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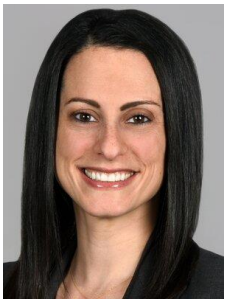
Questions Linger About DTSA's Scope After Motorola Ruling

By **Ilissa Samplin and Grace Hart** (July 25, 2024, 1:10 PM EDT)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The surge in trade secret litigation in recent years includes a rise in cases challenging alleged misappropriation outside the U.S.

As a result, courts are increasingly confronted with the question of whether the federal Defend Trade Secrets Act applies extraterritorially. A growing body of case law — including the first precedential appellate court decision to address this issue — takes a broad view of the scope of the DTSA and holds that the statute provides a private right of action for trade secret misappropriation outside the U.S.

However, open questions remain about the precise scope of the DTSA's extraterritorial reach and the extent to which plaintiffs can, as a practical matter, recover for international trade secret theft in U.S. courts.

DTSA and Extraterritorial Application

The DTSA was enacted in 2016 and creates a private civil right of action for misappropriation of trade secrets.

The DTSA defines "trade secret misappropriation" as acquisition, disclosure or use of a trade secret by someone who knows or has reason to know that the information was acquired by improper means.[1]

There was uncertainty following the enactment of the DTSA about whether the statute would apply extraterritorially and provide a remedy for trade secret misappropriation outside the U.S. Courts generally presume that U.S. laws only apply domestically and "do[] not rule the world," unless Congress clearly provides otherwise.[2]

In RJR Nabisco Inc. v. European Community in 2016, the U.S. Supreme Court established a two-step framework for determining whether a statute applies extraterritorially:

1. Courts should first ask "whether the presumption against extraterritoriality has been rebutted — that is, whether the statute gives a clear, affirmative indication that it applies extraterritorially"; and

2. If the presumption has been rebutted, the statute is applied extraterritorially, according to its terms.[3]

After the DTSA was enacted, federal district courts in Illinois, California, North Carolina, New York, Texas and Washington interpreted the DTSA to rebut the presumption against extraterritoriality and held that the statute's private right of action can reach trade secret misappropriation outside the U.S.[4]

But until recently, the federal courts of appeals had not addressed the extraterritorial application of the DTSA.

Motorola v. Hytera

On July 2, the U.S. Court of Appeals for the Seventh Circuit issued a decision in Motorola Solutions Inc. v. Hytera Communications Corp. and held that, as "a question of first impression," the DTSA applies extraterritorially.[5]

Motorola asserted claims under the DTSA against Hytera, a Chinese company. Motorola alleged that Hytera hired engineers from Motorola's Malaysian office who had stolen trade secrets concerning Motorola's high-end digital mobile radio products and that Hytera used those trade secrets to develop a similar product.

Hytera moved to exclude any evidence relating to extraterritorial damages from international product sales, arguing that the DTSA did not reach conduct that occurred outside the U.S.

The U.S. District Court for the Northern District of Illinois denied Hytera's motion. A jury ultimately found Hytera had violated the DTSA, and awarded $209.4 million in compensatory damages under the DTSA based on Hytera's worldwide sales of products that used Motorola's trade secrets.[6]

The Seventh Circuit affirmed the district court's decision concerning the extraterritorial application of the DTSA and rejected Hytera's arguments that the DTSA does not apply to trade secret misappropriation outside the U.S. The court first found that the DTSA "rebuts the presumption against extraterritoriality."[7]

The court reasoned that the DTSA was enacted as an amendment to the Economic Espionage Act, a criminal statute that expressly applies to conduct outside the U.S. if "an act in furtherance of an offense under the statute is committed in the U.S."[8] Because the statute rebuts the presumption against extraterritoriality, its reach is subject only to the statutory restrictions on its extraterritorial application — i.e., the requirement under the Economic Espionage Act that "an act in furtherance of the offense" occurred in the U.S.[9]

The Seventh Circuit then considered whether Motorola had presented sufficient evidence that an act in furtherance of the offense — trade secret misappropriation — had been committed in the U.S. The statute does not define the term "act in furtherance of the offense," and the court looked for guidance on how the same term was defined in other areas, including federal conspiracy law.

The court found that Hytera had committed an act in furtherance of the misappropriation in the U.S. by advertising, promoting and marketing products embodying the stolen trade secrets at trade shows in the U.S., which the court found amounted to "completed acts of domestic 'misappropriation.'"[10]

Impact of Seventh Circuit's Decision on Extraterritorial Reach of DTSA

The Seventh Circuit's decision in Motorola is the first precedential decision to construe the extraterritorial reach of the DTSA.

Motorola follows the growing consensus among district courts that the DTSA can apply extraterritorially and will likely influence other courts outside the Seventh Circuit that consider this issue.

Motorola confirms that the DTSA provides an avenue for plaintiffs to seek damages in U.S. courts for international trade secret theft.

In Motorola, the theft of trade secrets took place outside of the U.S. — yet the Seventh Circuit held that because Hytera advertised, promoted and marketed products embodying the stolen trade secrets in the U.S., Hytera had used the trade secrets domestically and damages under the DTSA therefore were available.

However, open questions about the scope of the DTSA remain following Motorola. Although the DTSA rebuts the presumption of extraterritoriality, a plaintiff asserting a DTSA claim based on trade secret misappropriation abroad still must demonstrate that an act in furtherance of the offense occurred in the U.S.

The Seventh Circuit in Motorola found that this requirement was satisfied based on Hytera's marketing of products embodying the stolen trade secrets in the U.S. — which signals a broad view of "acts in furtherance" of misappropriation that can support extraterritorial application of the DTSA. But the Seventh Circuit did not adopt a clear standard or definition of what qualifies as an act in furtherance of misappropriation.

Further, the Seventh Circuit explained that the act in furtherance of requirement "does not require a completed act of domestic misappropriation" or "a complete violation of law," but left open the question of what other acts are sufficient to apply the DTSA extraterritorially.[11]

Federal district court decisions predating Motorola had already started to address these questions. Some district courts — such as the U.S. District Court for the Western District of North Carolina in Dmarcian Inc. v. Dmarcian Europe BV in 2021 — had set "a relatively low bar for acts that are considered 'in furtherance of the offense'" to support extraterritorial application of the DTSA.[12]

For example, one district court held that meetings and contract negotiations in the U.S. to develop and manufacture products containing misappropriated trade secrets constitute acts in furtherance of the misappropriation to satisfy the DTSA's extraterritoriality requirements.[13]

But district courts have held that plaintiffs' allegations of damages suffered in the U.S. as a result of trade secret misappropriation abroad are not sufficient, as "the damages resulting from the misappropriation do not constitute part of the offense itself but constitute the effects of a fully completed operation."[14] The continued development of this line of case law is likely to be guided by the Seventh Circuit's decision in Motorola.

The Seventh Circuit's decision in Motorola also did not address whether the acts in furtherance of misappropriation in the U.S. must be committed by the defendant. At least two district courts have held that the statute "does not require the defendant to have committed" an act in furtherance of the misappropriation in the U.S., and that a third party can have committed such act to satisfy the extraterritoriality requirements of the DTSA.[15]

These courts have found that the DTSA applies extraterritorially where defendants acquired stolen trade secrets through a third-party intermediary in the U.S. or disclosed trade secrets to a third-party web developer in the U.S.[16] However, there is no precedential authority addressing who must commit the acts in furtherance of the misappropriation in the U.S. to support extraterritorial application of the DTSA.

Further, although Motorola signals a broad interpretation of the extraterritorial reach of the DTSA, plaintiffs may face other limitations on their ability to recover for trade secret theft outside the U.S.

For example, plaintiffs must demonstrate that foreign defendants are subject to personal jurisdiction in U.S. courts to pursue DTSA claims against them. Even if a court finds that a defendant's tenuous contact with the U.S. is sufficient to satisfy the "act in furtherance" requirement to support extraterritorial application of the DTSA, the defendant still must have sufficient contacts with the U.S. to satisfy due process.

Foreign defendants may also seek to dismiss DTSA claims based on the forum non conveniens doctrine. Further, in cases where plaintiffs successfully assert DTSA claims against foreign defendants, the plaintiffs may face challenges in enforcing judgments against and recovering damages from foreign defendants, particularly when those defendants have limited or no assets in the U.S.

The precise scope of the DTSA's extraterritorial reach and answers to these open questions await further development by courts. In the interim, the Seventh Circuit's decision in Motorola confirms the trend of construing the DTSA to reach conduct outside the U.S. and provides the first precedential decision to settle the question of whether the DTSA can apply extraterritorially.

As a result, in cross-border trade secret misappropriation cases, the focus likely will no longer be whether the DTSA can apply extraterritorially.

Instead, the focus is likely to shift to the fact-specific analysis into whether the alleged misappropriation has a sufficient nexus to the U.S. to support extraterritorial application of the DTSA — as well as to attendant questions of personal jurisdiction and venue, and the likelihood of recovering for the alleged theft.

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[1] 18 U.S.C. § 1839(5).

[2] RJR Nabisco, Inc. v. European Community, 579 U.S. 325, 335 (2016).

[3] Id.

[4] See Medcenter Holdings Inc. v. WebMD Health Corp., 2021 WL 1178129, at *6 (S.D.N.Y. Mar. 29, 2021); Herrmann Int'l, Inc. v. Hermann Int'l Europe, 2021 WL 861712, at *17 (W.D.N.C. Mar. 8, 2021); vPersonalize Inc. v. Magentize Consultants Ltd., 437 F. Supp. 3d 860, 879 (W.D. Wash. 2020); Motorola Solutions, Inc. v. Hytera Commc'ns Corp. Ltd., 436 F. Supp. 3d 1150, 1155 (N.D. Ill. 2020); MedImpact Healthcare Sys. Inc. v. IQVIA Inc., 2020 WL 5064253, at *15 (S.D. Cal. Aug. 27, 2020).

[5] Motorola Solutions, Inc. v. Hytera Commc'ns Corp. Ltd., -- F.4th --, 2024 WL 3268954 (7th Cir. July 2, 2024).

[6] The district court subsequently reduced the DTSA compensatory damages award to $135.8 million.

[7] Motorola, 2024 WL 3268954, at *12.

[8] 18 U.S.C. § 1837(2).

[9] Id.

[10] Motorola, 2024 WL 3268954, at *15.

[11] Id. at *16 (emphasis in original).

[12] Dmarcian Inc. v. Dmarcian Europe BV, 2021 WL 2144915, at *22 (W.D.N.C. May 26, 2021).

[13] Medcenter Holdings, 2021 WL 1178129, at *6.

[14] ProV Int'l Inc. v. Lucca, 2019 WL 5578880, at *3 (M.D. Fla. Oct. 29, 2019) (quotation marks omitted); Luminati Networks Ltd. v. BIScience Inc., 2019 WL 2084426, at *10–11 (E.D. Tex. May 13, 2019).

[15] vPersonalize Inc, 437 F. Supp. 3d at 878 (emphasis in original).

[16] vPersonalize Inc., 437 F. Supp. 3d at 878–79; Herrmann Int'l, 2021 WL 861712, at *17.