

7th Circ. Motorola Ruling Raises Stakes Of DTSA Litigation

By Fitz Collings, Nathaniel Mendell and Benjamin Fox (July 18, 2024, 1:50 PM EDT)

In a widely anticipated decision interpreting the Defend Trade Secrets Act on July 2, the U.S. Court of Appeals for the Seventh Circuit held in *Motorola Solutions Inc. v. Hytera Communications Corporation Ltd.* that the DTSA extends to extraterritorial conduct under Title 18 of the U.S. Code, Section 1837, and affirmed the resulting \$407 million damages award for what the court called Hytera's "large and blatant theft of trade secrets."^[1]

The holding, which the court noted resolves "a question of first impression for our circuit, and as far as we can tell, for any circuit," has two major implications.

First, it means that the DTSA allows parties to sue — and be sued — for misappropriation occurring anywhere in the world if an act in furtherance of the alleged misappropriation occurred in the U.S.

Second, the decision significantly increases potential damages because it allows for relief to be based on worldwide sales of products employing misappropriated trade secrets, not only those sold in the U.S. This latter point dramatically increases the risks that flow from trade secret misappropriation — and also increases the incentive to bring claims under the DTSA.

The Seventh Circuit also found that downloads of copyrighted data from mirrored computer servers outside the U.S. cannot serve as "predicate acts of domestic infringement" for purposes of the Copyright Act — which the U.S. Supreme Court previously found does not have extraterritorial application — substantially limiting copyright damages.

Defend Trade Secrets Act Extends to Extraterritorial Activity

The trade-secret questions in *Motorola* implicated both Section 1836(b) of the DTSA — which provides that a trade secret owner may bring a private action for trade secret misappropriation — and Section 1837 of the DTSA's predecessor, the Economic Espionage Act.

Section 1837 has long been understood to apply to certain criminal acts of trade secret misappropriation outside of the U.S., and several district courts and the U.S. Court of Appeals for the Fourth Circuit have assumed that Section 1837 also applies to civil acts of trade secret misappropriation.

But none analyzed whether it actually did apply until U.S. District Judge Charles R. Norgle in the U.S.



Fitz Collings



Nathaniel Mendell



Benjamin Fox

District Court for the Northern District of Illinois did so in deciding Motorola.[2]

Judge Norgle reasoned that, although there is a presumption against extraterritoriality in the interpretation of statutes under the Supreme Court's 2016 ruling in *RJR Nabisco Inc. v. European Community*,^[3] the plain language of Section 1837 explicitly states that "this chapter" — i.e., Chapter 90 of Title 18 of the U.S. Code, titled "Protection of Trade Secrets" — is applicable to "conduct occurring outside the U.S."^[4]

And, because Congress added numerous references to extraterritorial conduct and misappropriation by foreign entities when it enacted the DTSA, the court concluded that Congress intended the private right of action specified under Section 1836 to apply to conduct occurring outside the U.S. under Section 1837.^[5]

With the presumption against extraterritoriality rebutted, the court considered whether Hytera's advertising, promotion and marketing of products embodying the trade secrets at trade shows within the U.S. constituted an "act in furtherance" of misappropriation in the U.S. — even though the theft of the trade secrets and the resulting sales occurred outside the U.S.

The district court held that these activities were acts in furtherance of Hytera's misappropriation because they constituted a use of the trade secrets under Section 1836, entitling Motorola to recover damages.

The court thus awarded Motorola 100% of Hytera's profits from worldwide sales of all Hytera products incorporating Motorola's trade secrets from the date of the enactment of the DTSA in May 2016 through June 2019 — \$135.8 million — plus twice that in punitive damages, or \$271.6 million, for a total of \$407.4 million.

Hytera appealed the decision to the Seventh Circuit, raising three issues under the DTSA:

1. Whether the district court erred in awarding Motorola 100% of Hytera's profits from sales of the accused products;
2. Whether the district court erred in awarding Motorola profits from Hytera's non-U.S. sales in the absence of the clearly expressed congressional intent; and
3. Whether the award of punitive damages should be substantially reduced in view of the Seventh Circuit's 2020 opinion in *Epic Systems Corp. v. Tata Consultancy Services Ltd.*^[6]

The Seventh Circuit held that the district court erred in closing off Hytera from a proximate-cause analysis for apportioning DTSA damages,^[7] but found the error harmless because the amount sought by Motorola on appeal under its unjust enrichment theory was \$24 million less than it would have been entitled to if the proper analysis been conducted.

The Seventh Circuit also held that Hytera waived its argument that a jury should have determined lost profits when it failed to raise the issue in its opening brief.

Adopting the district court's rationale and its "careful interpretation of the text of chapter 90,"^[8] the Seventh Circuit found that because the DTSA rebuts the presumption against extraterritoriality, "the only limits on its reach are the limits Congress has imposed on the statute's foreign application."^[9]

The court also adopted the district court's finding that Hytera's marketing of products embodying Motorola's stolen trade secrets constituted a domestic "use" of those trade secrets, i.e., a "misappropriation" under Section 1839(5)(B).[10] These acts were sufficient to satisfy Section 1837(2).[11]

The court rejected Hytera's argument that the use of the term "offense" in Section 1837 barred it from applying to civil actions, noting the Supreme Court had indicated in *Kellogg Brown & Root Services Inc. v. U.S. ex rel. Carter* in 2015 that "the term 'offense' is sometimes used to denote a civil violation." [12]

Finally, pulling from federal conspiracy law, the court held an act in furtherance requires neither a completed act of domestic misappropriation nor a causation requirement.[13] The court thus affirmed the \$135.8 million compensatory damages award.

Hytera further argued on appeal that the district court's award of punitive damages was unconstitutional under *Epic Systems*, which set a 1-to-1 ratio as the constitutional limit for punitive damages in a trade secret case.[14]

The Seventh Circuit, however, held that *Epic Systems* ultimately does not control, noting critical differences between the cases. In *Epic Systems*, the challenged law was generic, with its application extending to nearly all claims under Wisconsin law.

In the DTSA, the 2-to-1 cap on punitive damages is a remedy tailored to the specific wrongdoing by Congress in the same federal statute creating the cause of action. Moreover, *Epic Systems* is not understood to affect federal statutes like the DTSA that provide for enhanced damage awards.[15]

The Seventh Circuit thus affirmed the district court's \$271.6 million punitive damages award.

Insufficient Evidence of Domestic Violation Substantially Limits Copyright Damages

The interesting copyright issues in *Motorola* concerned the calculation of damages, not extraterritoriality per se, which is settled law.

The district court awarded damages of \$136.3 million for unjust enrichment under the Copyright Act, based in part on Hytera's sales of products outside the U.S. The Seventh Circuit reversed.

On appeal, Hytera raised three issues under the Copyright Act:

1. Whether copyright damages should have been awarded for sales outside the U.S.;
2. Whether copyright damages should be apportioned considering Hytera's own contributions to profits; and
3. Whether the Copyright Act bars damages incurred more than three years before the claims accrued.

Although *Motorola* convinced the district court that Hytera committed a domestic violation of the Copyright Act because thieves in Malaysia downloaded source code that was mirrored from Motorola's main server in the U.S., the Seventh Circuit disagreed.

The Seventh Circuit held that Motorola did not provide adequate evidence that the code was downloaded from its Illinois server and remanded with instructions to limit copyright damages to Hytera's domestic sales of infringing products.

The Seventh Circuit also remanded on the apportionment issue, finding that the district court failed to properly address Hytera's contributions to products it sold as required by the standard set out by the Supreme Court in *Sheldon v. Metro-Goldwyn Pictures Corp.* on 1940.

On the final copyright issue, the court applied Seventh Circuit precedent and upheld the discovery rule, finding that the scope of copyright damages extends to violations Motorola discovered in the three years prior to amending its complaint, not to violations Hytera committed during that time.

Impact of Motorola on Trade Secret and Copyright Law

Motorola raises the stakes for DTSA litigation involving international commercial activity.

Plaintiffs now have a powerful tool to recover damages from ex-U.S. defendants who commit any act in furtherance of the alleged misappropriation in the U.S. This will prove useful to companies looking to safeguard their trade secrets and recoup damages, particularly if noncompete agreements become less effective.

The decision also greatly increases the incentive to bring DTSA claims against defendants with large global sales because those sales could generate large judgments or settlements.

Motorola also makes clear that downloading copyrighted material from a mirrored server outside the U.S. is not tantamount to a download from the U.S., even if the content on both servers is identical.

While the Seventh Circuit is the first appellate court to weigh several of these issues, others may join the conversation shortly.

The U.S. Courts of Appeals for the First and Second Circuits both have pending appeals that touch on the extraterritoriality of the DTSA, and Hytera may seek rehearing en banc in the Seventh Circuit.[16][17]

Fitz Collings is a partner at Morrison Foerster LLP.

Nathaniel Mendell is a partner at the firm. He previously served as an acting U.S. attorney for the U.S. Attorney's Office for the District of Massachusetts.

Benjamin Fox is a partner at MoFo.

MoFo summer associates Johann Choo and Jonathan Smith contributed to this article.

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[1] *Motorola Solutions Inc. v. Hytera Communications Corp. Ltd.*, Nos. 22-2370 & 22-2413 (7th Cir. July 2, 2024).

[2] See, e.g., *Luminati Networks Ltd. v. BIScience Inc.*, No. 2:18-CV-00483-JRG, 2019 WL 2084426, at *9-10 (E.D. Tex. May 13, 2019) ("The DTSA 'applies to conduct occurring outside the U.S. if ... an act in furtherance of the offense was committed in the U.S.'" (citing 18 U.S.C. § 1837(2)); *Austar Int'l Ltd. v. AustarPharma LLC*, No. CVI 98356KMMAH, 2019 WL 6339848, at *11 (D.N.J. Nov. 27, 2019) (same); *Pro V Int'l Inc. v. Lucca*, No. 8: 19-CV-978-T-23AAS, 2019 WL 5578880, at *3 (M.D. Fla. Oct. 29, 2019) (same); *MACOM Tech. Sols. Inc. v. Litrinium Inc.*, No. SACVI 9220JVSJDEX, 2019 WL 4282906, at *4 (C.D. Cal. June 3, 2019) (same); *Vendavo Inc. v. Price f(x) AG*, No. 17-CV-06930-RS, 2018 WL 1456697, at *3 (N.D. Cal. Mar. 23, 2018) (same); *Micron Tech. Inc. v. United Microelectronics Corp.*, No. 17-CV-06932-MMC, 2019 WL 1959487, at *8 (N.D. Cal. May 2, 2019) ("Micron has a substantial interest in trying the case in the U.S., as federal law provides for jurisdiction over misappropriation occurring outside the U.S., see 18 U.S.C. §1837[.]"); see also *Dmarcian, Inc. v. Dmarcian Eur. BV*, 60 F.4th 119, 141 (4th Cir. 2023) (affirming district court finding under the DTSA that plaintiff only needed to show that "an act" in furtherance of the misappropriation occurred in the U.S., not the entire "offense" under 18 U.S.C. §1837(2)).

[3] 579 U.S. 325 (2016).

[4] 18 U.S.C.A. §1837.

[5] See Pub. L. 114-153 §§4(b), 5.

[6] 980 F.3d 1117 (7th Cir. 2020).

[7] *Motorola* at 44.

[8] *Id.* at 32

[9] *Id.* at 44 (internal citations omitted).

[10] *Id.* at 33.

[11] *Id.* at 34.

[12] *Id.* at 36 (citing *Kellogg Brown & Root Services, Inc. v. U.S. ex rel. Carter*, 575 U.S. 650, 659 (2015)).

[13] *Id.* at 39.

[14] 980 F.3d 1117 (7th Cir. 2020).

[15] *Motorola* at 64-65. The court also noted two additional ways in which this case could be distinguished from *Epic Systems*. First, the court described Hytera's conduct as reprehensible "to an extreme degree" — conduct far worse than that in *Epic Systems*. Second, Hytera harmed Motorola significantly more than the defendant harmed the plaintiff in *Epic Systems*. This rebuke of Hytera's conduct and the large and quantifiable harms Motorola suffered further supported Motorola's claim that the damages award was not a due process violation.

[16] See *Sysco Machinery Corp. v. Cymtek Solutions, Inc. et al*, Case No. 23-1738 (1st Cir. Apr. 1, 2024). The First Circuit heard oral argument in April 2024 and may address the extraterritorial application of

the DTSA in its opinion. Although Sysco is not focused on extraterritoriality, the appellee argued that the alleged misappropriation of trade secrets occurred solely in Taiwan.

[17] See *Beijing Neu Cloud Oriental System Technology Co., Ltd. v. International Business Machines Corporation et al.*, Case No. 22-3132 (2d Cir. Dec. 2022). The Second Circuit is considering appellee argument that the appellant has "not allege[d] any act in furtherance of the alleged trade secret misappropriation in the U.S.." Appellee Br. at 42, No. 22-3132 (2d Cir. Feb. 6, 2024).