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REPORT
113–657

TRADE SECRETS PROTECTION ACT OF 2014

DECEMBER 11, 2014.—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 H.R. 5233]

[Including cost estimate of the Congressional Budget Office]

The Committee on the Judiciary, to whom was referred the bill (H.R. 5233) 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.

CONTENTS

	Page
The Amendment	1
Purpose and Summary	5
Background and Need for the Legislation	5
Hearings	7
Committee Consideration	8
Committee Votes	8
Committee Oversight Findings	8
New Budget Authority and Tax Expenditures	8
Congressional Budget Office Cost Estimate	8
Duplication of Federal Programs	9
Disclosure of Directed Rule Makings	9
Performance Goals and Objectives	9
Advisory on Earmarks	9
Section-by-Section Analysis	10
Changes in Existing Law Made by the Bill, as Reported	14

The Amendment

The amendment is as follows:

Strike all after the enacting clause and insert the following:

SECTION 1. SHORT TITLE.

This Act may be cited as the "Trade Secrets Protection Act of 2014".

49–006

SEC. 2. FEDERAL JURISDICTION FOR THEFT OF TRADE SECRETS.

(a) IN GENERAL.—Section 1836 of title 18, United States Code, is amended by striking subsection (b) and inserting the following:

"(b) PRIVATE CIVIL ACTIONS.—

"(1) IN GENERAL.—An owner of a trade secret may bring a civil action under this subsection if the person is aggrieved by a misappropriation of a trade secret that 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, issue an order providing for the seizure of property necessary to preserve evidence in a civil action brought under paragraph (1) or 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(b) of the Federal Rules of Civil Procedure 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 the person against whom seizure would be ordered misappropriated the trade secret by improper means, or conspired to use improper means to misappropriate the trade secret, and is in possession of the trade secret;

"(V) 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;

"(VI) 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

"(VII) 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 seizure of any property in a manner that minimizes any interruption of the business operations of third parties and, to the extent possible, does not interrupt those legitimate business operations of the person accused of misappropriating the trade secret that are unrelated to the trade secret that has allegedly been misappropriated;

"(iii) be accompanied by an order protecting the property from disclosure by restricting the access of the applicant, including during the seizure, 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;

"(iv) set a date for a hearing 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 such 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

"(v) require the person obtaining the order to provide the security determined adequate by the court for the payment of such damages as

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.—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.

"(E) SERVICE OF ORDER.—The court shall order that service of a copy of the order under this paragraph shall be made by a Federal law enforcement officer, or may be made by a State or local law enforcement officer, who, upon making service, shall carry out the seizure under the order.

"(F) 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)(v) shall not limit the recovery of third parties for damages.

"(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;

"(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 3 times the amount of the damages awarded under subparagraph (B); and

"(D) if a claim of the misappropriation is made in bad faith, 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 5 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.".

(b) DEFINITIONS.—Section 1839 of title 18, United States Code, is amended—

(1) in paragraph (3), by striking "and" at the end;

(2) in paragraph (4), by striking the period at the end and inserting a semicolon; and

(3) by adding at the end the following:

"(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 or independent derivation; 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")'.".

(c) EXCEPTIONS TO PROHIBITION.—Section 1833 of title 18, United States Code, is amended, in the matter preceding paragraph (1), by inserting "or create a private right of action for" after "prohibit".

(d) CONFORMING AMENDMENTS.—

(1) The section heading for section 1836 of title 18, United States Code, is amended to read as follows:

"§ 1836. Civil proceedings".

(2) The table of sections for chapter 90 of title 18, United States Code, is amended by striking the item relating to section 1836 and inserting the following:

"1836. Civil proceedings.".

(e) EFFECTIVE DATE.—The amendments made by this section shall apply with respect to any misappropriation of a trade secret (as defined in section 1839 of title 18, United States Code, as amended by this section) for which any act occurs on or after the date of the enactment of this Act.

(f) RULE OF CONSTRUCTION.—Nothing in the amendments made by this section shall be construed to modify the rule of construction under section 1838 of title 18, United States Code, or to preempt any other provision of law.

(g) APPLICABILITY TO OTHER LAWS.—This section and the amendments made by this section shall not be construed to be a law pertaining to intellectual property for purposes of any other Act of Congress.

SEC. 3. REPORT ON THEFT OF TRADE SECRETS OCCURRING ABROAD.

(a) REPORTS.—Not later than 1 year after the date of the enactment of this Act, and biannually thereafter, the Attorney General, in consultation with the Intellectual Property Enforcement Coordinator, the Director, and the heads of other appropriate agencies, shall submit to the Committees on the Judiciary of the House of Representatives and the Senate, and make publicly available on the Web site of the Department of Justice and disseminate to the public through such other means as the Attorney General may identify, a report on the following:

(1) The scope and breadth of the theft of the trade secrets of United States companies occurring outside of the United States.

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

(3) The threat posed by theft of trade secrets occurring outside of the United States.

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

(5) A breakdown of the trade secret protections afforded United States companies by each country that is a trading partner of the United States and enforce-

ment efforts available and undertaken in each such country, including a list identifying specific countries where trade secret theft, laws, or enforcement 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 against theft of trade secrets of United States companies outside of the United States.

(8) Recommendations of 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 the 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 of the United States.

(b) DEFINITIONS.—In this section:

(1) DIRECTOR.—The term "Director" means the Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office.

(2) FOREIGN INSTRUMENTALITY, ETC.—The terms "foreign instrumentality", "foreign agent", and "trade secret" have the meanings given those terms in section 1839 of title 18, United States Code.

(3) STATE.—The term "State" includes the District of Columbia and any commonwealth, territory, or possession of the United States.

(4) UNITED STATES COMPANY.—The term "United States company" means an organization organized under the laws of the United States or a State or political subdivision thereof.

Purpose and Summary

H.R. 5233 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 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, trade secrets include manufacturing processes, proprietary technologies, industrial techniques, formulas, codes, designs, and customer lists. In a global

economy based on knowledge and innovation, trade secrets constitute some of any company's most valuable property.

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.[1]

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.[2] 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."[3] 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.[4] More recently, the Center for Responsible Enterprise and Trade, along with PwC, issued a report estimating that trade secret theft exacts 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.[5] And in the last Congress, this Committee recognized the "significant and growing threat presented by criminals who engage in espionage on behalf of foreign adversaries and competitors."[6]

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").[7]

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[1] 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.

[2] *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 12; *see also id.,* Statement of David M. Simon, Senior Vice President for Intellectual Property, salesforce.com, Inc., at 24–25; Statement of Thaddeus Burns, Senior Counsel, Intellectual Property & Trade, General Electric, on behalf of Intellectual Property Owners Association, at 36; Statement of Chris Moore, Senior Director, International Business Policy, National Association of Manufacturers, at 47.

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

[4] 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.

[5] 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.

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

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

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."[8] 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.

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.

Hearings

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.

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

Committee Consideration

On September 17, 2014, the Committee met in open session and ordered the bill H.R. 5233 favorably reported with an 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 H.R. 5233.

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, H.R. 5233, 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, November 25, 2014.

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 H.R. 5233, the "Trade Secrets Protection Act of 2014."

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

Sincerely,

DOUGLAS W. ELMENDORF,
DIRECTOR.

Enclosure

cc: Honorable John Conyers, Jr.
Ranking Member

H.R. 5233—Trade Secrets Protection Act of 2014.

As ordered reported by the House Committee on the Judiciary on September 17, 2014.

H.R. 5233 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 may issue an order to seize any property necessary to preserve evidence for the civil action. The legislation would require the Department of Justice (DOJ) to submit periodic reports on theft of trade secrets in the United States.

Based on information provided by the DOJ and the Administrative Office of the U.S. Courts, CBO estimates that implementing H.R. 5233 would have no significant effect on the Federal budget. Enacting H.R. 5233 would affect direct spending and revenues; therefore, pay-as-you-go procedures apply. Specifically, the bill would affect civil court filing fees, which are recorded in the budget as revenues. A portion of those revenues would be spent without further appropriation. However, CBO estimates that the net budget effect would be insignificant for each year and over the 2015–2024 period.

H.R. 5233 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act and would not affect the budgets of state, local, or tribal governments.

The CBO staff contact for this estimate is Martin von Gnechten. The estimate was approved by Theresa Gullo, Deputy Assistant Director for Budget Analysis.

Duplication of Federal Programs

No provision of H.R. 5233 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 H.R. 5233 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, H.R. 5233 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, H.R. 5233 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

The following discussion describes the bill as reported by the Committee.

Section 1. Short Title.

Section 1 provides that the short title of H.R. 5233 is the "Trade Secrets Protection Act of 2014."

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

Section 2(a) amends § 1836 of title 18 by striking subsection (b) (which provides for Federal district courts to have exclusive jurisdiction over civil actions brought by the Attorney General for trade secret misappropriation) and creating a Federal civil remedy for trade secret misappropriation.

In General.

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

Civil Seizure.

The new § 1836(b) in paragraph (2) authorizes a court to issue an order, and upon an ex parte application based on an affidavit or verified complaint, for seizure of property necessary to preserve evidence or to prevent the propagation or dissemination of the trade secret. Subparagraph (A) contains numerous limitations, described below, and is not intended to affect the inherent authority of the Federal courts. It also does not affect the authority of the court to issue appropriate orders pursuant to Rule 65 of the Federal Rules of Civil Procedure.

In clause (ii) of paragraph (2), the legislation instructs that the court may not grant a seizure order unless it finds that it clearly appears from specific facts that (I) 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; (II) immediate and irreparable injury will occur if the 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 the seizure is ordered and substantially outweighs the harm to any third parties; (IV) 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 use improper means, and is in possession of it; (V) 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; (VI) 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 (VII) the applicant has not publicized the requested seizure.

The Committee expects that courts will require applicants for ex parte seizure orders to describe the trade secret that would be the subject of the order with sufficient particularity for the court to evaluate the request. The requirement in subclause (IV) protects third-parties from seizure. For instance, the operator of a server on which another party has stored a misappropriated trade secret, or online an intermediary such as an Internet service provider, would not be subject to seizure because that party did not misappropriate the trade secret. The court may decide to issue an injunction preventing disclosure of the trade secret, but not a seizure order under this provision. The requirement in that subclause 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 it. The subclause is flexible enough, however, to allow seizure of a trade secret stolen by one party and handed off to an accomplice.

Subparagraph (B) of new § 1836(b)(2) further provides that a seizure order shall (i) set forth findings of fact and conclusions of law required for the order; (ii) provide for the seizure in a manner that minimizes any interruption of the business operations of third parties and, to the extent possible, does not interrupt the legitimate, unrelated business operations of the person accused of misappropriating the trade secret; (iii) be accompanied by an order protecting the seized property from disclosure by restricting the access of the applicant and prohibiting any copies of the seized property; (iv) set a date for a hearing at the earliest possible time, and no later than 7 days after the order has issued; and (v) require the person obtaining the order to provide the security determined adequate by the court for payment of such damages as a person may be entitled to recover as a result of a wrongful or excessive 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 about the order and seizure. Subparagraph (D) provides that any materials seized shall be taken into the custody of the court, which shall secure the material from physical and electronic access. The court, in implementing this subparagraph, should be careful to keep, for instance, any electronic data secure and not connected to a device that may be connected to the Internet and therefore susceptible to cyberattacks. Subparagraph (E) requires the order to be carried out by a law enforcement officer. Subparagraph (F) provides that a person who suffers damage by reason of a wrongful or excessive seizure has a cause of action against the applicant to recover damages, including punitive damages, and a reasonable attorney's fee.

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 comes directly from § 2 of the UTSA. A court may grant an injunction to prevent any actual or threatened misappropriation. A court may require affirmative actions to be

taken to protect the trade secret. And, in exceptional circumstances that render an injunction inequitable, a court may condition future use of the trade secret upon payment of reasonable royalties.

Subparagraph (B) specifies the damage award that a court may issue and comes directly from § 3 of the UTSA. This subparagraph authorizes an award of damages for the actual loss and any unjust enrichment caused by the misappropriation, or, in lieu of damages calculated by any other method, an award of a reasonable royalty.

Subparagraph (C) authorizes an award of exemplary damages if the trade secret is willfully and maliciously misappropriated. This provision is similar to § 3(b) of the UTSA, which authorizes an award not exceeding twice the damages awarded for willful and malicious misappropriation. The Committee included treble damages, rather than double, for consistency with the patent laws—section 284 of title 35, in the second undesignated paragraph—and the trademark laws—section 35(b) of the Lanham Act—both of which authorize treble damages for willful infringement.

Subparagraph (D) authorizes an award of attorney's fees to the prevailing party if a claim of misappropriation is made in bad faith, there is willful and malicious infringement, or a motion to terminate an injunction is made or opposed in bad faith. This provision comes directly from § 4 of the UTSA.

Jurisdiction.

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

Period of Limitations.

Subsection (d) of new § 1836 provides a 5-year period of limitations in which to bring a claim under the section.

Additional Provisions.

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

First, the subsection includes a definition of "misappropriation" that is identical 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 the Committee is not intending to alter the balance of current trade secret law or alter specific court decisions.[9]

Second, the subsection includes a definition of "improper means." This definition in subparagraph (A) is identical to the definition in the § 1(1) of the UTSA. The Committee included a subparagraph (B) to clarify that reverse engineering and independent derivation of the secret do not constitute improper means.

[9] The Committee is cognizant, for instance, 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). The Committee does not intend this legislation to affect the development of this doctrine.

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

Section 2(c) of the Act ensures that nothing in the legislation is read to create a cause of action for conduct of a governmental entity or for reporting a suspected violation of law to a governmental entity.

Section 2(d) of the Act is a conforming amendment to update the title of section 1836 in the section heading and table of sections based on the changes made by this Act.

Section 2(e) of the Act sets the effective date for the amendments made by section 2 of the Act. The amendments shall apply to any misappropriation for which any act occurs on or after the date of enactment of the Act.

Section 2(f) of the Act clarifies that nothing in this Act modifies the rule of construction in § 1838 and, therefore, state trade secret law is not preempted and nothing affects an otherwise lawful disclosure under the Freedom of Information Act.

Section 2(g) of the Act also specifies that the new civil remedy created by this Act will not be an additional exception to protections provided to certain online services. This section has no impact on whether pre-existing law related to trade secrets at the state or Federal level are laws pertaining to intellectual property and therefore exceptions to those protections.

Sec. 3. Report on Theft of Trade Secrets Occurring Abroad.

Section 3 of the Act requires a biannual 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, on:

(1) the scope of trade secret theft from United States companies that occurs outside the United States;

(2) the extent to which trade secret theft outside of the United States is sponsored by foreign entities;

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

(4) the ability and limitations of trade secret owners to prevent trade secret misappropriation 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 trading partners of the United States and specific information about enforcement efforts available and undertaken in each such country;

(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 to protect United States companies from trade secret theft outside the United States; and

(8) recommendations of 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.

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, existing law in which no change is proposed is shown in roman):

TITLE 18, UNITED STATES CODE

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PART I—CRIMES

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CHAPTER 90—PROTECTION OF TRADE SECRETS

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

§ 1833. Exceptions to prohibitions

This chapter does not prohibit *or create a private right of action for—*

(1) * * *

* * * * * * *

§ 1836. [Civil proceedings to enjoin violations] *Civil proceedings*

(a) * * *

[(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 may bring a civil action under this subsection if the person is aggrieved by a misappropriation of a trade secret that 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 para-

graph, the court may, upon ex parte application, issue an order providing for the seizure of property necessary to preserve evidence in a civil action brought under paragraph (1) or 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(b) of the Federal Rules of Civil Procedure 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 the person against whom seizure would be ordered misappropriated the trade secret by improper means, or conspired to use improper means to misappropriate the trade secret, and is in possession of the trade secret;

(V) 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;

(VI) 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

(VII) 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 seizure of any property in a manner that minimizes any interruption of the business operations of third parties and, to the extent possible, does not interrupt those legitimate business operations of the person accused of misappropriating the trade secret that are unrelated to the trade secret that has allegedly been misappropriated;

(iii) be accompanied by an order protecting the property from disclosure by restricting the access of the

applicant, including during the seizure, 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;

(iv) set a date for a hearing 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 such 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

(v) require the person obtaining the order to provide the security determined adequate by the court for the payment of such damages as 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.—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.

(E) SERVICE OF ORDER.—The court shall order that service of a copy of the order under this paragraph shall be made by a Federal law enforcement officer, or may be made by a State or local law enforcement officer, who, upon making service, shall carry out the seizure under the order.

(F) 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)(v) shall not limit the recovery of third parties for damages.

(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;

(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 3 times the amount of the damages awarded under subparagraph (B); and

(D) if a claim of the misappropriation is made in bad faith, 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 5 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.

* * * * * * *

§ 1839. Definitions

As used in this chapter—

(1) * * *

* * * * * * *

(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) * * *

(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; **[**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 or independent derivation; 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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