

## 7th Circ. Ruling Muddies Split On Trade Secret Damages

By **Jordan Rice** (December 11, 2024, 4:17 PM EST)

The Uniform Trade Secrets Act, which nearly all states have adopted, and the federal Defend Trade Secrets Act, allow plaintiffs to recover damages for actual loss and the defendant's unjust enrichment. One common form of unjust enrichment damages are the defendant's avoided costs — the expenses the defendant would have incurred to independently develop the trade secret, absent misappropriation.

In *Syntel Sterling Best Shores Mauritius Ltd. v. TriZetto Group Inc.*, the U.S. Court of Appeals for the Second Circuit in 2023 limited the availability of avoided cost damages, requiring that they be tied to the plaintiff's harm.[1] In doing so, the court advised that it was creating a circuit split with the U.S. Court of Appeals for the Third Circuit and the U.S. Court of Appeals for the Seventh Circuit.



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But after *Syntel* was decided, the Seventh Circuit issued a July 2024 opinion in *Motorola Solutions Inc. v. Hytera Communications Corp.* that casts doubt on the scope of the circuit conflict and adds to the confusion regarding the circumstances in which avoided cost damages are available.[2]

### The Second Circuit's Narrow Approach and Creation of a Circuit Conflict

The Defend Trade Secrets Act provides that plaintiffs may recover damages for actual loss caused by misappropriation and, separately, unjust enrichment damages that are "not addressed in computing damages for actual loss." [3] The Uniform Trade Secrets Act, which served as the model for the Defend Trade Secrets Act, is substantively identical.[4]

Courts, including the Third and Seventh Circuits, have interpreted that damages provision to allow a plaintiff to recover the defendant's avoided costs, even where the plaintiff did not demonstrate actual loss and the defendant "obtained no commercial benefit" from use of the trade secrets to aid it in ongoing competition.[5]

The Second Circuit in *Syntel* charted a different course, explicitly declining to follow the Third Circuit's approach and noting "some tension" with the Seventh Circuit's.[6] In the Second Circuit's view, a defendant's avoided costs could be recovered as unjust enrichment damages, but only where those avoided costs are tied to the plaintiff's injury — such as destruction or diminished value of the trade secret.[7]

Applying its requirement that unjust enrichment damages be tied to the plaintiff's harm, the Second

Circuit in its May 2023 Syntel ruling reversed a \$285 million unjust enrichment award, though the court left in place an \$8.5 million award for lost profits. The court reasoned that the plaintiff suffered no compensable harm beyond the \$8.5 million of lost profits, as the defendant failed to develop a competing product and an injunction prohibited the defendant from making use of the trade secret in the future.[8]

The plaintiff sought review in the U.S. Supreme Court, highlighting the Second Circuit's acknowledgment of a circuit conflict and criticizing the Second Circuit for requiring that unjust enrichment damages connect to the plaintiff's harm when the statute provides for unjust enrichment damages in addition to damages for actual loss.[9] In October 2023, the Supreme Court denied the petition for certiorari.[10]

The court later denied review in *Tata Consultancy Services Ltd. v. Epic Systems Corp.*, a separate case involving the same asserted circuit split.[11]

### **The Seventh Circuit Casts Doubt on the Scope of the Circuit Conflict**

While the Second Circuit in *Syntel* suggested it created a conflict with the Seventh Circuit — in addition to the Third Circuit — a recent Seventh Circuit decision has called into question the extent of the conflict.

In *Motorola Solutions*, the Seventh Circuit repeatedly cited *Syntel* with approval, including passages from *Syntel* indicating that avoided cost damages must be tied to the plaintiff's injury.[12] But at the same time, the Seventh Circuit acknowledged that in its earlier decision in *Epic Systems Corp. v. Tata Consultancy Services Ltd.* — the case with which the Second Circuit disagreed in *Syntel* — the avoided cost award upheld by the court did not reflect the plaintiff's harm.[13]

The result of *Motorola Solutions* is confusion within the Seventh Circuit. On the one hand, the Seventh Circuit suggested that it endorses the Second Circuit's requirement that avoided cost damages must be tied to the plaintiff's harm. But on the other, the Seventh Circuit acknowledged its earlier decision in *Epic Systems* imposed no such requirement.

Ultimately, it is difficult to reconcile Second and Seventh Circuit precedent. In the Seventh Circuit's *Epic Systems* decision, avoided cost damages were awarded despite a lack of connection to the plaintiff's harm. That conflicts with the Second Circuit's requirement in *Syntel* that avoided cost damages must be tied to the plaintiff's harm. And despite the Seventh Circuit's seeming endorsement of *Syntel*'s requirement in *Motorola*, it did not purport to abrogate its earlier decision in *Epic Systems*.

Whatever the state of the conflict, or lack thereof, between the Second and Seventh Circuits in the wake of *Motorola*, the conflict between the Second and Third Circuits identified by the court in *Syntel* persists. In its August 2022 decision in *PPG Industries Inc. v. Jiangsu Tie Mao Glass Co.*, the Third Circuit upheld an award of avoided cost damages where there was no connection to any harm to the plaintiff. That result, as the Second Circuit recognized, is inconsistent with Second Circuit law.[14]

### **The Path Ahead**

Thus far, the Supreme Court has twice declined the invitation to resolve the circuit conflict created by *Syntel*. That will provide space for the conflict to further develop as other courts of appeals confront arguments based on *Syntel*.

Until the Supreme Court resolves the issue, a plaintiff seeking avoided cost damages should take care to spell out how their harm connects to the defendant's avoided cost in the event the Syntel approach is adopted by the Supreme Court or the courts in the plaintiff's jurisdiction. A plaintiff could focus on, for example, how the defendant's misappropriation diminished the value of the trade secret or how the defendant's avoided costs gave it an unfair advantage in ongoing competition against the plaintiff.

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[1] Syntel Sterling Best Shores Mauritius Ltd. v. TriZetto Group Inc., 68 F.4th 792 (2d Cir. 2023).

[2] Motorola Solutions Inc. v. Hytera Communications Corporation Ltd., 108 F.4th 458 (7th Cir. 2024).

[3] 18 U.S.C. §1836(b)(3)(B)(i)(I)-(II).

[4] Uniform Trade Secrets Act §3(a).

[5] PPG Indus. Inc. v. Jiangsu Tie Mao Glass Co., 47 F.4th 156, 161-62 (3d Cir. 2022); see Epic Systems Corp. v. Tata Consultancy Services Ltd., 980 F.3d 1117, 1130-33, 1137, 1143-44 & n.5 (7th Cir. 2020).

[6] Syntel, 68 F.4th at 812-13 & n.42.

[7] Id. at 810-812.

[8] Id. at 811-14.

[9] Pet. 3, No. 23-306, 2023 WL 6293153 (U.S. Sept. 22, 2023).

[10] 144 S. Ct. 352 (2023).

[11] Tata Consultancy Servs. Ltd. v. Epic Sys. Corp., 144 S. Ct. 425 (2023).

[12] Motorola, 108 F.4th at 490 n.10, 501.

[13] Id. at 502.

[14] 68 F.4th at 813 n.42.