF THE DEFEND TRADE SECRETS ACT

Trade secrets are a form of intellectual property that allow for the legal protection of commercially valuable, proprietary information and make up an increasingly important part of American companies' intellectual property portfolios. Comprising all types of financial, scientific, technical, engineering, or other forms of information, trade secrets are an integral part of the operation, competitive advantage, and financial success of many U.S.-based companies.

The growing importance of trade secrets as a form of intellectual property makes their theft a particularly economically damaging

crime. In a recent report, the Commission on the Theft of American Intellectual Property estimated that annual losses to the American economy caused by trade secret theft are over \$300 billion, comparable to the current annual level of U.S. exports to Asia.<sup>1</sup> This same report found that trade secret theft has led to the loss of 2.1 million American jobs each year and that the illegal theft of intellectual property is undermining the means and incentive for entrepreneurs to innovate. This in turn is slowing the development of new inventions and industries that could raise the prosperity and quality of life for everyone.<sup>2</sup> In another study, PricewaterhouseCoopers LLP and the Center for Responsible Enterprise and Trade found that the annual cost of trade secret theft may be as high as \$480 billion.<sup>3</sup>

Protecting trade secrets has become increasingly difficult given ever-evolving technological advancements. Thieves are using increasingly sophisticated methods to steal trade secrets and the growing use of technology and cyberspace has made trade secret theft detection particularly difficult.<sup>4</sup> The growing problem of trade secret theft has been acknowledged by industry, Congress,<sup>5</sup> and the administration—with Attorney General Eric Holder stating during a White House conference in 2013, “There are only two categories of companies affected by trade-secret theft: those that know they’ve been compromised and those that don’t know yet.”<sup>6</sup>

Unlike other types of intellectual property, which are primarily protected under Federal law, trade secrets are primarily governed by State law. The Uniform Trade Secrets Act (UTSA) has been adopted (in its entirety or with some modifications) in 47 States and the District of Columbia.<sup>7</sup> State laws that follow the UTSA provide trade secret owners with the ability to file civil lawsuits against a party who misappropriates trade secrets. Although the differences between State laws and the UTSA are generally relatively minor, they can prove case-dispositive: they may affect which party has the burden of establishing that a trade secret is not readily ascertainable, whether the owner has any rights against a party that innocently acquires a trade secret, the scope of information protectable as trade secret, and what measures are necessary to satisfy the requirement that the owner employ “rea-

<sup>1</sup>The IP Commission, *The Report of the Commission on the Theft of American Intellectual Property* (May 2013), available at <http://www.ipcommission.org/report/IPCommissionReport052213.pdf>.

<sup>2</sup>Report of the Commission of the Theft of American Intellectual Property, at 1, 10 (May 2013), available at <http://www.ipcommission.org/report/IPCommissionReport052213.pdf>.

<sup>3</sup>Richard A. Hertling & Aaron Cooper, *Trade Secret Theft: The Need for a Federal Civil Remedy*, *The National Law Review* (June 25, 2014), available at <http://www.natlawreview.com/article/trade-secret-theft-need-federal-civil-remedy>.

<sup>4</sup>Brian T. Yeh, *Protection of Trade Secrets: Overview of Current Law and Legislation*, CRS Report No. R43714 (2014), available at <http://www.crs.gov/pages/Reports.aspx?PRODCODE=R43714&Source=search#fn12>.

<sup>5</sup>*Economic Espionage and Trade Secret Theft: Are Our Laws Adequate for Today’s Threats? Hearing Before the Senate Judiciary Comm., Subcomm. on Crime and Terrorism*, 113th Cong. (2014); *Trade Secrets: Promoting American Innovation, Competitiveness and Market Access in Foreign Markets: Hearing Before the House Judiciary Comm.*, 113th Cong. (2014); *Protecting Trade Secrets: The Impact of Trade Secret Theft on American Competitiveness and Potential Solutions to Remedy this Harm: Hearing Before the Senate Judiciary Comm.*, 114th Cong. (2015).

<sup>6</sup>Siobhan Gorman and Jared A. Favole, *U.S. Ups Ante for Spying on Firms*, *Wall Street Journal* (Feb. 21, 2013) (reproducing a statement made by Attorney General Holder at a White House conference), available at <http://www.wsj.com/articles/SB10001424127887323549204578316413319639782>.

<sup>7</sup>Uniform Law Commission: The National Conference of Commissioners on Uniform State Laws, *Uniform Trade Secrets Act*, available at <http://www.uniformlaws.org/Act.aspx?title=Trade+Secrets+Act>.

sonable measures” to maintain secrecy of the information. At the Federal level, the Economic Espionage Act of 1996 (EEA), 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. The EEA, however, does not give trade secret owners a private right of action in Federal court. The Committee learned that, while fighting economic espionage and the theft of trade secrets is a top priority for Federal law enforcement,<sup>8</sup> criminal enforcement remains a limited solution to stopping trade secret theft as the Federal Bureau of Investigation and Department of Justice are limited in the resources they can bring to bear.<sup>9</sup>

S. 1890 amends the Economic Espionage Act of 1996 to provide a Federal civil remedy for the misappropriation of trade secrets. A Federal cause of action will allow trade secret owners to protect their innovations by seeking redress in Federal court, bringing their rights into alignment with those long enjoyed by owners of other forms of intellectual property, including copyrights, patents, and trademarks. Modelling its definition of misappropriation on the UTSA, the bill provides for equitable remedies and the award of damages for the misappropriation of a trade secret. It also provides for expedited relief on an *ex parte* basis in the form of a seizure of property from the party accused of misappropriation, a remedy available under extraordinary circumstances where necessary to preserve evidence or prevent dissemination of a trade secret. The *ex parte* seizure provision is an important remedy for trade secret owners because it “enable[s] a trade secret owner under limited, controlled conditions, to proactively contain a theft before it progresses and the trade secret is lost.”<sup>10</sup> For example, the damage caused by the large-scale 2006 theft of know-how related to DuPont’s innovative Kevlar product, in which there was significant destruction of evidence, would likely have been mitigated by the existence of a seizure remedy.

The bill balances the need for efficient recovery of a stolen trade secret with the rights of defendants and third-parties. Seizure orders must therefore minimize interruption to the business operations of third parties, protect the seized property from disclosure, and set a hearing date at the earliest possible time.

By improving trade secret protection, the Defend Trade Secrets Act of 2016 will incentivize future innovation while protecting and encouraging the creation of American jobs.

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<sup>8</sup>*Economic Espionage and Trade Secret Theft: Are Our Laws Adequate for Today’s Threats?: Hearing Before the Senate Judiciary Comm., Subcomm. on Crime and Terrorism*, 113th Cong. (2014) (statement of Randall C. Coleman, Assistant Director, Counterintelligence Division, FBI), available at <https://www.fbi.gov/news/testimony/combating-economic-espionage-and-trade-secret-theft>.

<sup>9</sup>*Trade Secrets: Promoting and Protecting American Innovation, Competitiveness, and Market Access in Foreign Markets: Hearing Before the House Judiciary Comm., Subcomm. on Courts, Intellectual Property, and the Internet*, 113th Cong. (2014) (statement of Richard A. Hertling, Of Counsel, Covington & Burling, LLP, Protect Trade Secrets Coalition), available at <http://judiciary.house.gov/cache/files/5311b6c1-9a4f-49e5-a477-451a3ee228bf/113-97-88436.pdf>.

<sup>10</sup>*Protecting Trade Secrets: The Impact of Trade Secret Theft on American Competitiveness and Potential Solutions to Remedy this Harm: Hearing Before the S. Comm. on the Judiciary*, 114th Cong (2015), Statement of Karen Cochran, Associate General Counsel and Chief Intellectual Property Counsel, E.I. DuPont de Nemours & Co., at \*4-5.

## II. HISTORY OF THE BILL AND COMMITTEE CONSIDERATION

### A. INTRODUCTION OF THE BILL

On July 29, 2015, Senators Hatch and Coons introduced the Defend Trade Secrets Act 2015. Senators Baldwin, Durbin, Flake, and Tillis were original cosponsors. The bill was referred to the Committee on the Judiciary. The bill built on previous legislation introduced in the Senate in two prior Congresses: S. 3389, the Protecting American Trade Secrets and Innovation Act of 2012, which was introduced by Senators Kohl, Coons, and Whitehouse in the 112th Congress and S. 2267, the Defend Trade Secrets Act of 2014, which was introduced by Senators Coons and Hatch in the 113th Congress.

### B. COMMITTEE CONSIDERATION

On December 2, 2015, Senator Grassley chaired a Committee hearing on the subject of trade secret theft, entitled “Protecting Trade Secrets: the Impact of Trade Secret Theft on American Competitiveness and Potential Solutions to Remedy This Harm.” The hearing examined the importance of trade secrets to American companies, the adequacy of existing civil remedies, and the potential impact of a uniform Federal civil remedy for trade secret misappropriation. Testimony was received from Ms. Karen Cochran, Chief Intellectual Property Counsel, E.I. DuPont de Nemours and Company, Wilmington, DE;<sup>11</sup> Mr. Tom Beall, Vice President and Chief Intellectual Property Counsel, Corning Incorporated, Corning, NY;<sup>12</sup> Mr. James Pooley, Principal, James Pooley, PLC, Menlo Park, CA;<sup>13</sup> Ms. Sharon Sandeen, Professor of Law, Hamline University School of Law, St. Paul, MN.<sup>14</sup>

The Committee’s Subcommittee on Crime and Terrorism previously held a hearing on the subject of trade secret theft during the 113th Congress on May 13, 2014, entitled, “Economic Espionage and Trade Secret Theft: Are Our Laws Adequate for Today’s Threats?” Testimony was received from Randall C. Coleman, Assistant Director, Counterintelligence Division, Federal Bureau of Investigation; Peter L. Hoffman, Vice President, Intellectual Property Management, The Boeing Company, Chicago, IL; Ms. Pamela Passman, President and Chief Executive Officer, Center for Responsible Enterprise and Trade, Washington, DC; Mr. Drew Greenblatt, President, Marlin Steel Wire Products, Baltimore, MD; and Mr. Douglas K. Norman, Vice President and General Patent Counsel, Eli Lilly and Company, Indianapolis, IN.

The Committee considered S. 1890 on January 28, 2016, in open session. Senators Hatch and Coons offered a substitute amendment

<sup>11</sup>*Protecting Trade Secrets: the Impact of Trade Secret Theft on American Competitiveness and Potential Solutions to Remedy This Harm, Before the Senate Comm. On the Judiciary*, 114th Cong. (2015) (statement of Ms. Karen Cochran, Chief Intellectual Property Counsel, E.I. DuPont de Nemours and Company), available at <http://www.judiciary.senate.gov/imo/media/doc/12-02-15%20Cochran%20Testimony.pdf>.

<sup>12</sup>*Id.* statement of Mr. Tom Beall, Vice President and Chief Intellectual Property Counsel, Corning Incorporated, available at <http://www.judiciary.senate.gov/imo/media/doc/12-02-15%20Beall%20Testimony.pdf>.

<sup>13</sup>*Id.* statement of Mr. James Pooley, Principal, James Pooley, available at <http://www.judiciary.senate.gov/imo/media/doc/12-02-15%20Pooley%20Testimony.pdf>.

<sup>14</sup>*Id.* statement of Ms. Sharon Sandeen, Professor of Law, Hamline University School of Law, available at <http://www.judiciary.senate.gov/imo/media/doc/12-02-15%20Sandeen%20Testimony.pdf>.

reflecting the input of several members of the Committee. The amendment provides that only the owner of a trade secret may bring a civil action for the secret's misappropriation, reduces the period of limitations from 5 to 3 years to align with the UTSA, and amends the definitions of "trade secret" and "improper means." The amendment also makes clear that ex parte seizures are only available in "extraordinary circumstances," and places other limitations on the breadth of seizures. The amendment further clarifies the appropriate scope of injunctions relating to employment to ensure that court orders are not contrary to applicable State laws. Finally, the amendment adds language expressing the sense of Congress that it is important to balance the interests of all parties when issuing an ex parte seizure, and instructing the Federal Judicial Center to develop best practices for the execution of seizures and the storage of seized information. The amendment was accepted by a voice vote without objection. Senators Leahy and Grassley offered an amendment to provide protection to whistleblowers who disclose trade secrets to law enforcement in confidence for the purpose of reporting or investigating a suspected violation of law. The amendment also immunizes the confidential disclosure of a trade secret in a lawsuit, including an anti-retaliation proceeding. The amendment was accepted by a voice vote without objection.

The Committee unanimously adopted both amendments by voice vote. The Committee then voted to report the Defend Trade Secrets Act of 2016, as amended, favorably to the Senate by voice vote.

### III. SECTION-BY-SECTION SUMMARY OF THE BILL

#### *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 that 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 section 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 misappro-

riated, but did not use, or conspire to use, improper means to acquire such trade secret.<sup>15</sup> Seizure of a trade secret that was stolen 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 seven 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 non-disclosure 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.

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<sup>15</sup>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*, 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)).

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 appoint 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.<sup>16</sup> These limitations on injunctive relief were included to protect employee mobility, as some members, including Senator Feinstein, voiced 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

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<sup>16</sup>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).



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, as Senator Feinstein explained when the Committee considered this bill at its executive business meeting, 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 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, Section (2)(f), which provides that the bill does not “preempt any other provision of law,” the remedies provided in Section (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.<sup>17</sup>

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 district courts of the United States 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 three-year period of limitations in which to bring a claim under the section. This limitations period, which was reduced from five years during the Committee’s markup, is now identical to the limitations period of the

<sup>17</sup>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. *See 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).

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 Section 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 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 through 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 section 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 section 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 one 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 two 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 immunize 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 section 1838 of title 18 in the section heading and table of sections based on the changes made by this Act.

#### IV. CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

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:

FEBRUARY 25, 2016.

Hon. CHUCK GRASSLEY,  
*Chairman, Committee on the Judiciary,*  
*U.S. Senate, Washington, DC.*

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the enclosed cost estimate for S. 1890, 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.

Sincerely,

KEITH HALL.

Enclosure.

#### *S. 1890—Defend Trade Secrets Act of 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 civil court filing fees 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 period 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 Mandates 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 also 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 as a part of certain legal proceedings. 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 bill would strengthen existing whistleblower protections to protect individuals from potential trade secret claims. The available literature suggests that few of those types of lawsuits have been brought against individuals under current law. Consequently, CBO estimates 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).

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 H. Samuel Papenfuss, Deputy Assistant Director for Budget Analysis.

## V. REGULATORY IMPACT EVALUATION

In compliance with rule XXVI of the Standing Rules of the Senate, the Committee finds that no significant regulatory impact will result from the enactment of S. 1890.

## VI. CONCLUSION

The Defend Trade Secrets Act, S. 1890, as amended, 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 business, 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.

VII. CHANGES TO EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with paragraph 12 of rule XXVI of the Standing Rules of the Senate, the Committee finds that it is necessary to dispense with the requirement of paragraph 12 to expedite the business of the Senate.

