

S. 1890

One Hundred Fourteenth Congress of the United States of America

AT THE SECOND SESSION

*Began and held at the City of Washington on Monday,
the fourth day of January, two thousand and sixteen*

An Act

To amend chapter 90 of title 18, United States Code, to provide Federal jurisdiction for the theft of trade secrets, and for other purposes.

*Be it enacted by the Senate and House of Representatives of
the United States of America in Congress assembled,*

SECTION 1. SHORT TITLE.

This Act may be cited as the “Defend Trade Secrets Act of 2016”.

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 that is misappropriated may bring a civil action under this subsection if the trade secret is related to a product or service used in, or intended for use in, interstate or foreign commerce.

“(2) CIVIL SEIZURE.—

“(A) IN GENERAL.—

“(i) APPLICATION.—Based on an affidavit or verified complaint satisfying the requirements of this paragraph, the court may, upon ex parte application but only in extraordinary circumstances, issue an order providing for the seizure of property necessary to prevent the propagation or dissemination of the trade secret that is the subject of the action.

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

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

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

“(III) the harm to the applicant of denying the application outweighs the harm to the legitimate interests of the person against whom seizure would be ordered of granting the application and

substantially outweighs the harm to any third parties who may be harmed by such seizure;

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

“(aa) the information is a trade secret; and

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

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

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

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

“(aa) the trade secret; and

“(bb) any property to be seized;

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

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

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

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

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

“(ii) provide for the narrowest seizure of property necessary to achieve the purpose of this paragraph and direct that the seizure be conducted in a manner that minimizes any interruption of the business operations of third parties and, to the extent possible, does not interrupt the legitimate business operations of the person accused of misappropriating the trade secret;

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

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

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

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

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

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

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

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

“(D) MATERIALS IN CUSTODY OF COURT.—

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

“(ii) STORAGE MEDIUM.—If the seized material includes a storage medium, or if the seized material is stored on a storage medium, the court shall prohibit the medium from being connected to a network or the Internet without the consent of both parties, until the hearing required under subparagraph (B)(v) and described in subparagraph (F).

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

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

“(E) SERVICE OF ORDER.—The court shall order that service of a copy of the order under this paragraph, and the submissions of the applicant to obtain the order, shall be made by a Federal law enforcement officer who, upon

making service, shall carry out the seizure under the order. The court may allow State or local law enforcement officials to participate, but may not permit the applicant or any agent of the applicant to participate in the seizure. At the request of law enforcement officials, the court may allow a technical expert who is unaffiliated with the applicant and who is bound by a court-approved non-disclosure agreement to participate in the seizure if the court determines that the participation of the expert will aid the efficient execution of and minimize the burden of the seizure.

“(F) SEIZURE HEARING.—

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

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

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

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

“(G) ACTION FOR DAMAGE CAUSED BY WRONGFUL SEIZURE.—A person who suffers damage by reason of a wrongful or excessive seizure under this paragraph has a cause of action against the applicant for the order under which such seizure was made, and shall be entitled to the same relief as is provided under section 34(d)(11) of the Trademark Act of 1946 (15 U.S.C. 1116(d)(11)). The security posted with the court under subparagraph (B)(vi) shall not limit the recovery of third parties for damages.

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

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

“(A) grant an injunction—

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

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

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

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

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

“(B) award—

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

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

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

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

“(D) if a claim of the misappropriation is made in bad faith, which may be established by circumstantial evidence, a motion to terminate an injunction is made or opposed in bad faith, or the trade secret was willfully and maliciously misappropriated, award reasonable attorney’s fees to the prevailing party.

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

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

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

(1) in paragraph (3)—

(A) in subparagraph (B), by striking “the public” and inserting “another person who can obtain economic value from the disclosure or use of the information”; and

(B) 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, independent derivation, or any other lawful means of acquisition; and

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

(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. TRADE SECRET THEFT ENFORCEMENT.

(a) **IN GENERAL.**—Chapter 90 of title 18, United States Code, is amended—

(1) in section 1832(b), by striking “\$5,000,000” and inserting “the greater of \$5,000,000 or 3 times the value of the stolen trade secret to the organization, including expenses for research and design and other costs of reproducing the trade secret that the organization has thereby avoided”; and

(2) in section 1835—

(A) by striking “In any prosecution” and inserting the following:

“(a) **IN GENERAL.**—In any prosecution”; and

(B) by adding at the end the following:

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

(b) **RICO PREDICATE OFFENSES.**—Section 1961(1) of title 18, United States Code, is amended by inserting “sections 1831 and 1832 (relating to economic espionage and theft of trade secrets),” before “section 1951”.

SEC. 4. REPORT ON THEFT OF TRADE SECRETS OCCURRING ABROAD.

(a) **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.

(b) REPORTS.—Not later than 1 year after the date of 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 enforcement 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.

SEC. 5. SENSE OF CONGRESS.

It is the sense of Congress that—

- (1) trade secret theft occurs in the United States and around the world;
- (2) trade secret theft, wherever it occurs, harms the companies that own the trade secrets and the employees of the companies;
- (3) chapter 90 of title 18, United States Code (commonly known as the “Economic Espionage Act of 1996”), applies broadly to protect trade secrets from theft; and
- (4) it is important when seizing information to balance the need to prevent or remedy misappropriation with the need to avoid interrupting the—
 - (A) business of third parties; and
 - (B) legitimate interests of the party accused of wrongdoing.

SEC. 6. BEST PRACTICES.

- (a) IN GENERAL.—Not later than 2 years after the date of enactment of this Act, the Federal Judicial Center, using existing resources, shall develop recommended best practices for—
 - (1) the seizure of information and media storing the information; and
 - (2) the securing of the information and media once seized.
- (b) UPDATES.—The Federal Judicial Center shall update the recommended best practices developed under subsection (a) from time to time.
- (c) CONGRESSIONAL SUBMISSIONS.—The Federal Judicial Center shall provide a copy of the recommendations developed under subsection (a), and any updates made under subsection (b), to the—
 - (1) Committee on the Judiciary of the Senate; and
 - (2) Committee on the Judiciary of the House of Representatives.

SEC. 7. IMMUNITY FROM LIABILITY FOR CONFIDENTIAL DISCLOSURE OF A TRADE SECRET TO THE GOVERNMENT OR IN A COURT FILING.

- (a) AMENDMENT.—Section 1833 of title 18, United States Code, is amended—
 - (1) by striking “This chapter” and inserting “(a) IN GENERAL.—This chapter”;
 - (2) in subsection (a)(2), as designated by paragraph (1), by striking “the reporting of a suspected violation of law to any governmental entity of the United States, a State, or a political subdivision of a State, if such entity has lawful authority with respect to that violation” and inserting “the disclosure of a trade secret in accordance with subsection (b)”;
 - and
 - (3) by adding at the end the following:
 - “(b) IMMUNITY FROM LIABILITY FOR CONFIDENTIAL DISCLOSURE OF A TRADE SECRET TO THE GOVERNMENT OR IN A COURT FILING.—
 - “(1) IMMUNITY.—An individual shall not be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of a trade secret that—
 - “(A) is made—
 - “(i) in confidence to a Federal, State, or local government official, either directly or indirectly, or to an attorney; and
 - “(ii) solely for the purpose of reporting or investigating a suspected violation of law; or

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

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

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

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

“(3) NOTICE.—

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

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

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

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

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

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

(b) TECHNICAL AND CONFORMING AMENDMENT.—Section 1838 of title 18, United States Code, is amended by striking “This

S. 1890—11

chapter” and inserting “Except as provided in section 1833(b), this chapter”.

Speaker of the House of Representatives.

*Vice President of the United States and
President of the Senate.*