The University of Cincinnati Intellectual Property and Computer Law Journal

Volume 3 | Issue 1 Article 1

2018

THE COURT MUST PLAY ITS INTERPRETATIVE ROLE: DEFENDING THE DEFEND TRADE SECRETS ACT'S EXTRATERRITORIAL REACH

Jada M. Colon
University of Cincinnati College of Law, colonjd@mail.uc.edu

THE COURT MUST PLAY ITS INTERPRETATIVE ROLE: DEFENDING THE DEFEND TRADE SECRETS ACT'S EXTRATERRITORIAL REACH

Cover Page Footnote
This article grew out of the author's interest in copyright, trademark, and trade secret law which was ignited from her work with a trademark, copyright, and internet lawyer at a law firm she worked for. The author is pursuing a J.D. at the University of Cincinnati College of Law. She would like to thank her sister Ciera Parish for her constant support, advice, and patience throughout the duration of her law school career.

THE COURT MUST PLAY ITS INTERPRETATIVE ROLE: DEFENDING THE DEFEND TRADE SECRETS ACT'S EXTRATERRITORIAL REACH

Jada Colon

Abstract

The exact reach of the Defend Trade Secrets Act's extraterritoriality provision has yet to be interpreted by the courts. If United States securities, trademark, and antitrust law serves as any indication of what is to be expected, the Defend Trade Secrets Act may be subject to an inconsistent array of interpretation. When faced with interpreting the extraterritorial scope of the Defend Trade Secrets Act for the first time, the court must set a strong precedent by enacting a single, uniform effects test that will not falter when applied in different circumstances and by different circuits. Courts interpreting United States securities, trademark, and antitrust law have enacted a wide variety of effects tests for interpreting extraterritoriality. Generally, the language of the effects test being applied has such an expansive interpretation, causing the courts to struggle with applying it in a consistent manner.

Using trade secret policy, legislative intent, and the history of the Defend Trade Secret Act as a guide, this paper encourages the courts to enact a "misappropriation effects" test when determining the extraterritorial reach of the statute. A "misappropriation effects" test will take away the emphasis on the level of effects necessary to give rise to a showing of effects, and focus the inquiry on the nature of effects necessary to give rise to a showing of effects sufficient to confer extraterritorial reach. The "misappropriation effects" test shifts the focus to the specific misappropriation effects that Congress sought to protect against in proscribing the Defend Trade Secrets Act. It is imperative that the courts interpret the extraterritoriality provision of the Defend Trade Secrets Act with care so that it does not confine within the United States, what Congress intended to reach abroad.

I. INTRODUCTION

Imagine that an engineer from your company's subsidiary, located in another country, has joined a competitor and has begun to use your trade secrets.[1] In an attempt to avoid the uncertainty and expense of suing in another country's court, you contact your Intellectual Property attorney. To your surprise, your attorney has informed you that the United States has recently passed trade secret legislation that may be extended extraterritorially to reach misappropriation outside of the United States.[2] Your lawyer then warns you that, due to the recent enactment of the legislation,

[1] Dave Bohrer, *Extending US Trade Secret Law to Reach IP Theft in China*, FLAT FEE IP, (Apr. 11, 2017), http://www.flatfeeipblog.com/2017/04/articles/trade-secrets/extending-us-trade-secret-law-to-reach-ip-theft-in-china/.

[2] *See id*.

the courts have yet to interpret the extraterritorially provision in the statute.[3] The interpretation can go a variety of ways, some to your benefit or some to your detriment.[4]

Congress enacted the Defend Trade Secrets Act ("DTSA"), creating a federal civil cause of action for the misappropriation of trade secrets related to interstate commerce.[5] A trade secret generally refers to intellectual property such as a "formula, process, device, or other business information" that is kept confidential to give the owner a competitive advantage in its market.[6] The unauthorized disclosure of which, would bring significant harm to the owner.[7] A unique feature of the DTSA is its extraterritorial reach.[8] The DTSA expressly applies to conduct outside the United States under two circumstances: (1) the offender must be "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) the act in furtherance of the offense must be committed in the United States.[9] By conditioning the extraterritorial reach of the DTSA upon proof of "an act in furtherance of the offense was committed in the United States," Congress may have confined within the United States borders what was intended to reach beyond them.[10]

In the above-described trade secret misappropriation in a foreign country, the actionable conduct is seen to have occurred outside of the United States.[11] While the activity did occur outside of the United States, there is harm occurring in the United States because a United States company owns the trade secret at issue.[12] In non-trade secret cases, federal courts have enacted various versions of an effects tests for applying federal extraterritorial provisions.[13] Generally, in using an effects test, the statute will apply to a foreign entity if the conduct is found to have sufficient effects in the United States.[14] The courts will have to create a uniform test to be applied when interpreting the phrase "an act in furtherance of the offense" committed in the United States.[15] How courts interpret the phrase "in furtherance of the offense" within a DTSA claim will have a significant effect on the extraterritorial reach of the statute and remains to be seen.[16]

This note analyzes various methods of interpretation that may be applied to the extraterritorial provision in the DTSA and advocates for a "misappropriation effects" test. This note analyzes the advantages and disadvantages of the various methods of interpretation that have

---

[3] *See Trends & Insights: The Defend Trade Secrets Act Nine Months Later*, DENTONS, (Feb. 28, 2017), https://www.dentons.com/en/insights/alerts/2017/february/28/trends-insights-the-defend-trade-secrets-act-nine-months-later.
[4] *See* Bohrer, *supra* note 1.
[5] Bret Cohen, Michael Renaud & Nicholas Armington, *Explaining the Defend Trade Secrets Act*, BUSINESS LAW TODAY (Sept. 2016), available at https://www.americanbar.org/publications/blt/2016/09/03_cohen.html.
[6] *Trade Secret*, Black's Law Dictionary (10th ed. 2014).
[7] *Trade Secret*, Black's Law Dictionary (2d ed. 1910).
[8] *See* Dentons, *supra* note 3.
[9] 18 U.S.C.S. § 1837 (West 2018).
[10] Bohrer, *supra* note 1.
[11] *Id.*
[12] *Id.*
[13] *Id.*
[14] *Id.*
[15] *See id.*
[16] *See id.*

been faced by the courts in applying federal extraterritoriality statutes. Part II discusses the current provisions of the federal trade secret laws and the history of the DTSA. Part III introduces various federal statutes and the extraterritorial interpretation undertaken by the courts when determining their reach. Part IV discusses the importance of the interpretation of the DTSA's extraterritorial provision, the ramifications the interpretation will have on the applicability of the statute, and the influence the legal history has on its interpretation. Part V proposes the correct interpretation of the extraterritorial provision, comparing all methods of interpretation and examines how the proposal is supported by public policy, current political trends, and the intent of the drafters. Finally, Part VI concludes this Note, advocating for the creation of a "misappropriation effects" test to be used in determining the extraterritorial reach of the DTSA.

II. LEGAL BACKGROUND OF THE DEFEND TRADE SECRETS ACT

In 2014, the estimated value of trade secret theft in the United States was roughly $200 to $550 billion per year.[17] In response to trade secret theft reaching unprecedented levels, Congress proposed the Defend Trade Secrets Act ("DTSA").[18] Enacted on May 11, 2016, the DTSA creates a federal civil cause of action for the misappropriation of trade secrets "related to a product or service used in, or intended for use in, interstate or foreign commerce."[19] Information is protectable as a trade secret under the DTSA if the owner has "taken reasonable measures to keep such information secret" and "the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, another person who can obtain economic value from the disclosure or use of the information."[20] A plaintiff must show misappropriation by alleging either: "(1) acquisition of a trade secret by a person who knows or has reason to know that the trade secret was acquired by improper means; or (2) disclosure or use of a trade secret of another without express or implied consent by a person who used improper means to acquire knowledge of the trade secret or knows or had reason to know that the trade secret was acquired by improper means."[21]

Prior to the enactment of the DTSA, companies seeking remedies for the misappropriation of trade secrets could only sue in state court, where laws protecting the misappropriation of trade secrets vary from state to state in the text of the laws themselves and in their application.[22] While the DTSA generally extends similar protections to those afforded by most states, it provides a uniform statute to be applied consistently in federal court.[23]

---

[17] Center for Responsible Enterprise and Trade, *Economic Impact of Trade Secret Theft: A framework for companies to safeguard trade secrets and mitigate potential threats* CREATE.ORG, (Feb. 2014), https://create.org/resource/economic-impact-of-trade-secret-theft/.
[18] John Cannan, *A [Mostly] Legislative History of the Defend Trade Secrets Act of 2016* (May 4, 2016) available at https://ssrn.com/abstract=2775390.
[19] Cohen, Renaud & Armington, *supra* note 5.
[20] 18 U.S.C. § 1839(3)(a)(b) (West 2018).
[21] *Id.* at § 1839(5)(a)(b).
[22] Cohen, Renaud & Armington, *supra* note 5.
[23] *Id.*

A. STATUTORY PROVISIONS OF THE DEFEND TRADE SECRETS ACT

The DTSA's substantive provisions contain various components. The DTSA provides a federal civil cause of action for the misappropriation of trade secrets.[24] The statute employs a uniform definition for the critical terms "trade secret" and "misappropriation."[25] The DTSA defines "trade secret" as:

> 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) the owner thereof has taken reasonable measures to keep such information secret; and (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, another person who can obtain economic value from the disclosure or use of the information.[26]

The acts that constitute misappropriation are also described specifically under the statute.[27] The DTSA defines "misappropriation" as:

> 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 Disclosure or use of a trade secret of another without express or implied consent by a person who used improper means to acquire knowledge of the trade secret; at the time of disclosure or use, knew or had reason to know that the knowledge of the trade secret was derived from or through a person who had used improper means to acquire the trade secret; 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 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 before a material change of the position of the person, knew or had reason to know that the trade secret was a trade secret; and knowledge of the trade secret had been acquired by accident or mistake.[28]

The DTSA contains civil seizures and other remedies.[29] The civil seizure mechanism established by the statute is a preventative measure that can be used prior to a formal finding of misappropriation in which the court, on ex parte application by the trade-secret owner, may "issue an order providing for the seizure of property necessary to prevent the propagation or

[24] K&L Gates LLP, *Emerging Trends in Defend Trade Secrets Litigation*, JD SUPRA, (Sept. 27, 2017), http://www.jdsupra.com/legalnews/emerging-trends-in-defend-trade-secrets-45468/.
[25] Cohen, Renaud & Armington, *supra* note 5.
[26] 18 U.S.C. § 1839(3) (2018).
[27] *Id.* at § 1839.
[28] *Id.* at § 1839(5).
[29] Cohen, Renaud & Armington, *supra* note 5.

dissemination of the trade secret that is the subject of the action."[30] Civil seizure may only be ordered under "extraordinary circumstances" and requires a showing that:

> An order pursuant to Fed. R. Civ. P. 65 or other equitable relief would be inadequate; an immediate and irreparable injury will occur if seizure is not ordered; harm to the applicant from denial of a seizure order: (1) outweighs the harm to the person against whom seizure is ordered; and (2) substantially outweighs the harm to any third parties by such seizure; the applicant is likely to succeed in showing that the person against whom the order is issued misappropriated or conspired to misappropriate a trade secret through improper means; the person against whom the order will be issued has possession of the trade secret and any property to be seized; the application describes with reasonable particularity the property to be seized and, to the extent reasonable under the circumstances, the property's location; the person against whom seizure is ordered would destroy, move, hide, or otherwise make such property inaccessible to the court if put on notice; and the applicant has not publicized the requested seizure.[31]

Pursuant to civil seizures being an extraordinary measure, courts have been reluctant to grant such relief.[32] Since the enactment of the DTSA, only one court has granted an ex parte seizure.[33]

The most common form of relief under the DTSA is an injunction preventing actual or threatened misappropriation of trade secrets, provided that the injunction does not "prevent a person from entering into an employment relationship," and that any conditions placed on employment are based on "evidence of threatened misappropriation and not merely on the information the person knows."[34] The statutory language of the injunction provision has led many academics and commentators to believe that Congress expressly chose not to recognize the inevitable disclosure doctrine, a doctrine that justifies prohibiting employees to work for competitors when their new employment will inevitably lead them to rely on the owner's trade secrets.[35] Additionally, "in exceptional circumstances that render an injunction inequitable," the court may condition future use of a trade secret on the payment of a royalty.[36] If a court finds that the misappropriation of a trade secret did occur, damages for actual loss cause by the misappropriation and damages for unjust enrichment not addressed in computing damages for actual loss may be awarded to the plaintiff.[37] The court may award exemplary damages if the trade secret is "willfully and maliciously misappropriated," not to exceed more than 2 times the amount

---

[30] *Id.*
[31] 18 U.S.C. § 1836 (West 2018).
[32] Dentons, *supra* note 3.
[33] *Id.*; *Mission Capital Advisors LLC v. Romaka*, No. 1:16-cv-05878-LLS (S.D.N.Y. July 29, 2016)(denying request for broader seizure order, but granting seizure of contact list) available at https://digitalcommons.law.scu.edu/cgi/viewcontent.cgi?referer=https://www.google.com/&httpsredir=1&article=2399&context=historical.
[34] Cohen, Renaud & Armington, *supra* note 5; 18 U.S.C. § 1836 (West 2018).
[35] K&L Gates LLP, *supra* note 24.
[36] 18 U.S.C. § 1836 (West 2018).
[37] *Id.*

of actual damages.[38] Lastly, the court may award reasonable attorney fees to the prevailing party if a claim of the misappropriation is made in bad faith.[39]

The DTSA contains a whistleblower immunity clause that acts as a safe harbor for employees to disclose a trade secret to an attorney or federal, state, or local government officials "solely for the purpose of reporting or investigating suspected violation of the law."[40] The DTSA additionally mandates that the statute should not be interpreted as preempting state law and that a cause of action may only be brought for acts occurring on or after its enactment date.[41]

B. LEGISLATIVE HISTORY OF THE DEFEND TRADE SECRETS ACT

The DTSA was drafted as an expansion and amendment from three other pieces of legislation.[42] In amending three pieces of existing legislation to create the DTSA, the drafters may have intended for the statute's future interpretation to be based off the interpretation of the legislation that came before it.[43] Thus, it is important to analyze the language of the DTSA against the statutes it derived from.[44]

First, a large part of the DTSA can be best understood as an amendment to the Economic Espionage Act of 1996 ("EEA"), which criminalizes trade secret theft.[45] The DTSA adopts, amends, and adds to the EEA's former existing definitions. Under the EEA, the term "trade secret" was defined as:

> 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) the owner thereof has taken reasonable measures to keep such information secret; and (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.[46]

The use of the word "public" at the end of the statute deviated from the definition of a trade secret under the Uniform Trade Secrets Act ("UTSA"), creating confusion with the courts because it raised the possibility that the distinction between the two was potentially meaningful.[47] To remedy this problem, in drafting the DTSA, the legislature struck the word "public" and added the phrase,

[38] 18 U.S.C. § 1836 (West 2018).
[39] *Id.*
[40] K&L Gates LLP, *supra* note 24.
[41] *Id.*
[42] Cannan, *supra* note 18.
[43] *Id.*
[44] *Id.*
[45] *Id.*
[46] *Id.*
[47] *Id.*

"another person who can obtain economic value from the disclosure or use of the information."[48] In making this change, the legislature intended this part of the definition match that of the UTSA.[49] The DTSA's definition of misappropriation is also substantially similar to the UTSA's.[50] In drawing definitions from the UTSA, the legislature sought not to alter the balance of current trade secret law or courts' previous decisions.[51]

Secondly, the DTSA's civil remedies for the misappropriation of trade secrets derive significantly from the UTSA.[52] The DTSA draws from sections 2-5 of the UTSA.[53] Similar to the UTSA, the DTSA allows courts to grant injunctions to prevent actual or threatened misappropriation, if appropriate, require affirmative actions to protect the trade secret, and in exceptional circumstances require a royalty to be paid for the time period in which the use could have been prohibited.[54] The drafters, concerned about protecting worker mobility, made an addition.[55] Unlike the USTA, the DTSA contains a protective measure that requires any conditions imposed on taking new employment must be related to trade secret misappropriation and not mere personal knowledge.[56] Furthermore, this relief cannot conflict with state laws against restraints on the lawful practice of a profession trade or business.[57] The award provisions of the DTSA also derive significantly from section 3 of the UTSA.[58] The award provisions in both acts provide damages for actual losses and unjust enrichment or provide a reasonable royalty.[59] In applying the UTSA, state courts view the royalty provision as a measure of last resort.[60] Additionally, both acts include exemplary damages for willful and malicious misappropriation not to exceed more than two times the amount of damages awarded.[61]

Lastly, the DTSA's ex parte seizure provisions are developed in part from the Lanham Act.[62] While many provisions of the DTSA mirror the Lanham Act, there are a couple noticeable differences.[63] Because trade secrets are often in intangible form, the DTSA broadened the scope of the Lanham Act, which contains an ex parte seizure procedure covering only physical goods.[64] The DTSA supplements the Lanham Act's ex parte seizure, taking away the emphasis on physical goods and adds a "possession" requirement.[65] In requiring the person whom seizure would be ordered to have "possession," the legislature was concerned with shielding third parties, such as

[48] *Id.*
[49] *Id.*
[50] *Id.*
[51] *Id.*
[52] *Id.*
[53] *Id.*
[54] *Id.*
[55] *Id.*
[56] *Id.*
[57] *Id.*
[58] *Id.*
[59] *Id.*
[60] *Id.*
[61] *Id.*
[62] *Id.*
[63] *Id.*
[64] *Id.*
[65] *Id.*

internet service providers or operators of servers where another party has stored a misappropriated trade secret, from seizure.[66]

III. EXTRATERRITORIAL APPLICATION OF FEDERAL LAW

A. UNITED STATES SECURITIES LAW AND THE *MORRISON* DECISION

Until June 2010, federal courts in securities law cases had used the well-established conducts and effects tests when interpreting the extraterritorial reach of the Securities Act and the Securities Exchange Act.[67] Using the effects test, the court will analyze whether the wrongful conduct of the foreign entity has a substantial effect in the United States.[68] The Second Circuit introduced the effects test in *Schoenbaum v. Firstbrook*, holding that the court has subject matter jurisdiction over violations of securities law even if the transactions alleged take place outside of the United States as long as the transactions effect America and American citizens.[69] Thereafter, the courts expanded upon the "effects test," requiring the effects to be strong enough to generate "foreseeable and substantial harm to interests in the United States."[70] The courts also stipulated that mere adverse effects do not meet the requirements of the effects test.[71]

In an attempt to fix a loophole, the court adopted the conducts test, which analyzes whether the wrongful conduct actually occurred in the United States.[72] Under the conducts test, a court can obtain jurisdiction over foreign entities if the transactions involve domestic misconduct.[73] The Court in *Alfadda v. Fenn* held that the "conducts test" is satisfied when "(1) the defendant's activities in the United States were more than 'merely preparatory' to a securities fraud conducted elsewhere, and (2) these activities or culpable failures to act within the United States 'directly caused' the claimed losses."[74] Although formulated at different times, the effects and conducts test are used in conjunction.[75]

In its landmark decision in *Morrison v. National Australia Bank*, the Supreme Court rejected the fact-intensive "conducts/effects" tests, articulating a "bright-line" test to be used when

---

[66] *Id.*
[67] Jonathan Richman, Ralp Ferrara, Ann Ashton & Tanya Dmitronow, *So Much for Bright Line Tests on Extraterritorial Reach of U.S. Securities Laws?* PROSKAUER, (Aug. 18, 2014), http://www.proskauer.com/publications/client-alert/so-much-for-bright-line-tests-on-extraterritorial-reach-of-us-securities-laws/.
[68] John Koury, *Extraterritoriality for Securities Fraud Post-Morrison* (Feb. 3, 2015) available at http://law.emory.edu/ecgar/_documents/volumes/1/1/koury.pdf.
[69] Junsun Park, *Global Expansion of National Securities Laws: Extraterritoriality and Jurisdictional Conflicts*, 12 U.N.H. L. REV. 69 (2014), available at http://scholars.unh.edu/unh_lr/vol12/iss1/5; *Schoenbaum v. Firstbrook*, 405 F.2d 200 (2d Cir. 1968), *abrogated by Morrison v. Nat'l Austl. Bank Ltd.*, 130 S. Ct. 2869 (2010).
[70] Park, *supra* note 69.
[71] *Id.*
[72] *Id.*
[73] *Id.*
[74] Park, *supra* note 69; *Alfadda v. Fenn*, 935 F.2d 475, 478 (2d Cir. 1991), *abrogated by Morrison*, 130 S. Ct. 2869.
[75] Park, *supra* note 69.

determining the extraterritoriality of United States securities law.[76] Morrison's bright-line rule reaffirms the "longstanding principal of American law" that "absent a clear Congressional expression of a statute's extraterritorial application, a statue lacks extraterritorial reach."[77] In deciding this case, the Supreme Court introduced significant changes to the interpretation of the extraterritorial reach of securities law.[78] The Court introduced a transaction test, which allows securities law to apply to cases where "(1) fraudulent actions in question involve transactions in securities listed on domestic exchanges; and (2) domestic transactions in other securities."[79] Furthermore, *Morrison* held that the scope of the Exchange Act's extraterritorial effect is not a jurisdictional issue, but rather involves a substantive element of the claim.[80]

Within a month after the *Morrison* decision was issued, Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act"), addressing the extraterritorial reach of United States securities law.[81] The Dodd-Frank Act adds to the Securities Act and the Securities Exchange Act stating that the federal district courts "shall have *jurisdiction* of any action or proceeding brought or instituted by the [SEC] or the United States" alleging a securities-law violation involving: "(1) conduct within the United States that constitutes significant steps in furtherance of the violation, even if the securities transaction occurs outside the United States and involves only foreign investors; or (2) conduct occurring outside the United States that has a foreseeable substantial effect within the United States (emphasis added)."[82]

The Dodd-Frank Act's provision was put into place to speak only to the courts' jurisdiction, not amending or altering substantive securities law.[83] But this raised the question of whether the Dodd-Frank Act still restored the conducts and effects test.[84] The District Court for the District of Utah was the first to tackle the tension between the Dodd-Frank Act and the *Morrison* decision.[85] In *SEC v. Traffic Monsoon*, a Utah-based company allegedly participating in an illegal Ponzi scheme sold advertising packages over the internet to consumers located outside of the United States.[86] The SEC argued that the Dodd-Frank Act extends the extraterritorial reach of the statute based on the significant, allegedly wrongful conduct that took place in the United States.[87] The Court acknowledged that the Dodd-Frank Act did not explicitly overturn *Morrison*, but held that the presumption against extraterritoriality was rebutted by the statutes history of amendment,

---

[76] Park, *supra* note 69; *Morrison,* 130 S. Ct. 2869.
[77] Louis M. Solomon, *Second Circuit, Which Created the "Conduct and Effects" Test To Determine Extraterritoriality, Applies Morrison To Preclude Extraterritorial Application of RICO Claim in International Litigation Context*, ONE WORLD INTERNATIONAL PRACTICE BLOG, (Oct. 4, 2010), http://blog.internationalpractice.org/international-practice/second-circuit-which-created-the-conduct-and-effects-test-to-detemine-extraterritoriality-applies-morrison-to-preclude-extraterritorial-application-of-rico-claim-in-international-litigation-cont.html.
[78] Solomon, *supra* note 77; *Morrison*, 130 S. Ct. at 2869.
[79] Solomon, *supra* note 77; *Morrison*, 130 S. Ct. at 2888.
[80] Solomon, *supra* note 77; *Morrison*, 130 S. Ct. at 2873.
[81] Jonathan E. Richman, *Proskauer Rose Discusses the SEC's Extraterritorial Reach*, THE CLS BLUE SKY BLOG, (Apr. 11, 2017), http://clsbluesky.law.columbia.edu/2017/04/11/proskauer-rose-discusses-the-secs-extraterritorial-reach/.
[82] 12 U.S.C. 5301 (West 2018).
[83] Richman, *supra* note 81.
[84] *Id.*
[85] *Id.*
[86] *SEC v. Traffic Monsoon, LLC*, 245 F. Supp. 3d 1275 (D. Utah 2017).
[87] Richman, *supra* note 81.

underlying purpose, and legislative history.[88] The Court applied the conducts test, concluding that because the Defendant operated in the United States, the securities statute applied.[89] Furthermore, the Court went on to also apply the transactional test, holding that because Defendant sold their products over the internet, incurring liability in the United States to deliver the products to the buyers, the securities statute applied.[90] Effectively, the Dodd-Frank Act was interpreted to revive the conducts and effects test for governmental securities actions.[91]

Between the *Morrison* decision and the Dodd-Frank Act, the courts and Congress have engaged in a run-around, attempting to find common ground for applying a uniform test to determine the extraterritorial reach of United States securities law. Unable to ascertain how to construe the extraterritorial reach of United States securities law, the District Court for the District of Utah was led to use both the conducts and effects test and the transaction test in their analysis.[92] The *Traffic Monsoon* decision is now up for appeal and will be interpreted further by the Tenth Circuit.[93]

B. UNITED STATES TRADEMARK LAW AND THE LANHAM ACT

Similar to United States securities law, United States trademark law also takes an effects test approach to determining the extraterritorial scope of the Lanham Act.[94] The level of effect necessary to trigger the extraterritorial reach of the Lanham Act varies by circuit.[95] Circuits often require a plaintiff to prove that a defendant's actions had "substantial," "significant," "more than insignificant," or "some" effect.[96]

Over sixty years ago in *Steele v. Bulova Watch Co.*, the Supreme Court determined the extraterritorial application of the Lanham Act.[97] The defendant, a U.S. citizen sold fake Bulova-branded watches in Mexico without Bulova's consent.[98] After receiving complaints from various jewelers around the Mexico border, Bulova brought suit in the United States.[99] In assessing the extraterritorial reach of the Lanham Act to the defendant's conduct, the Supreme Court held that the defendant's "operations and their effects were not confined within the territorial limits of a

[88] *Id.*
[89] *Id.*
[90] *Id.*
[91] *Id.*
[92] Richman, *supra* note 81; *Traffic Monsoon, LLC*, 245 F. Supp. 3d 1275.
[93] Richman, *supra* note 81.
[94] Edwards Wildman, *Extraterritorial reach of the Lanham Act: a viable option*, World Trademark Review (Oct./Nov. 2013) available at http://www.worldtrademarkreview.com/Magazine/Issue/45/Country-correspondents/United-States-Edwards-Wildman-Palmer-LLP.
[95] *Id.*
[96] *Id.*
[97] Julia Anne Matheson & Anna Naydonov, *Standing Ground: An Analysis of Territoriality in U.S. Trademark Law*, World Trademark Review (Oct./Nov. 2013) available at https://www.finnegan.com/en/insights/standing-ground-an-analysis-of-territoriality-in-u-s-trademark.html; *Steele v. Bulova Watch Co.*, 344 U.S. 280 (1952).
[98] Matheson & Naydonov, *supra* note 97; *Steele*, 344 U.S. at 285.
[99] Matheson & Naydonov, *supra* note 97; *Steele*, 344 U.S. at 285.

foreign nation."[100] Rather, the Court held that because the defendant's operations and their effects reached the United States, the statute applied.[101]

Steele established the concept that Congress has the power to regulate its own citizens' activities, even if they take place on foreign soil.[102] Infringements made on behalf of foreign citizens on foreign soil, however, must be analyzed differently.[103] In such a case, courts will focus on how the conduct effect's commerce in the United States by analyzing factors such as the impact on a trademark owner's reputation or sales at home.[104] From *Steele*, the Second Circuit in *Vanity Fair Mills, Inc v. T Eaton Co.* developed a widely adopted three-factor test for the extraterritorial application of the Lanham Act: "the defendant's conduct must have a substantial effect on U.S. commerce; the defendant must be a U.S. citizen; and there must be no conflict with trademark rights under the foreign law."[105]

The Ninth Circuit adopted a more flexible multi-factor test requiring: "Some effect on American foreign commerce; that this effect is sufficiently great to present a cognizable injury to a trademark owner under the Lanham Act; and that the interests of and links to American foreign commerce [are] sufficiently strong in relation to those of other nations to justify an assertion of extraterritorial authority."[106] The third factor breaks down into a seven-part test:

> the degree of conflict with foreign policy; the nationality of the foreign parties and their principal places of business; the extent to which enforcement by either country will achieve compliance; the relative significance of the effects on the United States as compared to those elsewhere; whether there is specific purpose to harm or affect U.S. commerce; the foreseeability of harm or effect on U.S. commerce; and the relative importance of the violations charged of conduct within the United States as compared with foreign conduct.[107]

The First Circuit established an alternative framework, in *McBee v. Delica Co.*[108] In this case, plaintiff sued a Japanese company that operated a chain of clothing stores under plaintiff's trademark name.[109] The Japanese company did not sell the clothing outside of Japan and declined orders from the United States.[110] In determining extraterritorial teach, the First Circuit first looked at whether the defendant was a United States citizen.[111] The rationale being that the courts have a separate constitutional basis for controlling the activities of its citizens.[112] If the defendant is not a United States citizen, the courts will analyze whether the foreign defendant's conduct has "a

---

[100] Matheson & Naydonov, *supra* note 97; *Steele*, 344 U.S. at 286.
[101] Matheson & Naydonov, *supra* note 97; *Steele*, 344 U.S. at 286.
[102] Matheson & Naydonov, *supra* note 97.
[103] *Id.*
[104] *Id.*
[105] Matheson & Naydonov, *supra* note 97; *Vanity Fair Mills, Inc v. T Eaton Co*., 234 F.2d 633, 643 (2d Cir. 1956).
[106] Matheson & Naydonov, *supra* note 97; *Reebok In't, Ltd v. Marnatech Enters*, 970 F.2d 552, 554 (9th Cir 1992).
[107] Matheson & Naydonov, *supra* note 97; *Reebok In't, Ltd*, 970 F.2d at 555.
[108] Matheson & Naydonov, *supra* note 97; *McBee v. Delica Co.*, 417 F. 3d 107 (1st Cir. 2005).
[109] Matheson & Naydonov, *supra* note 97; *McBee,* 417 F. 3d at 112.
[110] Matheson & Naydonov, *supra* note 97; *McBee,* 417 F. 3d at 112.
[111] Matheson & Naydonov, *supra* note 97; *McBee,* 417 F. 3d at 119.
[112] Matheson & Naydonov, *supra* note 97; *McBee,* 417 F. 3d at 119.

substantial effect on United States commerce."[113] The Court concluded in *McBee* that the defendant's activities in Japan did not rise to a level of substantial effect on United States commerce.[114]

With the Supreme Court silent on the issue for over half a century, courts have generally favored application of the *Steele* framework, with a predominant focus on whether the infringing activity abroad has a "substantial effect" on United States commerce.[115] In determining the extraterritorial reach in trademark cases, applicable authority will determine the level of activity and contact necessary to link a defendant's actions to United States commerce.[116] Generally, each circuit shows a trend towards broadening the scope of the application, while the stringent requirements for determining the substantial effect on United States commerce have started to diminish.[117]

C. UNITED STATES ANTITRUST LAW AND THE SHERMAN ACT

The Sherman Act contains an extraterritoriality provision, applying the act to "trade or commerce among the several States, or with foreign nations."[118] Initially, the courts applied United States antitrust law exclusively to conduct occurring on United States territory, based on the notion that a state's jurisdiction is limited to events occurring within its borders.[119] With the increase in anticompetitive conduct and the negative effects of such conduct occurring in two different territories, strict territoriality was no longer appropriate.[120]

In the first opinion applying the statute extraterritorially, Judge Learned Hand stated, "[i]t is settled case law that any state may impose liabilities, even upon persons not within its allegiance, for conduct outside its borders that has consequences within its borders which the state reprehends."[121] In *United States v. Aluminum Co. of America*, a Canadian company combined with European producers of aluminum to control the amount of aluminum sold on the United States.[122] Their agreement took place outside of the United States.[123] The Court held that because their

[113] Matheson & Naydonov, *supra* note 97; *McBee*, 417 F. 3d at 119.
[114] Matheson & Naydonov, *supra* note 97; *McBee*, 417 F. 3d at 124.
[115] Matheson & Naydonov, *supra* note 97.
[116] Wildman, *supra* note 94.
[117] Wildman, *supra* note 94.
[118] 15 U.S.C. § 1 (1988).
[119]Andre Fiebig, *The Increasing Importance of EU Competition Law for U.S. Companies*, BUSINESS LAW TODAY, (Jan. 2016), available at https://www.americanbar.org/publications/blt/2016/01/06_fiebig.html; *American Banana Co. v. United Fruit Co.*, 213 U.S. 347 (1909).
[120] Fiebig, *supra* note 119.
[121] Fiebig, *supra* note 119; *United States v. Aluminum Co. of America*, 148 F.2d 416, 443 (2d Cir. 1945)[hereinafter *Alcoa*].
[122] Edward L. Rholl, *Inconsistent Application of the Extraterritorial Provisions of the Sherman Act: A Judicial Response Based Upon the Much Maligned Effects Test*, 73 MARQ. L. REV. 435, 441 (1990) available at *http://scholarship.law.marquette.edu/mulr/vol73/iss3/4*; *Alcoa*, 148 F.2d 439-41.
[123] Rholl, *supra* note 122; *Alcoa*, 148 F.2d at 439-41.

conduct affected United States commerce, the antitrust statute was applicable.[124] This departure from strict territoriality became known as the effects test.[125]

Following *Alcoa*, courts felt compelled to refine the very broad effects test outlined by Judge Hand, causing the test to get refined and redefined in ways that created a wide disparity in interpretation among the circuits.[126] Among these attempts, courts introduced: a direct and substantial effects test, a disparate effects test, a substantial and material effects test, some effects test, and so on.[127] This problem was heightened by the Supreme Court's refusal to hear cases that might require it to construct a uniform definition to be applied by all circuits.[128]

The Court of Appeals for the Ninth Circuit was the first court to abandon the effects test when examining the extraterritorial reach of the Sherman Act.[129] The Court held that the effects test was incomplete because it failed to consider other nations interest or the full nature of the relationship between the actors and the country.[130] Instead, the Court introduced a balancing of interests test, weighing three questions: "(1) Does the alleged restraint effect, or was it intended to effect, foreign commerce of the United States; (2) Is it of such a type and magnitude so as to be cognizable as a violation of the Sherman Act; and (3) As a matter of international comity and fairness, should the extraterritorial jurisdiction of the U.S. be asserted to cover it?"[131] While part one of the balancing test is seen to echo the effects test introduced by Judge Hand, it is subject to a broader reading.[132] The Ninth Circuit was followed by the Court of Appeals for the Third Circuit, adopting its own balancing test by asking two questions: "(1) Does subject matter jurisdiction exist? and (2) If jurisdiction does exist, should it be exercised?"[133] The first question in the balancing test is to be analyzed using the effects test.[134]

Congress attempted to remedy the confusion, passing the Foreign Trade Antitrust Improvements Act ("FTAIA").[135] The FTAIA provides that the Sherman Act will have extraterritorial reach if the conduct involving trade or commerce with foreign nations has a "direct, substantial, and reasonably foreseeable effect" on trade or commerce in the United States.[136] However, Congress failed to achieve the exact clarity it had hoped for.

While the FTAIA enables the courts to apply a single "direct, substantial, and reasonably foreseeable effect" test, interpreting what rises to the level of effect will differ depending on

---

[124] Rholl, *supra* note 122; *Alcoa*, 148 F.2d at 443-44.
[125] Rholl, *supra* note 122; *Alcoa*, 148 F.2d at 444.
[126] Rholl, *supra* note 122 at 442.
[127] *Id.* at 446-51.
[128] *Id.* at 443.
[129] Rholl, *supra* note 122, at 451; *Timberlane Lumber Co. v. Bank of America*, 549 F.2d 597 (9th Cir. 1976).
[130] Rholl, *supra* note 122, at 451-52; *Timberlane Lumber Co.*, 549 F.2d at 611-12.
[131] Rholl, *supra* note 122, at 452; *Timberlane Lumber Co.*, 549 F.2d at 615.
[132] Rholl, *supra* note 122, at 452.
[133] Rholl, *supra* note 122, at 454; *Mannington Mills, Inc. v. Congoleum Corp.*, 595 F.2d 1287, 1290 (3d Cir. 1979).
[134] Rholl, *supra* note 122, at 454; *Mannington Mills, Inc.*, 595 F.2d 1291-92.
[135] Mark S. Popofsky, *Extraterritoriality in U.S. Jurisprudence*, ISSUES IN COMPETITION LAW AND POLICY, 2417, 2426 (2008), available at https://www.ropesgray.com/files/Publication/afdb976a-fabf-4af0-873c-0de0ddc2d7ea/Presentation/PublicationAttachment/92b888ee-e922-418a-8048-0ec0c0fac9bb/Popofsky-Antitrust-Jurisprudence-Competition-Law-and-Policy.pdf.
[136] Popofsky, *supra* note 135, at 2427; 15 U.S.C. § 45(a)(3).

different factual scenarios. Courts have addressed the issue of what is a "direct, substantial, and reasonably foreseeable effect" in various ways.[137] Limiting the extraterritorial reach of the statute, courts have held that an individual or a specific corporation suffering an effect from a foreign anticompetitive agreement was insufficient to constitute a "direct, substantial, and reasonably foreseeable effect."[138] The court in *McGlinchy v. Shell Chemical Co.* held that, rather than alleging an antitrust injury to individuals or individual firms, a plaintiff must allege antitrust injury to the market or competition in general, the only exception being where injury to an individual causes injury to an entire marketplace.[139]

The extraterritoriality provision in the Sherman Act may also reach foreign conduct if the effect is the elimination or significant reduction of competition in an appropriate market.[140] For example, in *Coors Brewing v. Miller Brewing Co.*, the Court held that the conduct of the foreign entity would have a direct impact on the United States, because such conduct would limit the domestic beer market to only two competitors.[141] Elimination of competition can rise to the level of having a "direct, substantial, and reasonably foreseeable effect" even if only one individual is injured because of the effect on the entire marketplace.[142]

Courts interpreting the extraterritorial reach of the Sherman Act have held that injury to United States foreign-based subsidiary abroad alone, does not rise to the level of a direct and substantial effect of United States commerce.[143] Rather, the primary injury to that subsidiary must be caused in the United States and substantially affect United States commerce.[144] Furthermore, the location of negotiations or other conduct in the United States alone is not sufficient to prove an effect on United States commerce.[145]

As the foregoing discussion illustrates, courts have long struggled with creating a uniform test to apply when determining the extraterritorial reach of various federal statutes. While looking to the interpretation of the extraterritorial provision in the EEA would have served as a great guide for predicting how the courts will handle the extraterritorial reach of the DTSA, there are no cases which do so.[146] It is imperative that the courts address the extraterritorial reach of the DTSA in a uniform manner, enacting a single test to be applied in all cases.

---

[137] Richard W. Beckler & Matthew H. Kirtland, *Extraterritorial Application of U.S. Antitrust Law: What Is a "Direct, Substantial, and Reasonably Foreseeable Effect" Under the Foreign Trade Antitrust Improvements Act?* 38 TEX. INT'L. L.J. 11, 18.
[138] *Id*. at 137.
[139] Beckler & Kirtland, *supra* note 137; *McGlinchy v. Shell Chemical Co.*, 845 F.2d 802, 812–13 (9th Cir. 1988).
[140] Beckler & Kirtland, *supra* note 137, at 19.
[141] Beckler & Kirtland, *supra* note 137, at 19; *Coors Brewing Co. v. Miller Brewing Co.*, 889 F. Supp. 1394, 1397–98 (D. Colo. 1995).
[142] Beckler & Kirtland, *supra* note 137, at 19; *General Electric Co. v. Latin American Imports, S.A.*, 187 F. Supp. 2d 749 (W.D. Ky. 2001).
[143] Beckler & Kirtland, *supra* note 137, at 20; *Phillips Petroleum Co. v. Heeremac*, No. H-98-1698 (S.D. Tex. Jan. 22, 1999).
[144] Beckler & Kirtland, *supra* note 137, at 20; *Phillips Petroleum Co.*, No. H-98-1698 at 181.
[145] Beckler & Kirtland, *supra* note 137, at 20-21; *United Phosphorus, Ltd. v. Angus Chemical Co.*, 131 F. Supp. 2d 1003, 1009 (N.D. Ill. 2001).
[146] Bohrer, *supra* note 1.

IV. THE IMPLICATIONS OF INCONSISTENT EXTRATERRITORIALITY TESTS

To fully understand the implications an inconsistent extraterritoriality test will have on the application of the DTSA, it is important to consider Congresses intent in passing the DTSA. Congress proposed the DTSA to combat rising levels of trade secret theft being felt in the United States.[147] Prior to the enactment of the DTSA, a trade secret owner could bring a suit against infringers in state court, under state law.[148] While 48 out of 50 states have adopted the UTSA, the adoption of the UTSA widely varied by jurisdiction.[149] This resulted in inconsistencies across the United States in the protection afforded to a trade secret owner's trade secret.[150] Creating a single federal private right of action under the DTSA combats those inconsistencies by allowing trade secret owners to seek relief without having to account for the variations found under state law. In passing the DTSA, trade secret owners can better determine what information or property is protectable and predict the outcome of any cause of action they may bring. The uniformity sought by Congress in enacting the DTSA will be wholly undermined if the courts fail to implement a single uniform test for determining the statute's extraterritorial reach.

Congress also enacted the DTSA in an attempt to crack down on the theft of trade secrets by foreign entities or in some circumstances on foreign soil.[151] Confirmed by the Supreme Court in *Morrison*, United States law has a presumption against extraterritoriality.[152] The only exception being when Congress expresses the intent that a law applies to conduct overseas.[153] By including in the statute that the act in furtherance of the offense must be committed in the United States, the DTSA satisfies the exception, overcoming the presumption against extraterritoriality. But how courts interpret the provision will have a significant impact on just how far the DTSA will reach. The courts can take a broad interpretation of the provision, extending liability to foreign conduct that has an effect on the United States, or a narrow interpretation, requiring some conduct to occur in the United States. The later interpretation would be of detriment to United States entities seeking redress for the misappropriation of their trade secrets by foreign entities and limit the extraterritorial scope of the DTSA greatly.

V. UNIFORM EXTRATERRITORIALITY TEST

Since its enactment in 2016, the courts have yet to be faced with the challenging task of interpreting the extraterritorial reach of the DTSA.[154] Failing to adopt a single uniform test will expose the interpretation of the DTSA to inconsistent extraterritoriality tests which vary by circuit. To get ahead of this potential problem and to avoid following into the footsteps of United States securities, trademark, and antitrust law, the courts should play its role as federal law interpreters in a careful manner.

---

[147] Cannan, *supra* note 18.
[148] Cohen, Renaud & Armington, *supra* note 5.
[149] Cannan, *supra* note 18.
[150] *Id*.
[151] Cannan, *supra* note 18.
[152] *Morrison v. Nat'l Austl. Bank Ltd.,* 130 S. Ct. 2869 (2010).
[153] *Id*.
[154] Dentons, *supra* note 3.

A. Initial Questions

In determining the extraterritorial reach of the DTSA, the court should first address three fundamental questions that will create an extraterritoriality test that reflects United States trademark goals and policy.

1. What is the trade secret policy in the United States?

2. Who are the trade secret laws designed to protect?

3. What extraterritorial standard can best reflect the concerns raised by trade secret law?[155]

The first question is posed to determine the purpose behind the DTSA to ensure a uniform test that aligns with those purposes.[156] Determining the trade secret policy of the United States involves an analysis of statutory language and congressional intent.[157] As mentioned in detail above, the DTSA was enacted to punish those who misappropriate trade secrets, whether United States citizens or foreign entities.[158] Congress explicitly included an extraterritorial provision, identical to the provision in the EEA, both of which are intended to have a broad application to regulate both foreign and domestic violations of the DTSA.[159]

The second question addresses who the trade secret laws are designed to protect.[160] The DTSA was enacted to protect United States citizens and business owners with a protectable trade secret.[161] The DTSA's extraterritorial provision reflects the desire to provide United States citizens and business owners with a remedy for misappropriation by foreign entities. The DTSA is also designed to protect the federal government's right to regulate commerce.[162] An inference can be drawn that the DTSA is a comprehensive statute, protecting all United States citizens who may fall victim to the misappropriation of trade secrets by whomever attempts to violate the law.

After considering the findings of the first two questions, it is up to the courts to decide on a uniform extraterritorial test for claims under the DTSA that will align with trade secret policy and protect those intended to be protected by Congress.[163] Courts should do so with an awareness of the fundamental importance of the trade secret law to our economic and social system. Any extraterritorial test for the DTSA should reflect Congress' intent in protecting United States citizens and business owners from misappropriation by any party. The question then becomes,

---

[155] Rholl, *supra* note 122, at 464.
[156] *Id*.
[157] *Id*.
[158] Cohen, Renaud & Armington, *supra* note 5.
[159] *See* Bohrer *supra* note 1.
[160] Rholl, *supra* note 122, at 464.
[161] Cohen, Renaud & Armington, *supra* note 5.
[162] *See* 18 U.S.C.S. § 1837 (West 2018).
[163] Rholl, *supra* note 122, at 465.

which, if any, of the extraterritorial tests implemented by various courts in other areas of federal law, can accommodate such a requirement.

B. Various Effects Tests

In determining extraterritorial reach, the effects test enables the courts to extend the statute to reach the conduct of foreign entities, as long as such conduct has an effect on the United States.[164] The focus of the effects test is not upon where the actors are located or where the misappropriation takes place, but rather the activity and the alleged impact it has on the United States.[165] The effects test "satisf[ies] the concept of territoriality by treating the impact of the conduct as much a part of the crime as the conduct itself."[166]

The effects test is used in several different ways across various federal statutes that have extraterritorial reach. In order to implement a workable uniform effects test for the DTSA, the test must be accepted by all federal courts. Without uniformity, the DTSA will be subject to the same interpretation inconsistences conducted by the courts pertaining to other federal extraterritoriality provisions. Setting precedent for a single effects test for the DTSA will further two indispensable trade secret policy needs: uniformity and predictability in scope and application.

Various versions of an effects test are used by the courts when interpreting the extraterritorial reach of other federal statutes. United States securities law used the conducts and effects tests consistently, until the extraterritoriality test was disrupted by the *Morrison* decision, introducing the transactional test.[167] Like many, the conducts and effects tests were not sufficiently narrow enough, resulting in suits against foreign entities that had no actual connection to the United States.[168] The *Morrison* decision was a response to this problem.[169] The transactional test essentially states that securities purchases on American exchanges are fair game and purchases abroad of foreign companies are not.[170] While seemingly a simple principal, capital markets can be more complex.[171] *Morrison*'s transactional test yielded results that put certain domestic transactions out of reach.[172] Thereafter, Congress enacted a body of law effectively seen to revive the effects test, causing great confusion with the courts and leading them to apply both tests.[173] Without further clarity by the courts, using both the effects and transactional test will yield varied results, making the tests in conjunction unworkable. Drawing from United States securities law, the conducts and effects test would seemingly be the best fit for the extraterritoriality interpretation of the DTSA, with some revision to narrow its scope.

---

[164] Najeeb Samie, *The Doctrine of Effects and the Extraterritorial Application of Antitrust Laws*, 14 U. MIAMI INTER-Am. L. Rev. 23 (1982) available at http://repository.law.miami.edu/umialr/vol14/iss1/3.
[165] *Id*.
[166] *Id*.
[167] Park, *supra* note 69.
[168] Steven Davidoff Solomon, *Securities Law Ruling Creates Unintended Problems*, THE NEW YORK TIMES, (June 1, 2012), https://dealbook.nytimes.com/2012/06/01/securities-law-ruling-created-more-problems-than-it-solved.
[169] *Id*.
[170] *Id*.
[171] *Id*.
[172] *Id*.
[173] *Traffic Monsoon, LLC*, 245 F. Supp. 3d 1275.

United States trademark law uses a variety of effects test, all of which the required level of effect differs depending on the circuit.[174] In allowing each circuit to enact their own version of an effects test, this frustrates the fundamental need for uniformity in applying the extraterritoriality provision in the DTSA. The Second circuit's three factor effects test would be inapplicable because it prohibits a plaintiff from bringing an action against a foreign entity because it requires the defendant to be a United States citizen.[175] The DTSA already expressly states that the statute applies to conduct occurring outside of the United States if the offender is a citizen or organized under the laws of the United States, but goes on to further extend applicability to "an act in furtherance of the offense" committed in the United States.[176] The Ninth circuit's multi-factor effects test would fail to give individual's or small business owner's much protection because its heavy emphasis on the effect on foreign and United States commerce.[177] The First Circuit's "substantial effects" test would likely be the best fit for the extraterritorial application of the DTSA but would also require further narrowing to avoid inconsistent interpretations between the circuits.

Lastly, United States antitrust law also shuffled between several tests, first enacting a broad effects test.[178] In an attempt to narrow the focus, the courts expanded on the test, causing it to lose any real applicability.[179] Some courts responded by abandoning the effects test and in its place, creating a balancing test.[180] The balancing test inquires whether the conduct is of such "type and magnitude so as to be cognizable as a violation" of the statute.[181] This test effectively forces the court to decide on whether the conduct constitutes a violation of the statute before deciding extraterritorial reach. Thereafter, Congress stepped in, enacting a "direct, substantial, and reasonably foreseeable effect" test to be applied but the test failed to be applied as uniformly as Congress had intended because of its broad scope.[182]

When presented with the issue of interpreting the extraterritorial reach of the DTSA for the first time, the courts will need to implement a new effects test that will not falter when applied in other circuits. Many effects tests fail due to their overly broad language that cannot sustain the increasingly varied situations that will be brought to the courts by trade secret owners. Courts in antitrust extraterritorial cases have implemented describing an effects test using a term of art to hone in on the scope of the effect.[183] For example, in applying a standard of "anticompetitive effects," the term of art specifies in the name the nature of the effects that will trigger extraterritoriality.[184] In an "anticompetitive effects" test the effects analyzed would include competition restraints, monopolization of markets, and fix prices.[185]

[174] Wildman, *supra* note 94.
[175] Matheson & Naydonov, *supra* note 97.
[176] 18 U.S.C.S. § 1837 (2018).
[177] Matheson & Naydonov, *supra* note 97.
[178] Rholl, *supra* note 122, at 442.
[179] *Id*.
[180] Rholl, *supra* note 122, at 452; *Timberlane Lumber Co.*, 549 F.2d at 615.
[181] Rholl, *supra* note 122, at 452; *Timberlane Lumber Co.*, 549 F.2d at 615.
[182] Popofsky, *supra* note 135, at 2427; 15 U.S.C. § 45(a)(3).
[183] Rholl, *supra* note 122 at 472.
[184] *Id*.
[185] *Id*.

C. "Misappropriation Effects" Test

The courts should implement a "misappropriation effects" test to be applied to the extraterritoriality interpretation of the DSTA. "Misappropriation effects" will be incorporated as a term of art to be applied in all extraterritorial inquiries for the DTSA. Using a term of art will provide the courts with a test that will not be confused with other extraterritorial effects tests. Rather than referring to the level of effects necessary to give rise to the DTSA's reach, the term relates to the nature of the effects that will trigger applicability. This will ensure that courts narrow their inquiry to whether the infringer's conduct effects the trade secret owner, taking the emphasis off the level of effect sufficiently necessary to give rise to a showing of effects.

"Misappropriation effects" will include those effects felt by a citizen or business owner when their trade secrets are misappropriated. These effects typically include but are not limited to those which cause a citizen or business to lose profits, face price erosion, experience increased costs, and cause damage to the market. It is these effects that Congress sought to protect against in proscribing the DTSA and should be considered when inquiring the statute's extraterritorial reach. The legislative history of the DTSA infers Congress's intent in conducting a broad and liberal interpretation of the extraterritoriality provision. Before the DTSA was passed, Congress's discussion centered on protect United States citizens and business owners from trade secret misappropriation abroad. Thus, interpreting the extraterritoriality provision by focusing on the nature of the effects rather than the level of effects would better serve Congress's intent. This inquiry should not interrupt the courts inquiry as to whether the conduct actually violates the DTSA, but rather only to consider whether the DTSA applies extraterritorially to the alleged conduct.

VI. CONCLUSION

When the courts are faced with the task of interpreting the extraterritorial reach of the Defend Trade Secrets Act for the first time, they should be prepared to enact a single, uniform "misappropriation effects" test. Failure to set precedent of a test that will not falter when applied in different situations and by different circuits will lead the extraterritorial inquiry of the DTSA to fall into the trap of many other federal law extraterritorial effects tests that came before it. Various versions of effects tests provide the courts with a test susceptible to many different interpretations, rendering unpredictable results.

In creating a uniform test for the extraterritorial provision of the DSTA, the courts should keep in mind the trade secret policy goals of the United States. The courts should also consider the protections Congress sought to create for trade secret owners under the DTSA. When faced with the task, the courts will need to enact a test that reflects these concerns, keeping judicial interpretation to a minimum to provide consistency. The "misappropriation effects" test meets this standard.