



LEGAL MEDIA GROUP

LEGAL ERA

BY THE PEOPLE. FOR THE PEOPLE. OF THE PEOPLE

www.legaleraonline.com | ₹ 100 | US\$ 30 | £ 20 | January 2022 | Vol. XII | Issue IX | Pages 128



TAKE ON BOARD

MANUFACTURING RISKS
ASSOCIATED WITH THE NASCENT
INDIAN EV INDUSTRY
54

INSIGHTS

PROTECTING A BUYER'S
INTERESTS IN A SHARE
TRANSFER TRANSACTION
90

HIGHLIGHTS

RECOGNIZES IMPECCABLE CONTRIBUTIONS
TO THE WORLD OF LAW AND BUSINESS FROM
THE MIDDLE EAST - THE 2ND ANNUAL LEGAL
ERA MIDDLE EAST LAW AWARDS 2021

112

The importance of correctly identifying a company's center of main interests for the purposes of obtaining recognition as the foreign main proceeding under the UNCITRAL Model Law on


CROSS-BORDER INSOLVENCY

DTSA PAVES THE WAY FOR TRADE SECRET PROTECTION FOR FOREIGN COMPANIES IN THE UNITED STATES

The enactment of the Defend Trade Secrets Act (“DTSA”) in 2016 created a federal cause of action in the United States for trade secret misappropriation. Specifically, the DTSA amended the Economic Espionage Act of 1996 (“EEA”), which made the theft or misappropriation of trade secrets a criminal offense, by providing a private civil action for trade secret misappropriation where the misappropriation is “related to a product or service used in, or intended for use in, interstate or foreign commerce.” 18 U.S.C. § 1836(b)(1). A key question arises, especially for foreign companies: does the DTSA apply extraterritorially, and, if so, to what extent? United States federal courts have answered this question affirmatively, and have held that claims based on a wide range of conduct can be brought under the DTSA, as long as some conduct tied to the misappropriation occurred in the United States. Specifically, several recent federal court decisions have made clear that the DTSA applies extraterritorially where an “act in furtherance” of the misappropriation has occurred in the United States.

For example, in *Medcenter Holdings Inc. v. WebMD Health Corp.*, 2021 WL 1178129 (S.D.N.Y. Mar. 29, 2021), plaintiffs, a Cayman Islands corporation with its principle place of business in Monaco and three Latin American subsidiaries, brought claims under DTSA. Plaintiffs alleged that while conducting diligence for a potential acquisition of Medcenter subsidiaries, defendants stole and used





PLAINTIFFS SEEKING TO FILE A CASE FOR VIOLATIONS OF THE DTSA THAT STEM FROM OUTSIDE THE UNITED STATES MAY DO SO IF THE DEFENDANT'S CONDUCT IS TIED TO MISAPPROPRIATION IN THE UNITED STATES AND MAY ALLEGE A WIDE RANGE OF WRONGFUL CONDUCT TO SATISFY THE "ACT IN FURTHERANCE" REQUIREMENT

confidential information to poach plaintiffs' employees and to access plaintiffs' proprietary databases to sell pharmaceutical marketing programs in Latin America. *Id.* at *3. Defendants asserted that the DTSA did not apply because the misappropriation occurred in Argentina. *Id.* at *4. However, the court held that defendants' conduct constituted acts in furtherance of misappropriation in the United States, and the DTSA applied extraterritorially, where they held meetings, offered their consulting services, and negotiated a non-disclosure agreement, which plaintiffs argued was a "Trojan Horse" for defendants to learn about their employees and proprietary databases, in the United States. *Id.* at *6.

Similarly, in *Herrmann Int'l, Inc. v. Herrmann Int'l Eur.*, 2021 WL 861712 (W.D.N.C. Mar. 6, 2021) the U.S. District Court for the Western District of North Carolina held that three French companies committed acts in furtherance of the offense



ROBERT FRIEDMAN
Partner



KAITLYN ZACHARIAS
Member



Plaintiffs seeking to file a case for violations of the DTSA that stem from outside the United States may do so if the defendant's conduct is tied to misappropriation in the United States and may allege a wide range of wrongful conduct to satisfy the "act in furtherance" requirement

in the United States because they used and disclosed the trade secrets to parties in the United States. Plaintiffs created and administered a confidential cognitive, behavioral, and personality trait assessment. *Id. at *2*. Plaintiffs and defendants entered into a license agreement, which gave defendants exclusive rights to use plaintiffs' trade secrets and to access plaintiffs' databases and proprietary information. *Id. at *3*. Plaintiffs alleged that defendants took control of a computer server used to administer the assessment and copied the contents of the original server to a server based in France, depriving plaintiffs of access to their trade secrets, including algorithms, data and client contacts. *Id.* The court held that defendants committed acts in furtherance of misappropriation in the United States by using the trade secrets "hundreds of times" to allow users in the United States to complete the assessment and by disclosing the trade secrets to a web developer in Florida. *Id. at *15*.

Continuing these line of cases, in *Philips Med. Sys. (Cleveland), Inc. v. Buan*, 2021 WL 3187709 (N.D. Ill. July 28, 2021), the court found that two Chinese corporations who contracted with a U.S. design company for services and whose employees worked with engineers in Illinois committed acts in furtherance of misappropriation in the United States. In this case, both plaintiffs and defendants were engaged in the business of developing medical X-ray tube products. *Id. at *1-2*. Plaintiffs alleged, in relevant part, that defendants used plaintiffs' trade secrets to develop their medical X-ray tube products. *Id. at *3*. The court held that defendants committed acts in furtherance of misappropriation in the United States because defendants utilized design services "for the X-ray tubes that allegedly use plaintiffs' information" and because "[defendants'] personnel travelled to Illinois to work with GL Leading engineers on these X-ray tubes." *Id. at *10*.

Courts have also held that the sale and marketing of products in the United States that are derived from trade secrets constitute acts in furtherance of misappropriation. Furthermore, in *Inventus Power, Inc. v. Shenzhen Ace Battery Co.*, 2020 WL 3960451 (N.D. Ill. July 13, 2020), the court ruled that because the foreign defendant marketed and sold the battery products which were derived from plaintiff's trade secrets at a trade show in the United States

defendant committed acts in furtherance of misappropriation in the United States. *Id.* at *7. Accordingly, the court held that the DTSA applied extraterritorially. *Id.*; see also *MedImpact Healthcare Sys., Inc. v. IQVIA Inc.*, 2020 WL 5064253, at *15 (S.D. Cal. Aug. 27, 2020); but see *ProV Int'l Inc. v. Lucca*, 2019 WL 5578880, at *3 (M.D. Fla. Oct. 29, 2019) (holding that an employee residing in Brazil who traveled to a trade show in Las Vegas and tendered his resignation there did not commit an act in furtherance of misappropriation in the United States because there was no connection between the employee's attendance at the trade show and the misappropriation alleged.).

Accordingly, there is developing guidance from the United States courts regarding the extraterritorial application of the DTSA:

- **Foreign actors can be sued for trade secret theft in the United States:** The DTSA extends extraterritorially where there is a nexus between the defendant's purported wrongful conduct and the United States. However, the domestic contact must be clearly tied to the misappropriation of trade secrets.
- **Courts have broadly interpreted what constitutes an "act in furtherance" of the offense under the DTSA:** A wide range of domestic activities may be construed as an "act in furtherance" of misappropriation to subject companies to liability under the DTSA, including attending meetings, negotiating contracts, and marketing products at trade shows.
- **There may be benefits to litigating in federal court in the United States:** There are several benefits associated with pursuing these claims in federal court depending on the particular case, such as: (1) the use of uniform discovery procedures under local court rules or the Federal Rules of Civil Procedure;

(2) increased experience and resources to handle the complex electronic discovery necessary to prosecute trade secrets cases; (3) advantages for service and enforceability; and (4) judges that have an expertise in adjudicating intellectual property cases.

Accordingly, plaintiffs seeking to file a case for violations of the DTSA that stem from outside the United States may do so if the defendant's conduct is tied to misappropriation in the United States and may allege a wide range of wrongful conduct to satisfy the "act in furtherance" requirement. Moreover, the DTSA grants plaintiffs access to federal court, which is typically better suited to handle misappropriation claims than state court, and thus, can be a useful tool for trade secret owners in litigating such claims.

Author: Robert Friedman

Designation: Partner

Robert Friedman is a partner and Practice Group Leader of the Business Trial Practice Group and is based in the firm's New York office. He is also head of the firm's South Asia team and a member of the White Collar and International Arbitration groups. Robert focuses on business and corporate litigation matters and internal investigations. He has tried over 70 cases and regularly represents financial institutions, technology companies, media companies and litigation trustees in significant business disputes, including those involving trade secrets, software theft, non-compete, securities and license agreements. He has achieved successful outcomes in the major international arbitral forums and has led numerous internal investigations for clients in all industries. Prior to entering private practice, Robert was a Senior Trial Attorney in the Homicide Bureau of the Kings County District Attorney's Office.

Author: Kaitlyn Zacharias

Designation: Member

Kaitlyn Zacharias is an associate in the Business Trial Practice Group in the firm's New York office. Prior to joining Sheppard Mullin, Katie represented professional liability insurers in complex coverage matters and defense disputes. As coverage and monitoring counsel to major insurance carriers, Katie has experience advising clients on their risk and exposure in connection with claims arising under various types of professional liability policies. Katie has particular experience with securities class action and derivative claims under directors' and officers' policies. As coverage litigation counsel, Katie has experience defending insurers against breach of contract and bad faith claims.

ABOUT
THE
AUTHOR



Disclaimer – The views expressed in this article are the personal views of the authors and are purely informative in nature.