

ARTICLES

The Defend Trade Secrets Act and Extraterritoriality

The question of whether misappropriation that occurred outside the United States is subject to the DTSA will likely be litigated with increased frequency.

By Kurt A. Kappes and Lupe R. Laguna – January 12, 2021

We are rapidly approaching the fifth anniversary of the Defend Trade Secrets Act (DTSA), 18 U.S.C. § 1831 et seq. (effective May 2016). As many know, the statute amended sections of the previously enacted Economic Espionage Act of 1996 (EEA), Pub. L. No. 104-294, which had criminalized the theft of trade secrets in certain contexts.

Specifically, the DTSA amended the EEA in creating a private right of action, codified in 18 U.S.C. § 1836(b). The purpose of the DTSA was to complement the EEA’s existing criminal penalties for trade secret theft with a civil enforcement mechanism. It was also enacted to federalize such claims, even though nearly every state in the country has adopted some version of the Uniform Trade Secrets Act.

Congress enacted the DTSA against the backdrop of an economy that is becoming increasingly globalized and decentralized. In passing the DTSA, Congress underscored the threat that trade secret theft poses to the American economy, observing that “[i]n 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.” [Sen. Rep. No. 114-220](#) (Mar. 7, 2016). Although the global economy presents unique business opportunities for both foreign and domestic companies, it also presents challenges for the protection of intellectual property. Indeed, in passing the DTSA, Congress noted that “[p]rotecting 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.” *Id.*

With the increasing interdependence of world economies and with companies’ most prized assets—intellectual property—moving across borders freely via cyberspace, the question of whether misappropriation that occurred outside the United States is subject to the DTSA will likely be litigated with increased frequency.

The DTSA’s Text

The DTSA’s text provides little clarity on the scope of its reach to extraterritorial conduct. The DTSA, as codified in section 1836 of the EEA, is written as follows:

(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.

18 U.S.C. § 1836(b).

Because the text of section 1836 does not contain any explicit reference to extraterritorial conduct or application, courts have looked to related provisions within the EEA to determine whether the private cause of action codified in section 1836 has extraterritorial reach.

In conducting this analysis, most courts have looked to section 1837 of the EEA, Applicability to conduct outside the United States. Section 1837 of the EEA provides:

This chapter also applies to conduct occurring outside the United States if—

- (1) the offender is a natural person who is a citizen or permanent resident alien of the United States, or an organization organized under the laws of the United States or a State or political subdivision thereof; or
- (2) an act in furtherance of the offense was committed in the United States.

18 U.S.C. § 1837.

The *Motorola* Case

A recent opinion out of the U.S. District Court for the Northern District of Illinois—*Motorola Solutions, Inc. v. Hytera Communications Corp.*—is the first case to meaningfully analyze section 1837 in the context of a civil trade secrets trial in which the issue was whether damages outside the United States fell within the act. *See* 436 F. Supp. 3d 1150, 1155 (N.D. Ill. 2020).

There, the plaintiffs brought claims against the defendants under the DTSA, alleging that the defendants hired three engineers away from the plaintiffs' Malaysian office. *Id.* at 1154. The plaintiffs alleged that, on their way out the door, those engineers stole and brought to the defendant thousands of the plaintiffs' technical, confidential documents, and that the defendants used those documents, which contained trade secrets and lines of source code, to develop a state-of-the-art digital radio that was functionally indistinguishable from the plaintiffs' radios. The plaintiffs asserted that the defendants then sold those radios all around the world, including in the United States. The plaintiffs also offered evidence that the defendants advertised, promoted, and marketed products embodying the allegedly stolen trade secrets domestically at numerous trade shows. *Id.* at 1165.

The defendants sought to exclude any evidence relating to extraterritorial damages, arguing that the DTSA could not reach conduct that emanated from outside the United States. *Id.* at 1154. The district court observed that there is a well-recognized general presumption that U.S. laws apply only domestically. But drawing a clear connection between the EEA's section 1837 and

the DTSA, as codified in section 1836, the court concluded that presumption was rebutted. Because the DTSA was simply a modification of the EEA’s existing statutory framework, in the *Motorola* court’s view, the primary question was “whether Section 1837 limits that rebuttal only to criminal matters—in other words, whether Section 1837 also creates an extraterritorial application of the private right of action codified in Section 1836.” *Id.* at 1159.

In concluding that section 1837 did, in fact, extend to DTSA civil actions, the court observed that “[t]he biggest indicator that Congress did intend for the private right of action of the DTSA to apply extraterritorially is the fact that Section 1837 refers broadly to ‘this chapter,’ which includes within it Section 1836.” *Id.* From this language, which Congress did not amend when it amended the EEA with the DTSA, the court concluded that Congress intended section 1837 to apply to civil actions under brought under section 1836. The court likewise rejected the assertion that section 1837’s use of the terms “offender” and “offense” evidenced a congressional intent to limit section 1837 to criminal matters. *Id.*

The *Motorola* court then found that extraterritorial application of the DTSA was proper based on the facts before it. Turning to the text of section 1837(b)(2), which permits extraterritorial application of the EEA where “an act in furtherance of the offense was committed in the United States,” the court reasoned that “offense,” in the context of a DTSA private right of action, is broad and includes the misappropriation of the trade secret. *Id.* at 1163. The court then went a step further and noted that the offense of misappropriation is not limited to the acquisition of the trade secret and that it extends to disclosure of the trade secret and its use. *Id.* (collecting authority).

Thus, under the *Motorola* court’s formulation, there are three categories of conduct that could give rise to “an act in furtherance of the offense” under section 1837(b)(2): (1) acquisition of the trade secret, (2) unauthorized disclosure of the trade secret, and (3) its unauthorized use. *Id.* Focusing on the defendants’ “use” of the misappropriated material, the *Motorola* court concluded that the defendants’ advertisement, promotion, and marketing of the allegedly misappropriated products at domestic trade shows was a “use” sufficient to warrant extraterritorial application of the DTSA. *Id.* The court’s order thus permitted the plaintiffs to argue for extraterritorial damages resulting from the alleged misappropriation. *Id.* at 1166.

Post-*Motorola* Evolution

Although the *Motorola* decision is only months old, other courts have already embraced its detailed analysis in concluding that the DTSA can reach extraterritorial conduct where there is a sufficient nexus between the alleged misappropriation and the United States. Although procedurally different, these subsequent cases provide useful illustrations of the types of conduct that could warrant extraterritorial application. Further, these cases demonstrate that there will at least be some analytical overlap with the DTSA extraterritorially analysis and the personal jurisdiction issues that frequently arise when dealing with foreign defendants.

For example, in *Inventus Power v. Shenzhen Ace Battery Co.*, No. 20-CV-3375, 2020 WL 3960451, at *1 (N.D. Ill. July 13, 2020), the district court, relying on *Motorola*, concluded that the plaintiff battery manufacturer demonstrated a likelihood of establishing the extraterritorial application of the DTSA and granted its application for a temporary restraining order. Much like in *Motorola*, the plaintiff in *Inventus Power* alleged that the defendant marketed and sold in the United States the products that were derivative of the allegedly misappropriated trade secrets. *Id.* at *7. The court agreed with the plaintiff that these facts constituted sufficient “use” to warrant the extraterritorial application of the DTSA. *Id.* The court concluded that these same facts established personal jurisdiction, noting “that most if not all of the same acts discussed above which support a finding of minimum contacts for purposes of jurisdiction also may constitute ‘acts in furtherance of’ Defendant’s alleged misappropriation for purposes of the DTSA.” *Id.*

Another recent case, from the Southern District of California, reached a similar conclusion. In *MedImpact Healthcare Systems Inc. v. IQVIA Inc.*, MedImpact alleged that IQVIA acquired its former joint venture partner in a concerted effort to steal MedImpact’s trade secrets. 2020 WL 5064253, at *3 (S.D. Cal. Aug. 27, 2020). Initially, the court granted IQVIA’s motion to dismiss for lack of personal jurisdiction. *See MedImpact Healthcare Sys., Inc. v. IQVIA Holdings Inc.*, No. 19-CV-1865-GPC(LL), 2020 WL 1433327, at *1 (S.D. Cal. Mar. 24, 2020). The court concluded that the facts, as pled, “show that the alleged misappropriation by IQVIA Holdings was conducted outside of California, such as in Ghana and Saudi Arabia,” but the court granted MedImpact leave to amend its complaint. *Id.* at *1, *9.

In its amended complaint, MedImpact added other facts relating to IQVIA’s conduct within California to establish personal jurisdiction. For example, MedImpact asserted in its amended complaint that IQVIA communicated with MedImpact in California via telephone and email in furtherance of the alleged scheme to misappropriate MedImpact’s trade secrets. Concurrent with finding that these facts sufficiently established specific personal jurisdiction over IQVIA, and relying on *Motorola*, the court concluded that MedImpact sufficiently alleged that extraterritorial application of the DTSA was warranted because “[t]hese allegations are sufficient to draw a reasonable inference that acts in furtherance of the misappropriation, whether by acquisition, use or disclosure, were committed in the United States.” *Id.* at *15.

These cases, taken together, provide a useful illustration for both potential plaintiffs and defendants on the developing law of DTSA extraterritoriality. First, they establish that *Motorola* is likely going to continue to be the guiding light on the extraterritoriality issue, at least until the connection between sections 1836 and 1837 is thoroughly analyzed by a circuit court. Second, plaintiffs that seek to bring DTSA claims that emanate from outside the United States must carefully craft their complaint to ensure they allege facts establishing that the misappropriation is tied to conduct within the United States. Plaintiffs should allege facts indicating that the misappropriation occurred in the United States, that the misappropriated trade secrets were disclosed to individuals within the United States, or that the trade secrets were otherwise somehow “used” within the United States. Defendants should analyze these allegations in the same manner they would analyze the complaint for specific personal jurisdiction. If the plaintiff fails to allege facts indicating that any specific aspect of the misappropriation occurred in the

United States, counsel for defendants should consider not only attacking the viability of the DTSA claim via Federal Rule of Civil Procedure 12(b)(6) but also using these same deficiencies to attack personal jurisdiction via Rule 12(b)(2).

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